
Labour's Zero-Based Review

Interim Report Number 4:
Better Management, Stronger Organisation - Reviewing
the Efficiency of Government

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SUMMARY

Labour's Zero-Based Review of public expenditure will be completed in government, but at this interim stage we are publishing a series of reports illustrating aspects of the reform agenda necessary to tackle the deficit in a fairer way.

In this report we summarise the five 'Efficiency Reviews' completed by external advisers assisting Labour in preparing for government and the management of public services.

On the use of Information Technology, we conclude that there is scope for significant saving by **striking a more appropriate balance between the commissioning of 'bespoke' IT software and deploying core products already available on the market** and adaptable to the administrative purposes of departmental activities. IT services can be shared more frequently between departments. And **Labour will review the data sharing protocols which currently prevent joined-up cross-service working**; to reduce duplication we will explore providing service users with the option of agreeing in advance to data sharing across all public services to reduce duplicative form-filling by consumers of services and public bodies themselves.

On the need for further reform to procurement arrangements, we conclude that there is insufficient diversity and SME involvement in contracting at present – and that there is an over-reliance on 'framework' procurement which limits the input of potentially more efficient service provision. **Open procurement should become more prevalent where services are already placed out to tender**, so that greater value for taxpayer money can be achieved. Improvements in departmental collaboration on procurement are also overdue.

On the question of temporary staffing and the use of consultants, we believe that short-termism has created a false economy in personnel budgets – and that **the high expense of temporarily purchasing short-term skill can be substituted more rigorously with the long-term investment in permanent staff**. Valuing and listening to the experiences of the workforce isn't only good for staff morale – the workforce are also highly familiar with waste and inefficiency where it exists and we should tap into ideas and innovation as a source of future savings.

On performance management techniques and the need for stronger incentives and accountabilities, we believe that greater transparency of public budgeting and programme expenditure will help challenge poor practice. **The next Labour government will focus on a core set of outcome-based public service priorities, looking across departments, and**

challenge departments to take greater responsibility for efficiencies through **the provision of multi-year budgets**.

On the need to streamline government activities, **Labour will de-clutter and rationalise a variety of public service structures** – pursuing a strategy outlined by Shadow Chief Secretary to the Treasury Chris Leslie earlier this year. To take one example, the concept of ‘whole person care’ in health service provision is gaining momentum as a way of improving the patient experience and ensuring that duplication and wasteful interventions are minimised.

In these five areas, further work will be undertaken before the general election. Fairer deficit reduction means not simply shrinking the resources available for each corner of the public service within annual budgets, but ensuring that the management of those services is adapted for a leaner and more efficient era on a sustainable, long-term basis.

INTRODUCTION – LABOUR’S ZERO-BASED REVIEW

The UK’s budget deficit currently stands at over £100billion. In the past year, borrowing under the Tory-led Government has been going up, rather than down, and the national debt is rising. It is clear that this Government has not missed its targets on a technicality. George Osborne and David Cameron have broken their promise to ‘balance the books’ and it will fall to the next Labour Government to finish the job where the Conservatives have failed.

In tough times the Labour Party knows that we will have to make tough decisions. Unlike the Tories and Liberal Democrats we will not make promises we cannot keep and cannot afford. So in Labour’s manifesto there will be no proposals for any new spending paid for by additional borrowing. Our economic plan will put growth and jobs centre stage. And we will not make any spending commitments without saying where the money is coming from. Whilst tough decisions are needed, we are clear that there is fair alternative to the current Government’s blunt, annualised, across-the-board cuts. There is a different, pro-growth approach to managing the public finances, placing long-termism at the heart of forward planning and defending frontline services as far as possible by de-cluttering administrative structures and preventing costs emerging through early intervention.

Delivering the goals of the next Labour Government, not least our commitments to balance the books and get the national debt falling as soon as possible in the next Parliament, requires us to build a detailed picture of the impact of the current Government’s management of the economy. Our Zero-Based Review is delving deep into every pound the Government spends in order to throw light on the current Government’s waste and false economies. This root and branch review of every pound the Government spends will also help the next Labour Government to ruthlessly prioritise public spending and deliver service reform and improvements, rather than just salami-slicing budgets and watching services deteriorate, as has been the practise under the Conservatives and Liberal Democrats.

BETTER MANAGEMENT, STRONGER ORGANISATION – THE FIVE EFFICIENCY REVIEWS

Our initial analysis of current Government expenditure has not only looked at issues on a departmental basis. As part of our Zero-Based Review we commissioned five independent cross-cutting efficiency reviews exploring five cross-cutting strands of Government activity. These reviews are helping to inform our understanding and policy response to the current level of efficiency and value for taxpayers' money delivered by public services.

These Efficiency Reviews have been conducted by:

- Alexis Cleveland CB, former Director General for Transformational Government at the Cabinet Office, advising on making best use of information and communication technology
- Professor Dermot Cahill, Chair of the Institute for Competition and Procurement Studies at Bangor University, advising on effective public sector procurement
- Baroness Jeannie Drake CBE, former Deputy General Secretary of the Communication Workers Union, advising on the use of consultants and temporary staff, and wider issues in workforce deployment and capability
- Ray Shostak, former head of the Prime Minister's Delivery Unit, advising on strengthening incentives and accountability for improving performance and efficiency
- Margaret Exley CBE, former non-executive member of the HM Treasury management board, advising on streamlining, simplification, collaboration and integration.

They draw together a series of important questions and recommendations aiming at better management, more effective organisation, and improved delivery of public services. A summary of conclusions and findings from these Efficiency Reviews is published here for the first time.

(1) Improving the use of Government IT

Information technology is central to public service delivery and forms a large part of government expenditure. Yet many government IT systems are out of date, inefficient, and expensive to run and maintain. Much of this activity is also contracted out to external service providers at significant cost. The results of a two year study into government contracts and costs by the Institute for Government, and by Spend Network, recently revealed £3 billion paid to just six large suppliers by central government, with a further £1 billion for local government IT systems¹. IT has traditionally been seen as “the third rail” by Ministers and officials, a too risky prospect, left poorly managed as a result. A lack of ministerial ownership and leadership, instances of repetitive data entry which are inconvenient for citizens, and poor data security, have earned government IT a poor reputation. But as our efficiency strand on improving the use of IT demonstrates, proper

¹ <http://www.instituteforgovernment.org.uk/news/latest/where-does-your-money-go-new-data-government-contracts-published-today>

practice can reduce costs and improve the experience of citizens interacting with government.

Alexis Cleveland CB, former Cabinet Office Director General and expert in transformational government who has also run the Benefits Agency and The Pension Service at DWP has been leading this review. She argues strongly for the engagement of Ministers in understanding the IT use and needs of their department, placing importance on recognising that IT issues vary greatly between policy-heavy and delivery-dominated ministries, and that IT use can be tailored accordingly.

Whilst the onus should be placed on designing policy to fit delivery and integrating the IT required around that, Alexis Cleveland believes more use of “off the shelf” products should be possible, avoiding a default attitude to bespoke system commissioning which often involves heavy costs. Standard core systems can be locally configured and should not be incompatible with the flexibility that will be required to see a project through its stages to successful delivery.

It is clear that in IT as elsewhere across government, services should be shared far more frequently across departments. As Alexis Cleveland points out, if such different departments as the DWP and Cabinet Office are able to share services as is currently the case, then this should be possible between other departments too. Can further progress be made bringing together currently separate operations? Is there scope for the Government Digital Service and Government IT to be further integrated, for example?

Sharing of services is not only a question of hardware, of course. Public services frequently interact with the public, business and taxpayers – yet there remains far too much duplication and a repetitive need for consumers and service users to supply data already given. Labour will review the data sharing protocols between public services with an aim to reducing duplication of user reporting and creating more joined-up, integrated services which face the needs of the public. Service users should be offered the choice to allow their data to be shared between public services more frequently than at present. We support the important privacy safeguards offered by the Data Protection Act 1998 arrangements, but for many taxpayers the repetitive doubling-up of forms and permissions between public service professionals is a cost that they would like to see reduced. We should also consider ways of improving access for citizens and businesses to the data already held by government about them.

A future Labour government will learn from the mistakes of the Tory-led coalition and ensure greater ministerial ownership of and leadership over policies involving IT. Major projects require greater effort to identify the right skills and leadership which need to be secured at the earliest possible stage. Too often the key leaders of major projects are not retained in place throughout a project, in particular through to delivery. Ministerial oversight of cross-government IT also needs to improve.

Crucially, the Efficiency Review on IT has consistently stressed the importance of not looking at IT costs in isolation. A shift needs to be made from evaluating policy projects purely on price, to consider value for money instead. Too little “invest to save” activity to replace out

of date systems has left large parts of the public sector such as the NHS, the courts and HMRC still reliant on paper. Government departments should widen the focus from IT costs to remember that IT can be used to reduce the total costs of a service or policy programme. IT can and should be used by government in a cost-effective way to increase efficiency and improve services.

(2) Savings and efficiency from better procurement

Central government isn't only a large employer – it purchases a vast quantity of goods and services, procuring over £44bn in goods and services annually (set against the wider public sector total of over £200bn a year). The current administration is depending on large savings from procurement as part of its overall efficiency plans, largely driven by centralising control of purchasing via huge framework contracts and pinning its hopes on the Government Procurement Service – now known as the Crown Commercial Service. But as our efficiency review on better procurement shows, many of the 'savings' made have been achieved in reality through substantial top-slicing of budgets, rather than true efficiencies resulting from smarter procurement practice. In fact, as procurement specialist Professor Dermot Cahill, head of Bangor University Law School and Director of the Institute for Competition and Procurement Studies at Bangor University argues, current procurement activities are too often characterised by insufficient training of procurement staff, poor monitoring of contracts after they have been awarded, a lack of transparency in making tender opportunities widely available and unequal opportunity of contract access for SMEs.

Written parliamentary questions across all government departments reveal the lack of grip that most departments have on their procurement arrangements – with many unable to confirm or detail some of the most basic practices. Only a minority of departments were able or willing to set out the full details of their ten largest contracts in response to parliamentary questions, with only a handful setting out savings achieved through each of these major contracts, levels of overspend or underspend, and details of post-award performance monitoring arrangements. Other basic practices appear also to be neglected. For example, despite government claims to be engaging the SME sector, most departments were unable to confirm the extent to which they are awarding contracts to SMEs. Only at the Department for Transport was the proportion of procurement spend going to SMEs a specific part of the department's procurement competency assessment. While the Crown Commercial Service website states that 50 per cent of services are delivered by SMEs, analysis of parliamentary answers from the Cabinet Office shows that of total central government procurement spend, just 10 per cent goes to SMEs across all central government departments, with just 9 per cent more being won by SMEs along the supply chain.

Widespread and increasing use of procurement 'frameworks' or restricted procedure tendering processes compounds the problem of a lack of competition in government procurement. Framework bidding tends only to allow companies of a sufficient scale to bid. These arrangements also tend to operate over a four year time horizon, which can freeze SMEs out of the market for an extended period. In future, even greater value for money will

need to be delivered than at present, which must mean opening the procurement process to wider competition so that a greater number of potential contractors can make their case. But instead, what is clearly happening is a shift across most government departments towards over-reliance on framework contracts which is preventing SMEs having the opportunity to bid for these contracts in the first place.

Outsourcing is not always appropriate for public services. But where improvements in value and quality can be achieved, we should encourage local commissioning and procurement and in particular the involvement of SME contractors. For example, the co-commissioning of future Work Programme arrangements has clear potential for achieving higher quality and responsiveness to local needs – and the involvement of a greater diversity of providers, as Rachel Reeves has argued.

Open competition procurement is still too rare across departments. At DWP just £16 million was spent by the department via open procurement; just 1% of the total procured through framework agreements.

A lack of transparency and unequal access to SME participation is compounded by serious questions around the level of appropriate procurement skills in government. Professor Cahill's review has found that those involved in spending large sums of money via public procurement processes too often receive little support or training appropriate to their level of purchasing responsibility. This situation has contributed to some high profile failures, such as the collapse and re-running of the West Coast Mainline tender, at a cost of £50 million to the tax payer. Where training is available, it is frequently private sector procurement focused, rather than public sector specific, where a very different kind of training is required in order to ensure that the public purchasing officer is familiar with wider public policy objectives and appropriately assessed in order to ensure they are competent to align purchasing practices with sound policy objectives, such as sustainable procurement or social justice agendas. While the Crown Commercial Service is expected to achieve efficiencies in terms of items of common repetitive spend, the already emerging view from Whitehall is that its existence will not help to get the professionalisation of individual department's procurement in order.

Professor Cahill's contends that central government is poor at monitoring the performance of major suppliers and the management of key contracts, which places risk on the taxpayer. The trouble of G4S over Olympic security has been just one recent example. Research for our procurement efficiency review found that nearly all Whitehall departments were unable to identify the top ten largest contracts to whom awards have been made over the past two years, and almost all were unable to confirm whether they had overspent on any of these projects. A signal of things to come can be seen at BIS: their outsourcing of procurement has meant that the department has effectively lost control of how it assesses procurement competency.

It is clear from Professor Cahill's research that a company's poor performance in previous contracts does not seem to factor as a relevant condition for government departments when awarding new contracts. Nor did departments seem aware of forthcoming EU directives which will change the law in this respect, allowing greater consideration of past

performance. Whitehall departments furthermore show little sign of being ready for requirements which take effect in 2016 for public procurement to be conducted electronically, or the advent of e-invoicing.

This efficiency review found that joint procurement between departments is negligible. Labour will encourage Whitehall departments to learn from local authorities, where collaboration is far more widespread. Whitehall could also learn from Wales where some local authorities have reformed their tender documents so that open competition tendering processes are completed in 38 days, instead of the average 120 days in central government departments. The longer a tender lasts the higher the cost of evaluating it is to the civil service and to SME bidders, thus creating major inefficiencies, argues Professor Cahill.

(3) The use of consultants and agency staff

Staffing costs are one of the largest components of departmental expenditure, with approximately 5.4 million people employed in the public sector. However, many who do work for government departments, in Whitehall and beyond, are not directly employed by the public sector. Agency staff, contractors and consultants are being increasingly used, especially by the coalition government, to perform public service roles, at the same time as cuts to the permanent civil service have been significant. The public sector can benefit from the flexibility as well as new skills and knowledge brought by these staff. These advantages however, must be balanced against considerations of the expense and value for money of consultants and agency staff, concerns that their use can often reflect weaknesses in resource planning and capability, and that excessive use of external consultants can reflect short-term budget pressures that prevent permanent managers making sensible longer-term investment in the capabilities and development of permanent staff. Addressing inadequacy of in-house skills, such as project management, in key areas of Government and service delivery is an essential ingredient of delivery value for money.

Our efficiency review on the use of consultants and agency staff by government departments has been led by Baroness Jeannie Drake, former President of the TUC. In tough economic times, staff will remain key to delivering outcomes and driving value for money. Baroness Drake rightly argues that both permanent staff and those with temporary assignments have their place, but their value ultimately rests on how well they are deployed and managed.

Our ongoing work on the Zero-Based Review has begun to uncover a series of poor decisions by the current administration where use of consultancy staff has made little economic sense. A repeated pattern of departmental balance sheets showing up both large sums spent on redundancy costs at the same time as significant increases in casual, contingent and consultancy labour spend is emerging. At DWP, for example, casual staff costs have increased from £8 million spent on consultants in 2011-12 to over £13 million in 2013-14; and a rise in spend on temporary staff from £20 million to £25 million, with a peak of £39 million in 2012-13. This is at the same time as the department's payroll staff numbers have dropped from 104,182 in 2012 to 88,903 in 2014, with associated

redundancy payments. At the Department of Health, the costly and unwanted top-down reorganisation has produced a bill of £1.9m for consultancy costs to “support transition for system reform changes”.

These examples highlight problems which can be associated with the use of agency and consultancy staff: a lack of transparency and accountability; an absence or loss of in-house skills; quality of service and delivery failures; and ultimately, total costs can end up higher. The Public Accounts Committee has admonished the DWP over its arrangements for Universal Credit for “no evidence of the Department actively managing its supplier contracts, resulting in suppliers being out of control and financial controls not being in place”².

Baroness Drake draws together lessons from across government to advise that if agency and consultancy staff are to be engaged by government, the potential benefits of expertise, accessing specialist skills, ability to deploy staff quickly, improving service quality, and attaining cost efficiencies, are more likely to be achieved if contracts are set up with fit for purpose pricing and charging structures, and if they are monitored and managed rigorously. Significantly enhancing the quality of management information and performance monitoring are essential requirements for delivering long-term sustainable efficiencies. Reducing cost must be inextricably wrapped up with improving quality. They create a self-enhancing loop not least because poor quality is expensive and efficiency means right first time.

Whilst Labour is clear that the economic situation which we will inherit will require further reductions in expenditure across government, the experience of this government shows us that institutions can be damaged quickly and prove hard to rebuild if efficiencies in human resources are sought purely for short-term or year-end reasons. Crucially, Baroness Drake’s work highlights the importance of delivering improvements in labour productivity and cultural change in sustaining efficiencies and enhancing value for money. The strategic and operational drive for achieving savings and improvements in efficiency should of course be driven by better management, but it is often frontline staff who see waste on a daily basis and are as appalled as taxpayers themselves would be. The Labour Party is clear that there is a key role for the workforce in achieving robust public service efficiencies, and as such are committed to the importance of the worker voice in delivering transformational change.

(4) Incentives and accountability: keeping up the pressure for efficiency and reform

Last year the government spent just over £700 billion of public money. It is right to expect a prudent government to control the overall level of spending, but it is also essential that there is accountability for the results of government expenditure. The public have a right to know what it is getting from taxation. Indeed, as Labour’s Chris Leslie MP has been arguing,

² <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/619/61905.htm>

public confidence in how government spends our taxes is key to maintaining support for the very act of pooling resources and for provision by the public sector.

Yet there is currently weak management and poor central oversight of the performance of government departments. This government's fundamental control mechanism has been 'the budget cut': organisations have simply had to reduce annual spending in line with their allocations, with barely any assumptions or pressure to achieve sustainable efficiencies or to think long-term rather than achieve short-term financial year reductions. Our efficiency strand led by Ray Shostak, the former Director General of Performance at the Treasury and Head of the Prime Minister's Delivery Unit, has therefore been asking whether incentives can be altered to drive improved performance and good value for money, and whether accountability and transparency of government spending can be enhanced.

There are a series of ways in which user input, a citizen focus and a greater level of public scrutiny can drive improved management performance and efficiency. Indeed, a people-focused culture can develop new routines and spur integration and the redesign of delivery models. Ray Shostak has reviewed a series of efforts by the current and previous administrations to integrate and improve service delivery, noting that in different circumstances there are opportunities for 'horizontal integration' (ie, joint working between different bodies sharing the same client group), 'vertical integration' (improved coordination along the delivery chain), 'back office integration' (streamlined management processes) and 'early intervention' (preventing problems and costs reoccurring). Each technique is employed to a varying degree between different government departments at present – but they are more likely to occur where strong accountabilities exist.

The abolition of Public Service Agreements and their unsystematic replacement with departmental business plans by the coalition government has left an inability to drive efficiencies further. Departmental accountabilities have reduced and as a consequence so has the determination to evolve and integrate. As the National Audit Office report of March 2013 says: "the centre of government does not have clearly defined responsibilities to support or encourage frontline integration ... while some parts of the centre of government have an interest in integration, none of them has explicit responsibility for supporting integrated working, particularly for frontline services." An improved focus on public service priorities in an era of reduced resources is more important than ever.

(5) Streamlining government

The experience of the past four years has seen the current administration make changes to departmental structures that have increased complexity, lessened opportunities for integration, and cost more than they have saved. In an era of reduced resources, how the state organises and which decisions about service delivery are made become issues of great importance. This is why our fifth efficiency strand, led by Margaret Exley CBE, former board member at the Treasury, has been looking at how government departments and functions can be streamlined, rationalised and integrated around citizens.

Drawing on interviews with current and former civil servants and her expertise in change management, Margaret Exley's work has brought together best practice lessons for successful delivery when organisations are faced with a significant financial challenge. Ineffective boundaries between different parts of government create wasteful arrangements for meeting citizen needs. Examples where structural questions persist include services for the elderly, for vulnerable children, and the range of judicial and support services available for young offenders. If, as Margaret Exley argues, we can build structures around the citizen, and not the minister, if we can organise for integrated services, including simplifying and streamlining existing arrangements, we not only can achieve better service outcomes, but save money as well.

Building citizen-focused structures should include increasing delegation to the frontline, as Labour's decentralisation agenda has been advocating. This can also, contends Margaret Exley, involve changing the role of the centre to place greater focus on support for the frontline. Single points of contact, building on the Total Place or Tell Us Once models employed by the previous and current governments, are to be encouraged. The increase in size of the Cabinet Office by 50 per cent under the current administration runs in stark contrast to this decentralising advice.

The work emerging from this efficiency review also advocates learning from past success as governments make the necessary transition to integrating services, as advocated by Labour through our Whole Person Care model for integration in health, for example. Success in government on joined up working requires a formula of structural change combined with strong ministerial sponsorship, and clear outcome-based goals. The work of the Social Exclusion Unit under the last Labour government is a good example. To maximise the financial efficiencies from integration, Margaret Exley recommends that when making resource allocation decisions, government thinks more about 'public benefit' return on investment.

Reducing the complexity of government can significantly reduce costs, and bolster delivery. For instance, there are significant questions about the role and nature of departmental boards and how they fit within management arrangements across Whitehall. The motivation and commitment of frontline staff matters in the efforts to improve customer focus. The centre should have a role in supporting the frontline - not denigrating the civil service and characterising 'reform' as a confrontation against an inflexible workforce.

Streamlining government and reducing managerial intermediation is integral to more efficient government. 'Decluttering' is not only something to be considered for structures; the process of simplification and rationalisation can also apply to priorities as well. Success requires prioritisation. Margaret Exley argues for the benefits of, in any one year, a departmental focus on no more than five big initiatives, for example. Such prioritisation would enable departments to play to their strengths.

CONCLUSION

These summaries of Labour's five external reviews of critical aspects of the efficiency agenda provide a guiding insight into how better collaboration and further savings can be achieved. In this series of reports as part of the Interim Zero Based Review of public expenditure, we will explore in more depth some of the challenges of procurement, management reform and engagement with staff and service users as part of a fairer approach to deficit reduction.

