

Driving down costs in government

The OEP and Beyond

MCA Policy Paper

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Introduction

The Treasury's Operational Efficiency Programme (OEP) is the most recent in a series of initiatives aimed at improving the efficiency with which the public sector purchases and provides services. It will play a vital role, helping the next government – of whatever colour – to achieve some of the significant savings that are required to bridge the gap between the state's income and expenditure.

In 2004, Sir Peter Gershon's report identified £26.5bn of efficiency savings; and in 2007, the Comprehensive Spending Review targeted £30bn-worth of savings by 2010/11. The OEP identified 5 broad areas in which there is potential for further savings to be made:

- back office operations and IT;
- collaborative procurement;
- asset management;
- use of property; and
- local incentives and empowerment.

The OEP's final report was published in April 2009, alongside a budget which made the scale of the fiscal challenge facing the Government over the next decade clear. With public borrowing likely to exceed £175bn this year, and public debt approaching 70% of GDP, Britain's public finances are under enormous pressure, and are likely to take many years to recover. According to the Institute for Fiscal Studies, the nation's public debt will not return to pre-crisis levels until 2031.

Current levels of borrowing are in part due to the Government's response to the financial crisis, along with recession-induced increased welfare payments and lower tax receipts. These will largely correct themselves as the economy starts to grow again, and historically low interest rates mean that the debt burden is currently manageable. But Britain also has a structural deficit, of around 6% of GDP, which urgently needs addressing. The country will have to endure what the Institute of Fiscal Studies described as "two parliaments of pain" – encompassing both tax rises and deep cuts in public expenditure – before it has restored order to its finances.

The OEP suggests that further cost savings of £14.8bn per year by 2013-14 can be achieved. It has put forward some challenging but achievable ideas. For instance, Sir Michael Bichard's suggestions for mapping government expenditure and reducing duplication by focusing on the citizen and public sector collaboration at a local level have the potential to provide substantial savings.

But the severity of the current situation presents a critical challenge for the next government and for the OEP:

1. First, the scale of the task now facing the public sector is greater than ever before.
2. Second, the easiest productivity gains in government have already been made; anyone seeking merely to do the same things while trimming the costs will quickly find their efforts yielding diminishing returns.

The task becomes progressively more difficult as the search for efficiencies and savings goes into areas where the problems are more complex and the opportunities more scarce

3. And, third, fundamental questions are raised about both the range of activities that the public sector now undertakes, as well as the efficiency with which it does so. Radical changes come into play, about the way in which government does its business, as well as the functions that it carries out. Paradoxically, it can be easy to lose momentum in the drive for efficiency when far broader changes are also on the table for decision.

This paper will examine the challenges that implementing the OEP will pose, before discussing what steps the Government will need to take beyond the OEP if it is to succeed in bringing about the radical change in the way public services are delivered in Britain necessary to restore order to the public finances.

Implementing the OEP

The OEP identified a raft of potential savings. Three factors will help determine whether they are achieved:

- First, can government implement the required solutions on a cross-departmental basis, or will it be constrained by departmental silos?
- Second, can government create a genuine and widespread understanding of how the delivery of these savings is to be achieved, overcoming the absence of reliable data, so that a much wider group is committed to the savings goal and prepared to play their part?
- Third, can government provide the clear leadership that will be required throughout the public sector?

The OEP only addresses these questions in part. The challenge will be to ensure that there are strong departmental and cross-departmental incentives to produce savings.

Without suitable incentives and governance, opportunities may be missed. Departments may slice budgets rather than to think in a more principled way about the purpose of their department and streamline accordingly. This may well impair service quality and lead to an unnecessary linkage between service quality reduction and efficiency. For example, in outsourcing, government must procure service operators who are committed to continuous improvement, and who work tirelessly to manage down costs, protect quality, and secure better service outcomes for less money. But there also needs to be realism, with outsourcing used positively to gain efficiencies and secure capacity and investment, so that unrealistic Dutch auctions, in which costs are reduced at the expense of quality, are avoided.

Departments also need to be encouraged to seek opportunities for collaborative working on holistic approaches to savings, underpinned by a radical examination of synergies and duplications, supported by a clear view of what government is for and what it should do.

The OEP is also open about the lack of reliable data on the cost of the public sector's existing activities and, therefore, the precise potential for achieving savings. This inevitably blurs understanding of how easily savings can be secured. Put simply, since no one knows exactly how much the Government spends on its activities, no one can be certain precisely which savings can reasonably be delivered. This problem will need to be overcome swiftly in order for future cuts to be planned and implemented effectively.

Finally, it is clear that strong leadership – political and managerial – will be crucial to making a success of the OEP. Like all large organisations, the public sector can be resistant to change. Staff can put a high priority on defending their functions, and can miss the bigger picture. If this is so in normal times, how much greater will it be in a time of recession and economic difficulty?

The OEP and beyond

Realistically, however, the OEP can only be part of a wider strategy to reduce Britain's enormous public debt and – perhaps more importantly – eliminate its structural deficit. The OEP's proposed savings amount to less than 10% of the money the Government will borrow this year. Challenges of this magnitude typically require radical change.

A good example of where the OEP's targets could be extended is in the area of collaborative procurement. The OEP suggests extending the current programme of collaborative procurement to cover additional categories of common spending such as construction, facilities management and food, and to work more closely with Professional Buying Organisations to improve access to better deals for local services provided across the wider public sector. The OEP estimates that this would result in savings of £6.1bn

Whilst these are all good suggestions, their aim is incremental change. A more radical approach would yield greater dividends.

For example, a substantial part of the cost to firms which supply services to government is the amount of time the process takes. This cost is then, of course, reflected in the rates they charge for these services. Part of the reason procuring services takes so long is the complexity of the various EU regulations governing the procurement process; it is not clear that the benefits of these regulations outweigh the cost of not procuring contracts within a shorter period, particularly in the case of small contracts purchased by local authorities. In such cases, there is a strong argument for adopting a more streamlined process.

As well as thinking about how it buys services, the government also needs to consider how it will supply services in future.

The Government's recent *Digital Britain* document suggests a positive way forward. It argues that there will be a shift from face-to-face, paper-based services to increasingly online service delivery backed up by centralised call-centres. This offers the potential for larger savings.

However, some citizens will find it difficult to access services in this way. The Government's strategy will therefore need to include other delivery organisations and local government. The OEP's suggestion to expand the promising 'Total Place' scheme (a programme mapping total public spending in a local area and identifying efficiencies through local public sector collaboration) to 12 more areas will help in this regard. This, in time, needs to be part of a broader, public-sector-wide shift in mindset that places the citizen, rather than government organisations at the heart of public service delivery.

The state of the future

The next Government must ask some fundamental questions about the purpose of the state; about what it does well; and about what it does less well; what should be done centrally; and what is best done locally.

The answers to these questions will provide the yardstick against which it can prioritise what it should do more, what it should do less, and what it should stop doing altogether. Answering these questions honestly will require innovative thinking, strong leadership and political courage.

As the main political parties begin to lay out their ideas for reducing public spending, there has been much debate about the future of the various quangos which have sprung up over the course of the last decade. Their future should depend, not just on whether their functions could be better performed in-house, but whether their role should reside in the public sector at all.

Deciding precisely where to wield the axe will be a painful process. It will be easier for a government that has developed, and communicated, a clear concept of the role and limitations of the modern state.

As well as stopping doing activities best performed by others, the Government will also need to dispose of assets it does not need, and use those which it does more efficiently. The OEP's suggestions for improving the Government's use of property include the idea of setting up a central property function to assist in the rationalisation and disposal of Government property. This is a good move, as there is currently ample scope for reducing duplication in this area. For example, the plethora of different tribunals (dealing with topics varying from asylum to immigration to labour) established by the British civil legal system do not currently share facilities and premises. The next Government needs to identify and act to remove similar examples of duplication.

Implementing radical change

Change can be a complicated process. It requires financial as well as managerial and political investment, since radical change is rarely self-funding in the very short term.

Some of this investment will be spent on securing the help of outsiders. The public sector will need to call on genuinely transformational and expert advisory capacity if it is to achieve these much-needed budget reductions. This can create dilemmas and controversies for politicians and civil servants who want to do the right thing – they can only achieve their goals with outside assistance, but find it difficult to explain this expenditure while cuts are being made elsewhere. The Government should look for sources of service provision and advice in the private sector that show clear realism in pricing, innovation in keeping costs low, and a commitment to demonstrable value and return on investment (ROI).

The MCA's annual industry awards illustrate and celebrate the enormous value that is frequently generated by consultancy firms for clients in the public sector – whether in higher quality services for the public or reduced costs for the taxpayer. We have also recently analysed expenditure on consulting by the NHS and demonstrated the value for money that it generates.

But we recognise that we can and should go further.

One way in which the consulting industry is helping clients is by promoting a focus on the outcomes of consultancy projects, rather than their inputs. Consultancies are increasingly sharing risks with their clients, and looking to share rewards in return. We have seen this practice grow in the private sector. We believe that it should now spread throughout the public sector.

We don't underestimate the difficulties – for clients as well as consultancies. Setting the right benchmarks, agreeing the desired outcomes, balancing the risks and the rewards – all of these are complex tasks.

But the potential benefits are considerable:

- Clearer articulation of the objectives of consultancy projects
- Focus on the outcomes, rather than process
- Incentives to keep costs to a minimum consistent with high quality
- Incentives to deliver results quickly
- Incentives to deliver excellence and exceed expectations.

The Management Consultancies Association (MCA)

The Management Consultancies Association is the trade body for the UK's management consulting industry. Between them, our sixty members employ 40,000 consultants, comprise 70% of the UK's £9bn consulting industry, and work with 90 of the FTSE 100 firms, including many firms in the financial sector, as well as almost all government departments.

This paper has been prepared in consultation with many of the experts who work for our member companies on these issues. The MCA would like to thank the following for contributing:

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