

VALUE FOR MONEY  
FROM PUBLIC SERVICE  
**A CHALLENGE FROM  
SIR DIGBY JONES**

SUMMER 2005

**BARRY QUIRK,**  
EFFICIENCY CHAMPION:  
**REFORMING LOCAL GOVERNMENT**

# CHAIRMAN'S COMMENT

**ROD ALDRIDGE**

CHAIRMAN, CBI PUBLIC SERVICES STRATEGY BOARD



## Maintaining the momentum of public service reform

I am encouraged that the government has begun its third term demonstrating a continued commitment to the ongoing reform of public services. It is crucial that it now works with all stakeholders to ensure these reforms deliver real transformation, and avoids the temptation to slow the pace of change.

The government has an opportunity in the next few years to embed reform and a value for money culture throughout the public sector. The Gershon Review is a step in the right direction. The £21.5bn of efficiencies it envisages are welcome, and the CBI will be monitoring closely how departments progress in delivering on their targets.

However, as Sir Digby Jones has pointed out, these efficiency savings represent only 2.5% of public sector spending over a three-year period. Gershon alone won't deliver the savings and efficiencies necessary to ensure increased investment

is channelled into better services. Redesigning services to encourage competition and a variety of providers is the key to delivering long-term savings and improving services to the public.

The case for competition and diversity in provision is broadly accepted — it's encouraging, for example, that the health secretary is pushing forward with introducing new providers into the NHS. But the government's reforms must be made to work. The CBI will continue to provide ideas and practical support to help the government achieve this. We will look for evidence of real momentum in central and local government to turn the positive words about reform into action, including:

- The embedding of a value-for-money agenda across central government and new mechanisms for promoting continuous change throughout the public sector

- Effective management by the government of new markets across public services to ensure they are competitively neutral and encourage new providers from all sectors

- Political will to push forward proposals that ensure public services are designed more around the needs of the user, not the provider.

The public is demanding change. People are supportive of public services, but want to see them improve and be more responsive; they welcome increased funding, but want to see taxes spent effectively; they welcome choice, but want the principles of equity and access maintained.

The best way we can achieve everything that people want to see from our public services is to push forward with reform and encourage innovation in delivery.

## BUILDING THE BEST EDUCATIONAL ENVIRONMENT

The government needs to provide more effective political leadership to ensure its groundbreaking school renewal programme — Building Schools for the Future (BSF) — achieves its objective of transforming educational attainment through innovative school design and delivers value for money.

This is the main finding of a new paper on BSF from the CBI Public Services Directorate to be published this summer. It highlights worrying early signs of drift in the programme's core objectives and the need for more effective market management.

Early perceptions from providers involved in the programme are that the emphasis on transforming pupil attainment is being downplayed. In response, the CBI is to make recommendations on what the government and providers need to change to ensure this initiative can be made to work effectively from the start, laying the foundation for long-term change in the education system.

Consultations with stakeholders in this new market have also identified potential constraints on BSF delivering value for money. These include tight timescales for the programme, limited capacity in some local authorities to drive procurement through local education partnerships (LEPs) and limitations on the supply side that may reduce competition.

The CBI will recommend that the government improves its market management of BSF and sends stronger messages to the market about the transformation and value for money objectives of the programme.

The paper will also recommend the need for greater capacity within local authorities to procure through LEPs, more realistic timetables to create a fully competitive market for providers, and the continued compatibility of BSF with the government's wider education initiatives.

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# INTERVIEW

# BARRY QUIRK

## GERSHON GOES LOCAL



**BARRY QUIRK, EFFICIENCY CHAMPION**

- Barry Quirk has been chief executive of the London Borough of Lewisham since 1994
- He has over 27 years' experience in local government
- As part of the 2004 Spending Review Barry was appointed national 'efficiency champion' for local government
- He was awarded the CBE in 2001 for services to local government

Efficiency in local government accounts for almost a third of the total targeted savings outlined in the Gershon Review. The new regional centres of excellence, now up and running, indicate how important better procurement will be in meeting these targets. The CBI asked the government's 'efficiency champion' Barry Quirk for his perspective on how the efficiency agenda in local government can be delivered.

The key question we have to ask ourselves is: "How can local government go about improving its overall efficiency?" The answer is both difficult and simple. But there is one.

The difficulty lies in the multi-purpose character of local government. It secures services for vulnerable people who have high levels of need and dependency, including the very young and the very old. It also provides general services such as street lighting and street wardens for everyone. Making each and every one of these services ever more efficient is a difficult task. It means we need to appreciate the demand for and the supply of these services and the opportunities for innovation in how these services can change in the future.

One problem is that, historically, councils have each tried to 'manage the supply market' for goods and services in a very localised way. This makes little sense when supply markets are not local in character. But this is changing. Many councils are now moving to a more mature and intelligent approach to the purchase of goods and services through the federated efforts of the regional centres of excellence. Councils want to benefit from the economies of scale that can come from aggregated purchasing and they want to achieve lower overall transaction costs. Moreover, it is in the interests of suppliers for there to be a sustainable flow of contracts with the local government market.

The simplicity lies in the fact that efficiency comes from a managerial and political commitment from each council to a pragmatic approach to discovering what works in their locality. Moving from a kind of 'do-it-yourself' mentality is the first important step we have to take — accepting that a mixed economy of service provision (with absolutely no 'no-go areas') enables innovation and efficiency through competition, partnering and co-operation. The benefits that focused private sector management experience can bring to the public sector productivity agenda are real and need to be realised over the next few years.

The next step, I believe, involves banishing a 'made in my council' approach. All organisations need to realise that standard processes for designing and delivering services lower costs and enable productivity to be optimised.

The initial examination of local government's approach to efficiency shows that councils are up to the agenda — some 3% of efficiency gains have already been identified against a target of 2.5%. But there is just 36 months to go to deliver more than £6.45bn in gains. Each month counts and each council has its contribution to make. Working with private businesses on the agenda is central to delivering more modern, responsive and efficient services.



# CBI CHIEF SETS OUT VALUE FOR MONEY CHALLENGE

**Delivering the costs savings in public services envisaged in the Gershon Review requires a more robust strategy that challenges departments to secure value for money on an ongoing basis, according to Sir Digby Jones.**

In a speech to the Public Services Industry Forum on 6 June, the CBI director-general argued that with economic forecasts being revised down, pressure on the public purse will increase. But business is increasingly intolerant of bearing the brunt of significant growth in public spending. The need to deliver both service improvements and value for money across public services is therefore greater than ever.

While welcoming steps already taken, Sir Digby questioned the sustainability of the current approach. The £21.5bn savings envisaged in Gershon represent only 2.5% of public spending over a three-year period. He argued for a “... more sustainable approach than one that relies on administering a 50,000-volt shock every decade to inject new life into the value for money agenda.”

That approach should be based on four key principles, he argued: challenge, accountability, incentives and capabilities.

The CBI believes a new mechanism is needed in central government to challenge existing methods of delivery, assess their effectiveness and review productivity. Forward-looking and operating across government, a challenge body would be staffed by independent specialists with a track record in delivering value.

Every decision made in the public sector has a value for money impact. Currently, senior civil servants are not assessed on their delivery of continuous improvement in value in public spending. Success in meeting that obligation should be a condition of continued tenure. Central government departments are currently exempt from systematic performance audits. Sir Digby called for a transparent rating system to challenge departments to improve performance.

Delivering that improvement requires new incentives for organisations and individuals to raise their game. The use of quasi-markets — such as in health — to ensure competitive pressures are delivering some benefits, but management by the government is crucial. More complex public service delivery systems, with wider involvement of the private and voluntary sectors, require a transformation in the way the government manages them.

Skilled and authoritative commercial departments and finance directors on departmental boards are vital for these new structures to remain effective. Sir Digby argued that commercial directorates would “... bridge the divide between policy design and implementation.”

The ideas presented by Sir Digby represented a challenge to a government which needs to take “... a profoundly different approach to value for money.”



## **CBI approach to value for money in public services:**

- New body to challenge the government's delivery of value for money
- CPA-style mechanism to drive accountability for value in central government
- Link tenure of senior civil servants with delivery of value for money
- Commercial directorates in every government department
- Professional finance directors on departmental boards

## Employment in PPPs — improving performance

**The introduction of new providers from business and the voluntary sector has thrown the spotlight on how public sector employment practice should translate across a more diverse market of provision.**

The CBI has recently completed the first five case studies of a report, to be published in September, on employment in public-private partnerships (PPPs). It will show how employment practice in PPPs can improve performance and support the workforce, and examine the validity or otherwise of the core arguments of critics who suggest that profits are being made at the expense of public service employees. A total of 13 case studies from CBI member companies

will help to illustrate the argument that improved productivity and service standards can occur without adversely affecting the position of the workforce. The case studies we have selected represent a mix of services where PPPs are used successfully, and should provide insights on how good employment practice can be applied widely across all public service providers.

The research — conducted for the CBI by the Institute of Employment Studies — will look in detail at how factors like performance management, training and development, effective contracting, employee engagement and a focus on service quality can help transform productivity and improve delivery.

## CHANGE AT THE TOP

**JOHN WILLIAMS** has left his role as director of the CBI's public service reform programme to become special adviser to John Hutton, the Chancellor of the Duchy of Lancaster, working with him on implementing key parts of the government's public service reform programme.

John came to the CBI two years ago and oversaw the development of the CBI's campaign on public service reform, positioning the organisation as an important voice in this debate.

**JOHN TIZARD**, director of policy & public affairs at Capita, has been appointed as interim director on a part-time basis until the appointment of a permanent director to lead the next phase of the campaign.

## CBI challenges government finance managers to be entrepreneurial

The CBI has warned senior public sector treasury managers that their bottom lines will be put under great pressure over the coming years as public spending begins to plateau.

In a speech to members of CIPFA, the accounting body for public services, John Williams — then CBI director of public services — told officials that despite the expected slowdown in state spending, consumers would expect further public service improvements. The challenge will be to satisfy these expectations while hitting efficiency targets.

He argued that new public service delivery systems would expose underperformance, but would also allow for greater entrepreneurialism by senior managers across the public sector. John Williams challenged the audience to benefit from the opportunity this would give by using commercial partnerships, exploiting intellectual property and understanding how to price and manage risk.

# POLICY SNAPSHOT

The CBI is engaged in a number of areas of activity and research in relation to its programme on public service reform, including:

**Spending review 2006**—developing proposals to ensure the Comprehensive Spending Review delivers value for money

**Consumers, consultation and contestability**—applying the lessons from the Future Services initiative to look at practical ways to involve consumers in the procurement of public services

**Competitive neutrality**—making the case for a level playing field for all providers of public services

**Contracting for complexity**—considering the design of new delivery contracts that respond to unpredictable and changing service requirements

**Profit and the public service ethos**—a pamphlet demonstrating how they are compatible by challenging the perceived public sector monopoly on any ‘ethos’

**Government five-year plans**—acting on key lobbying priorities arising from these, including in the criminal justice, health and education sectors.

For further information about our work in this area visit:

[www.cbi.org.uk/publicservices](http://www.cbi.org.uk/publicservices)

## PUBLIC SERVICES INDUSTRY FORUM

The CBI Public Services Industry Forum (PSIF) brings together leaders from business and the public sector to debate public service reform.

### Its programme of activity includes:

- Briefing sessions with key decision-makers on topical issues
- Regular updates, keeping members aware of key CBI and external public service developments
- Joint programmes between the public sector and business to determine good practice, develop policy and remove obstacles to effective public services
- Networking opportunities with the business, public and voluntary sector and trade union partners.

To become a member of the PSIF or obtain further information on forthcoming events, contact: [christine.batchelor@cbi.org.uk](mailto:christine.batchelor@cbi.org.uk) or access [www.cbi.org.uk/publicservices](http://www.cbi.org.uk/publicservices)

## CBI MAKES CASE FOR BENEFITS OF NHS COMPETITION

The CBI responded in May to a high-profile critic of competition in the health service. Writing in *The Guardian*, John Williams — then CBI director of public services — argued that greater competition in the NHS will refresh its core values and rejected claims that it represents ‘creeping privatisation.’ He was responding to an article by Professor Allyson Pollock, author of *NHS plc*.

Refuting Professor Pollock’s claims that business ‘cherry picks’ easier work and poaches NHS staff, Williams argued that the introduction of quasi-market mechanisms would dismantle the old monolithic model of provision which often hindered the drive for value for money and higher standards.

Professor Pollock’s accusation that staff in independent sector treatment centres (ISTCs) had lower standards than those in NHS units was challenged, Williams pointing out that “... these treatment centres are subject to more rigorous inspection than NHS centres.”

His article welcomed the additional capacity ISTCs bring and noted an increase in the productivity of cataract operations in the new centres of between five to eight times. It concluded: “The NHS must be flexible and able to adapt to patients’ changing needs. The NHS has never been about bricks and mortar. It’s about the values of service, quality and efficiency.”

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