

Public Sector Responses to Recession and Public Expenditure Reductions

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Political context



- **General election within a year, maybe sooner**
- **Government with low popularity searching for new initiatives**
 - But what would make an impact in 12 months?
 - Constitutional reform very likely
- **Potential change of Labour Prime Minister**
 - Could send new signals for public services
- **Conservatives also damaged by “expenses” behaviour**
- **Conservatives keen to look different to Conservatives pre-1997**
- **Current polls suggest small Conservative majority or “hung Parliament”**
 - Labour unpopular but Conservatives not “loved” as Labour in 1996
- **Local government totally Conservative dominated**
- **Liberal Democrats seeking new positions and policies**

A challenging environment



- **Unprecedented economic environment**
 - This year and potentially for several years
- **Global crisis**
 - But UK economy one of the most affected
- **Rising unemployment**
 - And consequent pressures on services
- **Reducing tax revenues**
- **Public expenditure – an end to growth**
 - Squeeze in real terms 2009/10
 - Severe real-term reductions from 2011
 - *For 5-10 years*
 - Public sector facing 15-20% reductions
 - Tough efficiency targets not enough
 - Major reduction in capital spending

Public expenditure



- Record levels of public borrowing
- Tax take down
- Recession-related expenditure up
- Treasury forecasts growth for next 5 years of 0.7%
 - This means real cuts
- IFS forecasts 3.3% reductions for 8 years across all services
- If education, health, DfID and Defence are protected, this could increase to 15-20% over next few years
- If a new government wishes to close the borrowing gap earlier the cuts would be greater
- Target areas
 - HE – FE – Local government – Asset disposal – Whitehall

However...



- **Long-term pressures will remain**
 - Pensions
 - Debt repayments
- **Public demands and expectations unlikely to diminish**
 - Indeed, demographic changes will impact significantly
 - Customer desire for standards equal to the best in retail
- **Public policy pressures will continue to add pressure**
 - Personalisation
 - Greater choice for individuals and neighbourhoods
 - New legislation – often not fully funded
 - Requirement for inter-agency partnerships and collaboration

Need for change



- **Local Area Agreements**
 - Greater focus on community outcomes
- **Comprehensive Area Assessments**
- **HMT Operational Efficiency Review**
- **Total Place**
- **Asset disposal**
- **Decommissioning**
 - stop doing things
- **More co-production**
 - And co-payment
- **Greater emphasis on civil society and “Public Value”**
- **Transformational not incremental change essential**

A fourth term Labour Government – 1



- **Could not and would not sustain public expenditure growth**
 - But would retain fiscal stimulus in recession
- **Efficiency targets will move to cuts post election**
 - Signs of this already
 - *Cuts announced in PBR November 2009*
 - And in new Comprehensive Spending Review 2011 onwards
 - Cuts in Whitehall and wider public sector, especially local government
- **Relative but limited protection for**
 - NHS: acute and primary care
 - *But cash held budgets means real cuts*
 - Schools
 - Defence
 - Measures to address unemployment likely to be protected

A fourth term Labour Government – 2



- **Commitment to entrepreneurship**
 - Support for small businesses
 - Support for social enterprise
- **More personalisation in public services**
 - Entitlement, responsibility and co-production
- **Welfare reform**
 - Building on flexible new deal
 - Mixed economy of providers
- **Empowered communities**
 - Community capacity building
- **Retain RDAs**

Conservative Government – 1



- **Greater and faster reductions in public spending than Labour**
 - Similar profile for reductions
 - Move towards price-driven short-term procurement contracts
- **Rationalisation of NDPBs and Agencies**
 - Some privatisation
- **RDAs abolished**
 - Residual role to government regional offices
- **Greatly accelerated personalisation**
 - With reduced residual role for local government and other public agencies
 - Introduce Swedish parental “owned and controlled” schools
- **Instinctively greater commitment and faith in “markets”**
 - Though some regulation
 - Less interest in public service market management

Conservative Government – 2



- **Less commitment to social and community issues than Labour**
- **Commitment to SMEs**
- **Strong commitment to Third Sector in service delivery**
 - Social Investment Bank
 - Social enterprise
 - Volunteers
- **Eliminate some national programmes**
 - But leave most decisions to local politicians and managers
- **Great localism – more autonomy for local government**
 - Initially less central performance management
 - Similar approach to Total Place
 - *Allocate some form of block grant locally*
 - Reconsider CAA

Options for public sector



- Denial until it is too late
- “Salami” slicing and tactical spending decisions
 - Coming after years of efficiency savings
 - Unlikely to be sufficient or sustainable long term
 - Very dangerous
- Adopt a strategic approach now and plan
- Focus on place and strategic commissioning for place
 - Building on local strategic partnerships and other collaborative arrangements
 - Seeking to maximise the impact of the local public sector and its resources

Strategic commissioning



- Identifying need
- Understanding and responding to citizen, user and neighbourhood choices and preferences
- Determining local output and outcome goals
- Allocating resources
- Balancing quality and outcomes with available resources
- Identifying and appraising options for securing services
 - Then deciding which option to adopt
- Securing delivery of the most appropriate public services
 - To achieve the outcome goals within resource limits
- Developing and managing supply markets
- Monitoring and evaluating outcomes
 - Redesigning services

Commissioning is not procurement



- **Passionate about outputs and outcomes**
 - Not means
 - Except in specific circumstances based on clear decisions
- **Political process**
 - Requiring technical support
- **Tool for political and officer leaders**
 - Not left to technical teams
- **Applicable to “in house” provision**
 - As well as third party delivery public, third or business sector
- **Procurement one of many means of implementing commissioning decisions**
- **Procurement can also secure wider policy goals**
 - e.g. local economic activity

Strategic commissioning and procurement questions



- **Public sector more than ever needs**
 - Clarity about the outcomes and outputs that it wants
 - Understanding of the supply markets and the drivers of suppliers
 - Means to attract suppliers into the market
 - Means of testing the robustness of bidders
 - *And protection if they go into administration or are taken over*
 - Ability to agree flexible contracts and shared benefits
 - Pursuit of innovation and transformation
 - To address these issues with its partners
 - Public, third and business sector partners
 - **To be strategic**

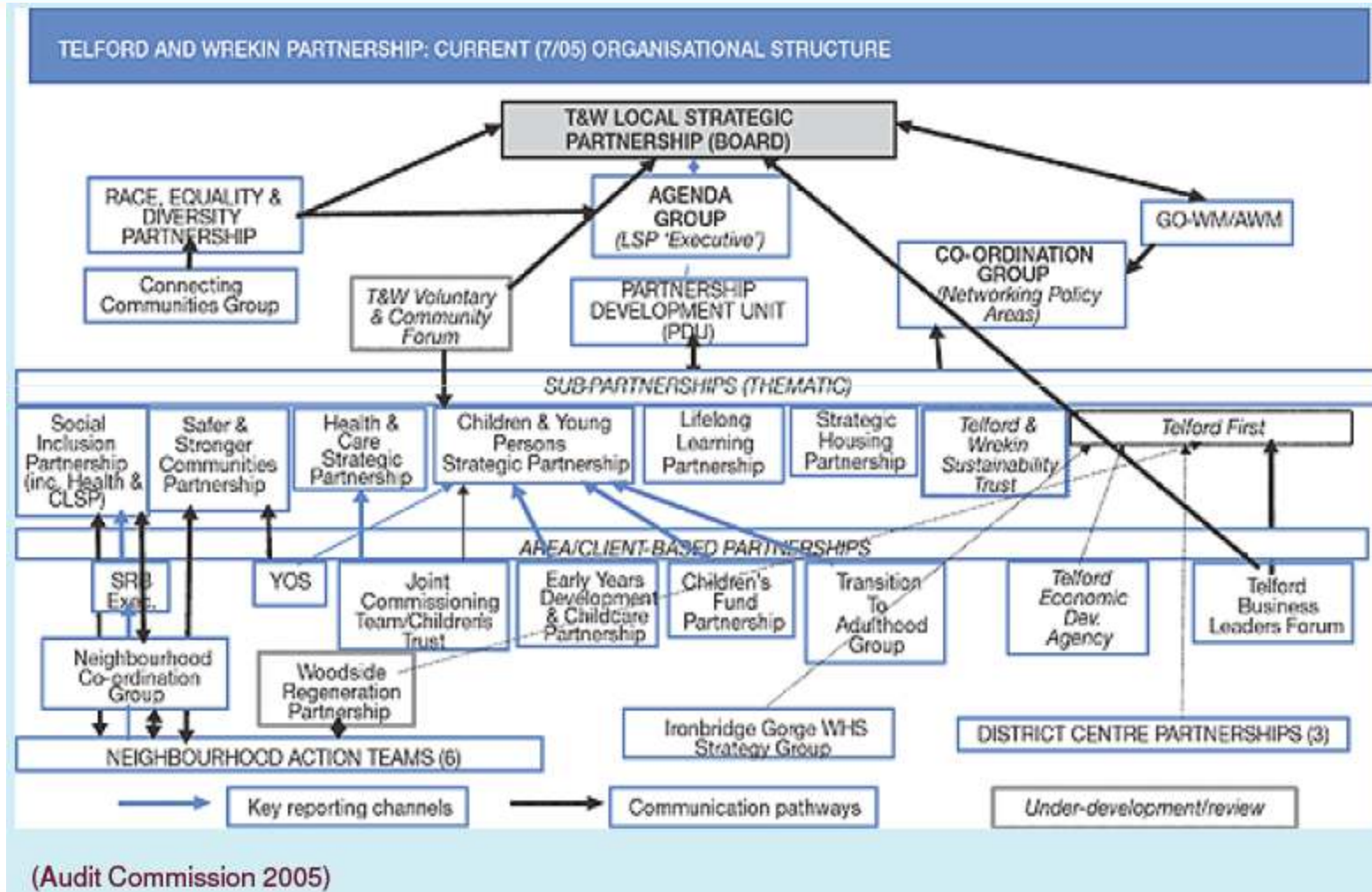
Focus on place (Total Place)



- **All public agencies are facing similar challenges**
 - With common customers
- **Opportunity to engage civil society**
- **Resources can be shared or aligned**
 - Total public expenditure much greater than current shared funds
 - Strategic commissioning for place
- **Staff can work across agencies**
- **Capital assets and programmes can be shared**
 - Opportunity to rationalise estate
- **Shared front line and support services**
 - Between local agencies
 - On a sub-regional or regional
 - Or other basis

Avoid over-complex partnering!!!

Complex partnerships – a nightmare! Governance gone mad!



Alternative approach



- Institutional focus
- Protectionism by local agencies
- Partnership and collaboration seen as an “add on” and not core
- Cost shunting
- Uncoordinated decommissioning and budget reduction
- Greater levels of service cuts
- Services for people fall between the agencies

Key questions



- **Given that the current cadre of political leaders and senior executives have experienced a decade plus of growing budgets**
 - Do the political will, competency and commitment exist?
 - Are the managerial leadership skills available?
- **Are all agencies and their leaders aware of the challenges?**
- **Are all key local strategic partners willing to work to the same agenda and outcomes**
 - Especially nationally controlled agencies
- **How does the local authority take a lead?**

Contracting with the third and business sectors – 1



- **Public sector will continue to contract for services**
 - But public confidence in markets and private sector has been damaged by banking crisis
 - Some agencies may feel that long-term contracts lock in too much resource/budget commitments and deny flexibility
- **Risk that the pressure will be to return to “CCT style procurements**
 - Price-driven and short-term contracts
 - Single services
- **Some agencies will wish to renegotiate contracts**

Contracting with the third and business sectors – 2



- Risk that third sector will not secure full cost recovery
- What is the third sector's capacity?
 - New capital funding options
- Business-third sector supplier partnerships
- Social enterprise
- Employee enterprise
 - e.g. NHS PCT delivery trusts
- PFI type partnerships will change due to credit crunch with more prudent funding of investments
 - So how can the PFI disciplines be retained?

Roll that business providers can play



- Securing economies of scale
- Transformational change
- Shared services
- Services delivered on a “commodity basis”
 - Given service for a given price
- Cost savings
- Annualised savings
- Potentially some but now more limited capital investment
- Long-term employment opportunities
 - But this will be more limited
 - This needs to be balanced by client against cost and price issues
- Brokerage across agencies