

March 2009

Response to *It's Your Money. A new plan for disciplined spending in government*



1. The MCA is the representative body for Britain's management consultancy firms. Our sixty member companies, we estimate, comprise around 70% of the UK industry, employ around 30,000 consultants and work with over 90 of the top FTSE 100 companies and almost all parts of the public sector.

2. Management consultancy creates value by enabling clients to improve their organizations, implement change and raise standards of performance. The MCA ensures that this contribution is better understood through our work to inform and influence public debate on topical issues and by providing authoritative data on the industry. We commission research and policy analysis and represent the industry in discussions with Government and other stakeholders.

3. Our tough entry criteria and Code of Practice mean that MCA member companies are widely acknowledged to provide high quality services to their clients. Many of their achievements are recognised in the annual MCA Management Awards and our Consultant of the Year Awards.

Introduction:

4. A key task for any government after the next election will be to bring the public finances back into balance and onto a sustainable footing.

5. This will involve some difficult and long-term policy decisions, not least because the drivers of higher spending will include the ageing of our population and continuing growth in demand for healthcare and education.

6. It will also require more and better working between the private, public and third sectors in the delivery of public services, including through improved procurement and use of outsourcing.

7. *It's Your Money* rightly draws attention to a third part of this programme: the responsibility of the government and civil servants and others who implement government policy to ensure that public money is well-managed and well-spent.

8. The MCA supports the commitment to improving the management and planning of public finances set out in *It's Your Money*. We have drawn on the views of practitioners within our member companies, many of whom have long experience of working with the public sector, particularly central government departments. This paper sets out our comments on the proposals.

9. We also raise some broader issues which will be significant in the journey towards a more efficient and effective public sector. This paper looks at the issues under three headings:

1. Building a Government supply chain – collaboration between the public and private sectors
2. Eradicating waste and how to achieve this
3. Who the public sector employs, on what terms, and what responsibilities they should have

1. Building a Government supply chain – collaboration between the public and private sectors

10. The Conservative party has set itself ambitious goals for the reform of the public sector. The pressure on the public finances confirm the importance of this approach – the job of the next government, whoever it is, will be work towards rebalancing public finances, which will certainly require that improved outcomes are achieved for less money.

11. The MCA will publish further proposals on public services reform later in 2009. It is already clear, however, that effective reform will inevitably require more successful collaboration between the public and private sectors. The existing supply chain models will not enable the progress required and there will need to be changes in both public sector and private sector ways of working.

12. There are many examples of successful working between the private and public sectors (see Annex 2). However, the lessons of these are often not learnt effectively, and more can be done to raise the general level of performance.

13. Although procurement capability within the civil service has improved greatly in recent years, we still have concerns about the links between procurement, commercial management, and business outcomes within the public sector. As a consequence, there is still work to do to manage partners more efficiently to deliver desired outcomes and value for money.

14. Some of the proposals set out in *It's Your Money* could help improve these capabilities. Greater transparency will increase incentives within the public sector to improve commissioning skills, to focus on outcomes rather than just processes and to improve the civil service's understanding of the private sector and its ability to work collaboratively.

15. But we should not underestimate this task. The public sector is expected to deliver projects of increasing complexity, with objectives and implementation that cut across several departments. And the movement of civil servants from job to job means that they are often not involved from initiation to completion of any project. Too often, it is difficult to find the right person when decisions are needed and direction required.

2. Eradicating Waste

16. MCA member companies share concerns about the level of waste in the public sector, and support the proposals in *It's Your Money* to investigate and tackle waste more fully.

17. Creating a public sector which uses its resources efficiently will be crucial as the government works to close the gap between public spending and government income. In an ideal world the focus would be on getting better outputs and outcomes in return for the public money spent, rather than on slashing costs. However, in the current climate, some cost-cutting is unavoidable.

18. In carrying out this cost reduction, however, it is important that central government does not simply slash costs across the board. Reducing the budget of every project by 10%, for example, would be counter-productive, and based on the unlikely premise that all projects are equally important and equally efficient.

19. In practice, it is better to take a clearer view of the government supply chain and to axe less important or less efficient projects in their entirety and concentrate on world-class delivery of important projects. This approach is, in fact, a mechanism for central government to identify all core and non-core activities and to be aware of the supply chains that it needs to deliver its policy agendas.

20. Just as importantly, however, we urge central government to improve the quality of its management information. Decision-making can only be truly effective if it is based on accurate, up-to-date and relevant information.

21. To give one example, figures for central government spending on consultancy are notoriously unreliable. They frequently, for instance, include spending on interim job placements. We recommend that an incoming Conservative government commissions clear and consistent statements on expenditure from all government departments and agencies. In Annex 1, we draw attention to one particular example of misleading use of information on spending which could easily lead to poor decision-making.

3. Who the public sector employs, on what terms, and what responsibilities they should have

22. The MCA fully supports the introduction of further fiduciary responsibility for Permanent Secretaries and top civil servants, together with the strengthening of the role of Finance Directors in government departments. The move could help reduce tensions between ministers and officials, as civil servants will be able to cite their fiduciary responsibility as a justification for opposing spending that follows purely political rather than economic or efficiency imperatives. It will also ensure clearer accountability and that all departments have access to appropriate levels of financial expertise.

23. Again, however, it will be important not to underestimate the scale of this change. The challenge is equivalent to that faced by the Cabinet Office in establishing the role of Chief Information Officer (CIO) at the turn of this century. Lessons can be learnt from this exercise.

24. The first challenge will be in attracting candidates into the public sector with sufficient commercial experience of running large and complex businesses. Recruitment, however, will be relatively straightforward compared to the task of creating an environment in which they can succeed.

25. There are two aspects of the civil service culture that will need to be addressed: the longstanding perception that generalists are preferred to specialists means that technical skills and experience can still be undervalued; and the fact that many specialists come from the private sector with a set of values and working style at odds with the traditional approach means that reform is sometimes resisted and slowed, and their impact is reduced.

26. It will also be important – as *It's Your Money* also argues - that risk-taking and innovation are encouraged within the civil service. As the paper hints, this is a major structural and cultural issue; the MCA would be delighted to contribute to further work in this area as the Conservative approach is developed.

Annex 1: Government Spending on Consultants

It's Your Money states that there has been a 'massive use of external consultants' by central government. The document argues that this is evidence of 'waste'. We disagree. As numerous case studies demonstrate, spending on consultants leads to valuable improvements in public services, greater efficiency and savings for the taxpayer. (See Annex 2)

However, not all spending by central government on consultants is as effective as it should be. Indeed, we want to see further reforms to procurement and in other areas in order to secure improvements for both the taxpayer as well as the management consultancy industry.

According to the Office of National Statistics, in 2005 the Civil Service (the narrowest possible interpretation of central government) employed 570,000 people¹. Dividing the £1.8bn the NAO found central government spent on consultants² by this number gives a spend-per-head on consultants of £3158. Alternatively, using the NAO's figure of £2.8bn spent by the entire public sector (including the NHS) on consultants in 2005-06, and the Office of National Statistics figure of 2,533,000 employees in central government (including the NHS) in 2005³, the spend per head on consultants in the public sector was £1096, about half the amount spent in the private sector.

We therefore asked the NAO how they came to the view quoted in *It's Your Money* that spending on consultants in central government per capita is five times higher than in the private sector (£10k compared to £2k per head).

They explained that they arrived at this figure by working out the amount per employee spent by each department on consultants, and then averaging the figures to produce a final figure for an "average central government organisation."⁴

This is, at best, an odd calculation. A per-head spend relates two things: number of employees, and amount spent. Yet the NAO's per-head figure misrepresents the number of central government employees. This is because it averages the per-head spends of each department as if they had the same number of employees, whereas, in fact, they do not.⁵ The result is a per-head figure, which has nothing to do with the number of employees in central government.

¹ Office of National Statistics, 'Public Sector Employment Trends 2005' page 11, table 3.1
<http://www.statistics.gov.uk/articles/nojournal/PublicSectorEmploymentTrends2005.pdf>

² National Audit Office, 'Central Government's Use of Consultants', November 2006, p 15 para 2.2

³ Office of National Statistics, 'Public Sector Employment Trends 2005' page 11, table 3.1
<http://www.statistics.gov.uk/articles/nojournal/PublicSectorEmploymentTrends2005.pdf>

⁴ National Audit Office, 'Central Government's Use of Consultants', November 2006, p 15 para 2.5

⁵ "Where survey participants supplied data relating to consultancy spend and the size of their organisation, in terms of numbers of employees and operating cost, estimations were made as to the average spend by organisation size. This calculation was first performed on an individual basis, taking each organisation in turn to calculate: consultancy spend per employee; consultancy spend as a proportion of operating cost; The average value was then taken across these organisations in order to obtain estimations of the average central government organisation's spend per employee (£10,000) and the average central government organisation's spend as a proportion of operating cost (11 per cent). This approach weights all organisations equally, so the data is not skewed by very large departments in our survey." National Audit Office, 'Central Government's Use of Consultants', 'Supporting paper 3: Methodology', November 2006 page 7 para 2.14

Annex 2: Successful collaboration between consultants and the public sector

The best consultancy projects in the country are regularly celebrated at the MCA's Management Awards. Each of the entries is endorsed by the client. This annex provides a snapshot of the most successful work in recent years for public sector organisations.

1. IBM and the DVLA (2006)

IBM developed a new website to help DVLA deal with its 43m annual relicensing transactions online rather than manually. Within a year 20% of those eligible were using the service, and the cost of relicensing was predicted to fall by 2/3.

2. Axon and Birmingham City Council (2009)

Axon transformed Birmingham City Council's financing, procurement and business performance. This has already realised £355m, and will achieve £860m-worth of benefits over the next 10 years. This represents a return of £5.95 for every £1 spent. Axon managed this by rationalising BCC's back office and improving its capacity to provide accurate information on finances and resource allocation.

3. ATOS and DFID (2008)

£5m programme to deal with poverty in Leningrad Oblast in Russia, where poverty runs at 41%. Funded 25 projects which now fight poverty.

4. IBM and the Home Office (2009)

IBM helped the Home Office streamline the way it manages its property portfolio, which includes more than 1900 properties. Cost savings for the next 5 years are projected to be £200m.

5. PA and the Highways Agency (2007)

PA identified responsibilities which could be switched from the police to the HA, and helped restructure the organisation. It reduced incident-related congestion in the West by 2% and in the South East by 3%, equating to annual savings of £100m. This work has freed up traffic police officers to fight crime, and arrests have risen as a result.

6. ATOS and DWP (2006)

Atos oversaw the DWP's transition from paper-based benefit transactions to payments directly into claimants' bank accounts. The project's targets were met a year early; by 2006, 97% of claimants received money directly into their bank accounts, allowing DWP to slash operating costs and putting it on course to save £1bn over 5 years.

7. Hay Group and the NHS (2006)

Minority groups are under-represented in the upper echelons of the NHS. Hay ran a series of courses targeted at helping ethnic minorities to gain promotion. 9 of every 10 participants in the scheme have since been promoted, and the percentage of NHS directors from minority backgrounds has risen from 2% in 2003 when the programme began to 7%.

8. PA and the Association of Chief Police Officers (2006)

1.76m road vehicles are untaxed, which equates to £190m in lost revenue. PA realised this issue could be addressed by integrating the use of automatic number-plate recognition systems into central and local police intelligence sources. In an 18-month trial across 9 police forces, intercept officers made more than 16,500 arrests – 10 times the normal rate – and only a quarter of these were for driving offences. More than 300 offensive weapons and 21 firearms were confiscated from resulting vehicle searches. Drugs worth £500,000 were also seized.

9. IBM and the MOD (2007)

IBM built a new air-traffic tracking system to replace the MOD's old system which checks for threats and covers all traffic in British airspace. Air Vice-Marshal Andy White described it as a 'quantum leap forward – a working environment that, previously, fighter controllers and aero systems operators could only dream of'.

10. Xantus and the Highways Agency (2009)

The Highways Agency's Information Directorate was established in 2004 to provide information to travellers about the state of the strategic road network. To enable the Agency to fulfil its objectives, its ICT services needed to be overhauled. Xantus helped the Agency develop and deliver an outsourcing solution which saves £4m per year.