

**History and Context**

The scale of the financial crisis in public spending requires a fundamental reappraisal of the services that government commissions and their provision. The emphasis in the decade that lies ahead is how can we deliver the services that people value at a price they can afford? If we are to achieve our goal of a sharp reduction in the deficit, governments of whatever hue, will need to work with the private sector and the voluntary sector to find new and better ways of delivering those services.

We might think that this is a new challenge but the reality is Conservative Governments have been wrestling with this challenge before. It was in the 1980's when councils such as Wandsworth and Westminster, first experimented with private sector provision of public services. Those experiments at a local level captured the imagination of central government.

Nicholas Ridley, when he was Secretary of State for the Environment, reportedly once remarked that he thought Councils need only meet once a year to agree the terms of contracts handed out to the private sector.

This may be apocryphal, but he was certainly a great believer in what he called 'an enabling state' –he wrote a paper for the Centre for Policy Studies called "the Local Right – enabling not providing". It began with a series of questions about public services.

- what things are best done locally and what can be better organised nationally?
- what functions need to be in the public sector and what could be done better in the private sector?
- what standard of service is required and what could be afforded?
- how can value for money be best obtained?

It amounted to a reappraisal of public service provision and finance and it was long overdue.

The command and control economy, where the provision, finance and regulation of services all fell under the auspices of the state had run its course – the Post War Consensus was starting to crack. But what would it be replaced with?

Nicholas Ridley's 'enabling state' was just one of a number of competing paradigms that began to emerge during the 1980's. New Public Management was a rather nebulous attempt to bring the benefits of private sector efficiency and productivity to the public sector. More market efficiency should give rise to greater cost efficiency for government. We can see its fruits in the beginnings of Compulsory Competitive Tendering for auxiliary health services in the NHS in the late 1980s and in the 1988 Education Reform Act that began to introduce choice and competition in schools.

Under Tony Blair, who flirted with the 'enabling state', the trend continued when he finally settled under the narrative of the Third Way.

No-one can be quite sure what this meant, even now, except to say that it had something to do with finding some space in between the public and the private sector as a means to deliver public services. He built on the PFI model pioneered by the last Conservative Government and made widespread use public private partnerships.

But what so much rhetoric had in common was a recognition of the limits of the state in the provision of services and the strengths of the private sector in delivery: recognition that public service delivery can be split between provision on the one hand and on the other commissioning, and whilst the state will largely be responsible for the latter, when it comes to provision we can no longer afford to overlook the benefits of greater private sector involvement.

Over 20 years after Nicholas Ridley wrote that pamphlet, Conservatives are once again thinking about those same questions.

Some of the challenges that Conservatives faced then on how to implement reforms to the commissioning of public services remain today. How do you drive through change in the Civil Service where rewards are linked to policy and not delivery? Where the generalist is preferred over the specialist? Where information is guarded jealously? It is these barriers that this generation of Conservatives needs to overcome using today's techniques and technology to deliver more for less.

### **Benefit of private sector involvement**

Today's challenge - now more than ever it is important to squeeze every penny out of public service financing and the superior efficiency and productivity gains associated with the private sector will be essential to deliver this. Evidence shows that competitive tendering alone can deliver savings of up to 30%. In terms of efficiency, in the 10 years from 1997, public sector productivity shrank by 3.4% whilst in the private sector it grew by 30%.<sup>1</sup> We simply cannot afford to ignore this when the emphasis in this decade will be delivering more for less.

Broadly speaking there is a consensus on the strengths of the private sector and the benefits that could be reaped in public services.

But if there is such a consensus, why is this issue still the subject of so much debate? It is because identifying the strengths of the private sector is the easy part. The challenge is how does the public sector maximise the benefits from private sector involvement.

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<sup>1</sup> Phillip Hammond Speech, 27/11/09

Too often, attempts at integration have proceeded without proper reform of the public sector – leading to frustration for contractors and sub-optimal savings for the taxpayer. It is remarkable that the ‘public service industry’ has swelled to around 6% of GDP and employs upwards of 1 million people, without proper reform of government. But as DeAnne Julius confirmed in her report from July 2008, its growth has now slowed as the cost of bidding rises for companies and the commissioning process becomes ever more complicated. The rhetoric about involvement has moved faster than the reality and this is not to the benefit of either sector.

### **Labour’s Failure**

We still don’t know what the Government thought of Dr Julius’s report, which they commissioned, as there has been no formal response, but she did identify some helpful areas that could help restore some momentum.

One of them is long term commitment to maintain competitive neutrality in the bidding process. The state should focus on obtaining value for money and good quality service regardless of who is the contractor. This commitment has waned under the current administration, as evidenced by the Health Secretary’s announcement last September, that the NHS should be the preferred provider, an announcement unsurprisingly welcomed by Unite and condemned by private providers. A sign that Labour’s embrace of private sector provision goes beyond a flirtation with the private sector but falls short of long-term commitment.

Dr Julius also highlighted the dearth of commissioning skills that exist in Government departments, something that you know from your own experience and a recurrent theme in NAO reports.

She suggested that a Director of Service Delivery should be appointed to all departments and local authorities. This would be a senior figure who would be involved with the whole commissioning cycle, starting with initial procurement but running right through to delivery. This is a reflection that policy should not be the sole route to success in the Civil Service – we need to reward those with technical skills that facilitate the delivery of policy.

Lastly, Dr Julius raised the issue of bid costs. We currently have a situation where guideline documents run to hundreds of pages and companies have to assign batteries of consultants to wade through them for months at a time. For the companies that can afford this it is still a huge cost and for those that can't, well it just means they cannot bid at all. Unless this process becomes more streamlined and more uniform, the cost involved of an unsuccessful bid is likely to dissuade companies from bidding. This is bad for businesses, bad for competition and ultimately bad for our public services. The report suggests simplifying bid documents and agreeing clear and consistent objectives on timing, desired outcomes and risk allocation.

Risk allocation can be the key to the success of the whole project - we have seen the damage that uncertainty of risk allocation around pension liabilities has created for example. I know that this concerns many contractors in the sector. Where public sector employees elect to transfer their accrued pension to the new contractor's scheme, the contractor may then be obliged to provide pensions benefits which relate to previous period of employment from which they themselves derived no benefit.

Now it may be that the contracting department is meant to make up any shortfall, but this doesn't account for the uncertainty of providing for an ongoing defined benefit liability in a volatile market. It is exactly this allocation of risk that needs to be smoothed out to increase certainty in the tendering process.

So it is clear then that it is not the supply of services from the private sector, nor the demand from users of public services that has checked growth. But it is actually Government that has failed to keep pace with the rate of change. The Julius report identifies some key areas in need of reform and whilst this Government is stalling, we have put forward our own suggestions for modernising government departments and professionalizing the civil service to meet the public's demand for world class public services and value for money.

### **Our Reforms**

If we are to reduce public spending whilst maintaining the services that people value, we need to answer Nicholas Ridley's questions using today's techniques and technology.

- what things are best done locally and what can be better organised nationally?
- what functions need to be in the public sector and what could be done better in the private sector?
- what standard of service is required and what could be afforded?
- how can value for money be best obtained?

If we are to answer these questions then we need to modernise the machinery of government so each department asks itself 'what can we do differently, more efficiently, more effectively?', ask itself 'should we be doing this or can someone do it better?', ask itself 'what have I done today to deliver value for money?'

It is important to view our proposals as a sea change in approach, not a one off raft of measures to temporarily boost efficiency or secure the next round of contracts. We want to modernise government to work better with private and voluntary providers, but also to lock in

the changes, to give certainty that we are serious about growing the sector so providers can contribute with their own strategic planning.

Our proposals can be divided into three themes: first, a greater strategic direction for Government departments, second, a new emphasis on a professionalized and financially savvy civil service and third, the move to a new era of transparency and accountability in the delivery of public services. I'd like to take each of these in turn.

### **Strategic Direction**

If we are to bring businesses and third sector providers with us towards better public services, we need a change in attitude and a change in approach. Recent reviews have confirmed what we have long been saying; we need to move away from ad hoc initiatives that have no follow through and towards long term strategic planning.

The recent report from Michael Bichard's Institute for Government<sup>2</sup> identified a strategic hole at the centre of this administration. They called for strategic leadership to set clear, long-term priorities, allocate funding accordingly and collaborate with departments to ensure proper follow through and delivery.

We have already set out some ways to accomplish this. First, we will require every department to publish a business plan, listing its key priorities for the next year, updated yearly on a rolling 12 month basis.<sup>3</sup> This will give civil servants a clear direction from central government on what is expected of them and will help them to manage their goals accordingly. These priorities will come with outlines of actions required and milestones against which progress can be measured. This approach will allow officials to push back on pet projects and ad hoc initiatives – too much of which have characterised government activity in recent years.

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<sup>2</sup> Institute for Government, 'Shaping up, a Whitehall for the future' – McClory et al.

<sup>3</sup> Conservative Party, 'Delivering Change: your civil service for the 21<sup>st</sup> century'.

We will create a presumption that Senior Responsible Officers stay in place for the duration of their projects.<sup>4</sup> This would be common place in the private sector but in the public sector it is not uncommon to have 3 or 4 SROs for the lifespan of a single project. It is a little wonder then that accountability is diluted and large cost overruns and delays are common consequences. It is difficult to hold someone to account for an overrun, but equally difficult to reward where successful projects are delivered on time – this has to change. An SRO will improve continuity for you, someone who understands the design of the service and its implementation and delivery, the same point person who is there at the beginning and there at the end.

We will establish a new model for departmental boards, to hold senior management accountable for how they run their departments.<sup>5</sup> Introducing departmental boards was a sensible idea but they have failed to incorporate the key strengths of that model. Few are chaired or even attended by ministers and non-executive board members are usually drawn from elsewhere in the public sector – some even fellow civil servants. This needs to change if we are to move to a system of forthright and robust accountability. Under our plans, the majority of non-executive board members will be drawn from the private sector with a proven track record of running large organisations. At a time when business is transforming itself through out-sourcing, reforms to the middle and back offices and greater standardisation we must bring similar insights into Government departments. A senior non-exec will have direct access to the Prime Minister and Head of the Civil Service and they will chair a meeting of non-execs from right across government. Non-executives will have the power, as a last resort, to recommend the removal of permanent secretaries.

These reforms represent a sea-change towards a long-term, strategic civil service, focussed on delivery, never happy with the status quo, always focussed on change, delivering more for less.

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<sup>4</sup> *ibid*

<sup>5</sup> *ibid*

## A Financially Capable Civil Service

The civil service excels at a great many things but it is fair to say that there is progress to be made when it comes to making our public servants more financially savvy. Only 4000 civil servants or less than 1% of the total have a financial qualification.

At the time of the last National Audit Office report, six departments had no board level finance director.<sup>6</sup> The head of the Government's Finance Profession Team is not even a full time role. This is gaping skills gap at the heart of our civil service that needs to be filled. We cant go on like this.

We have spoken about the benefits of the private sector and how they could be imitated in the public sector. When it comes to finance we should start at the top. Private sector executives have a fiduciary responsibility to their shareholders<sup>7</sup> – they are trusted with the assets and wealth of that company and they must manage them in the best interests of the whole. We think it is time that Permanent Secretaries and Departmental Board members were made similarly responsible for the public money they are entrusted with and the public services they must deliver with it. This will help concentrate the minds of civil servants, that it is taxpayers money they are dealing with and taxpayers that they must answer to.

Alongside this new fiduciary responsibility we need a set of financial performance measures for Permanent Secretaries and Board Members. This will ensure that pay and recognition are explicitly linked to performance against these measures. This will involve a new approach to staff appraisal where the best performers are treated differently from the worst – not always a given.

To bolster the role of finance director, we will create an entirely new career path.<sup>8</sup> The role of the FD has been neglected and held in relatively low esteem – this needs to change.

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<sup>6</sup> Managing Financial Resources to deliver better public services, NAO 2008

<sup>7</sup> Conservative Party, 'It's Your Money'.

<sup>8</sup> *ibid*

It should be redefined as the second most important in a department and create, as in most of the private sector, a dual reporting line to both the head of department and to a central financial management organisation. This organisation will be the Office of Financial Management which will replace the previous Government Finance Profession. Unlike the latter it will have a full time head reporting directly to the Chief Secretary.

But the Finance Director is not the only role we need to take more seriously. We need to strive for a professionalisation of the whole civil service. This means areas like HR, procurement and IT should all have a full time head to manage that career path.<sup>9</sup> These heads will be responsible for coordinating and moderating the recruitment and appraisals process and hold leaders to account for performance. We want to see government have the same skills at senior level that you in the private sector take for granted.

This increase in performance management and professionalism across the important leadership roles will act as a lever to drive efficiency within departments. But, this will need to go hand in hand with a cultural change in the financing of departments. Currently, if civil servants innovate to cut costs, they will more than likely have their budget cut, their organisation shrunk.

But the only way we are going to adequately incentivise this drive for innovation and efficiency, is by allowing some of the genuine savings to remain with the department. We will allow departmental remuneration committees to use bonus pools to reward those who have delivered real cost savings. Bonuses for executive board members must be aligned with progress against the departmental business plans and 50% of all other senior civil servant bonuses should linked to departmental performance.<sup>10</sup>

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<sup>9</sup> Conservative Party, 'Delivering Change: your civil service for the 21<sup>st</sup> century'.

<sup>10</sup> *ibid*

These changes to the way we think of finance and management in government departments can deliver a more professional approach, tying pay to performance and bringing about a heightened focus on delivery. Greater professionalism in the civil service will yield a dividend for you and us. Greater expertise will make the procurement process better – delivering some of the improvements in bidding that DeAnne Julius called for.

## **Transparency**

Lastly I want to talk about transparency. Transparency is important here for two reasons. The first stems from the fiduciary responsibility that I have talked about. These are public services for use by the public, paid for by the public. This means that taxpayers have a right to know, in clear and simple terms, how their money is being spent. If the first point is one of principle, the second is one of practicality. Making departmental spending more transparent increases accountability and also the pressure to improve the efficiency and effectiveness of government spending.

We have put forward proposals of an Office of Budget Responsibility to assess the credibility of Government spending plans. This will be an important tool in holding government to account for reducing the public deficit, a task vital to our future prosperity. But when it comes to transparency, it will not be officials and bureaucrats who are the prime movers, it is the public themselves. The increased democratisation of information, more data and statistics online, an army of people asking questions of departmental spending – the post bureaucratic age. This is not a political gimmick, it is the reality of our times. But we must do what we can to speed its arrival. These are some of the ways we need to lever transparency to accomplish this.

Firstly, we will publish more details of government spending online so that taxpayers can see exactly how the government is spending their money. We already have helpful data in the form of the Treasury's COINS database, which reports several thousand spending programmes across departments in a consistent format. This is already common practice in

America with every item of federal expenditure over \$50,000 published on a government website. It also tells you which is the most expensive department (the New York State Health Department) and the largest government contractor (Lockheed Martin). Boris Johnson has already introduced spending transparency for every item over £1000 for the GLA. For national government, we have committed to publish every item of Whitehall expenditure over £25,000 and list everyone paid more than £150,000. We will also publish tender documents for all contracts worth over £10,000 online.<sup>11</sup>

We will introduce and publish a standard set of cost measures that capture the key drivers of departmental overhead including total headcount, agency and part-time workers, the cost per head of office space and the cost of consultants. These will serve as a set of metrics against which efficiency can be measured over time. For example, the Ministry of Justice could be measured against cost per prisoner and the education department against cost per pupil.<sup>12</sup>

We will scrap annual reports in their current format. Some of these for the larger departments run to 250 pages and give the public, for whom they should be designed, little to no insight into how the department is actually performing. We will require departments to report only on the key financial information, how they are progressing on their business plan and provide updates on key projects. Alongside this, information will be a key section from the non-executive directors. They can use this space to set out candidly how they believe the department is performing. Similar annual reports should be published by the various heads of the professional streams. That way we can track progress as we bid to improve the quality of HR, Finance, and procurement streams in the civil service.<sup>13</sup>

These are just a few of the things we will implement to improve transparency in Whitehall; because it is the right thing to do and because it works.

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<sup>11</sup> Francis Maude Speech, 26/11/09.

<sup>12</sup> Conservative Party, 'Delivering Change: your civil service for the 21<sup>st</sup> century'.

<sup>13</sup> *ibid*

It will allow taxpayers and tendering businesses to look inside government departments, driving forward accountability and efficiency, important tenets for both constituencies.

## Conclusion

Let me remind your of those four questions

- what things are best done locally and what can be better organised nationally?
- what functions need to be in the public sector and what could be done better in the private sector?
- what standard of service is required and what could be afforded?
- how can value for money be best obtained?

The three areas of reform I have set out require each department to look at its services and answer the last three questions – who can provide the right standard of service at the best value for taxpayers. There is no easy formula, no magic calculation to come up with the right balance between public and private sector provision. We need each department to use these new approaches to get the right answer themselves.

The first question, what should be done locally rather than nationally, is more difficult to answer because it requires a government to decide, is it a centraliser or will it devolve more power to a local level? We have made our choice. We believe that people operating at a local level know what their community needs far better than civil servants in Whitehall. Procurement should follow that decision making. More contracts should be let locally –yes there is a tension with economies of scale, but we believe local empowerment and increased competition will ultimately deliver better value.

What do these changes in the strategic direction for Government departments, a professionalized civil service and greater transparency, mean for the delivery of public services? We have seen the strengths of the private sector being brought to bear to improve public service delivery, but we have also seen that involvement can stutter and stall. It has stalled because governments of all stripes have been quick to identify the strengths of the private sector but slow to identify the weaknesses of the public sector. What is required is a wholesale modernisation of the civil service and public sector so they can interact more efficiently and effectively with the private and third sector in delivering value for money.