

CBI submission January 2011

Public Service Reform

Emma Watkins | Head of Public Services Policy | Public Services & Skills Directorate | CBI

The Confederation of British Industry (CBI) is the national body representing the UK business community. It is an independent organisation funded entirely by its members in industry and commerce and speaks for some 240,000 businesses that together employ around a third of the UK private sector workforce. The Public Services Strategy Board leads the CBI's campaign to improve the quality and efficiency of the UK's public services and comprises a broad range of companies involved in delivering those services.

Business takes a strong interest in effective public services as users, funders and deliverers of services. The CBI therefore welcomes the opportunity to contribute evidence to inform the Public Service Reform White Paper, which represents a valuable opportunity to rethink the way in which public services are delivered.

The six policy priorities for public service reform set out in the call for evidence are ones the CBI supports. The Government's approach begins to address the call we made for a fundamental re-engineering of public services in our June 2010 report *Time for action: Reforming public services and balancing the budget* and this is welcome.

In order to realise the ambitious policy objectives the Government has outlined, the CBI believes that:

1. **Greater competition and transparency in public service markets is crucial:** opening up public service markets to competition across the board should be at the heart of public service reform. In the delivery of all public services, providers from across the private, public, third and community sectors are well positioned to deliver the quality and value for money users need and deserve. Greater transparency will be necessary to realise the benefits of competition as it reveals areas of spending that are not delivering value for money and would benefit from market testing. The CBI does not believe that setting proportions of services to be delivered by independent providers is needed. If the Government does go forward with this approach to drive through reform, it must be made clear that any figure set is not a cap on ambition.
2. **Action must be taken to ensure a level playing field on pensions:** if the Government is to increase the diversity of providers involved in delivering public services it must address the barriers to entry that prevent this

from occurring. Pension costs currently act as a significant barrier to market entry for independent providers, while the failure to account for the cost of pensions under public provision also means public providers have an unfair advantage when bidding for contracts.

3. **Big Society models such as co-operatives and mutuals have great potential, but they should face competition and be encouraged to partner with other providers:** the CBI supports the Government's plans to allow employees to provide services; forms of organisation that engage employees have been shown to deliver beneficial results in the private sector. To be successful however, these types of organisations must face competition, and should be encouraged to partner with other co-operatives, private and third sector organisations to benefit from their expertise, scale and finance.
4. **Private sector investment and expertise can revolutionise public services across the board:** from policing to healthcare, education to welfare, private sector investment and expertise can have a positive impact on public services. The CBI has identified many areas where the private sector could drive up standards and drive down the cost of public services. This includes not only running back office functions but delivery of frontline services that people engage with on a daily basis.
5. **Payment by results where the focus is placed on outcomes not outputs will promote innovation and deliver value for money:** the CBI believes that the default setting for the delivery of public services should be to link payment to outcomes. This will initially be most feasible in areas where 'clean outcomes' can be established. To achieve the shift to outcomes based contracts it might be appropriate to offer lower-risk opportunities with some payment for activity at the outset. This would encourage the

involvement of a broad provider base including SMEs, social enterprises and civil society organisations.

6. **Transactional services should be centralised and transformational services decentralised:** the CBI believes that transactional services - where the public using a given service does not directly come into contact with the service - should be centralised to achieve economies of scale, standardisation and simplicity. Transformational services are ones that the public interact with, regard as 'frontline' and want to be protected. These should be decentralised, with services designed and commissioned locally.

Consultation questions

Promote independent provision in key public services

The Government's policy of promoting independent provision in public services is one the CBI welcomes. While the state should fund and define outcomes for public services, it does not need to be the default, or majority, provider of them. The CBI believes that there are only a few areas where the public sector must provide; these include commissioning and procurement, military activity, frontline policing and the judiciary.

Service quality, user experience and value for money improve with a greater diversity of providers, whether they be from the public, private, third sector or a combination of providers from different sectors working together. Increasing the diversity of providers competing to deliver public services will result in the more personalised services citizens want.

Greater competition is beneficial as it roots out poor quality providers and raises standards; incentivises newcomers and incumbents; encourages providers to deliver a service that is

responsive to users' needs; motivates employees to deliver a higher quality service; leads to differing perspectives and expertise of new providers coming in; and leads to savings that will help the Government achieve its cost reduction targets.

How can the diversity of provision in public services be increased? For example could setting proportions of services to be provided independently support this aim?

Reforms must ensure that the full range of private enterprises, voluntary and community organisations and social enterprises have a fair chance to compete and work alongside each other to deliver services. Opening up public service markets to competition with a right to bid is a necessary first step towards ensuring that diversity of provision increases and the best provider ultimately provides.

Transparency is crucial for fair competition and will ensure that a greater diversity of providers are brought in to deliver public services. Greater transparency will reveal areas of spending that are not delivering value for money and that would benefit from market testing, while it also provides opportunities for benchmarking the performance of public sector bodies. Public to public contracts should therefore be scrutinised to the same degree as those for outsourced services to ensure the best provider is providing - whether they be social enterprises, voluntary and community organisations, private sector firms or public sector bodies.

In addition to ensuring transparency, it is essential that the Government removes the significant barriers to entry that currently place restrictions on the diversity of provision – especially with regard to ensuring a level playing field on pensions (see p.8 for more detail).

Placing a focus on outcomes and defining clear market strategies will also lead to greater diversity. This will enable Ministers and departments to be

clear about what outcomes they want to achieve, result in a competitive environment which can promote market-like behaviour, drive up performance and allow information to be gathered from clients which can help to improve services. Defined outcomes and a clear market strategy will bring new providers in.

The Work Programme may prove to be a good example of where there have been defined outcomes and a clear market strategy. The approach taken by DWP to specify clear outcomes at the outset encouraged both existing and new providers to present their ideas and feedback to promote the development of the programme. It is now important that constructive dialogue continues as the programme is rolled out to ensure the right balance between risk and reward has been struck and that a similar approach is taken in the future with regard to other schemes.

Across the board, public service commissioners must therefore try to better understand the nature of the market by engaging with providers. Commissioners should seek to use 'meet the market' or 'provider engagement' programmes to identify where providers could help deliver public services, as well as the best way to design those services, structure contracts and develop payment and performance mechanisms. When engaging with providers the Government should try to establish a pipeline of future bidding opportunities to encourage new providers to enter markets; with more visible bidding opportunities foreign companies may also be encouraged to invest in the UK.

The CBI believes that setting proportions of services to be delivered by independent providers should not necessarily be required if there is transparency and a commitment from Government to open up public service markets to open competition. If the Government does decide to set proportions for some services to drive through reform at an early stage, it must ensure that any figure set is not a cap on ambition. It will also be necessary to identify what would count as

independent provision given that there is now more partnership working between the public sector and independent providers. For example, joint ventures blur the boundaries between independent and public providers.

What do you see as the main barriers to increasing diversity of provision and how can these be overcome?

There are a number of significant barriers that the Government will need to account for, most importantly those relating to pension costs. These issues are expanded upon later in the response (see p.8).

Which services do you think could benefit most from a greater range of providers?

The CBI believes that across all services a greater diversity of providers competing against each other will always be beneficial. Examples include:

Health: the recent announcement relating to the divestment of PCT community health services committed only 4% of services to outsourcing. Across the NHS, competition has typically not been well nurtured. The CBI believes there should be a move towards an Any Willing Provider model in the delivery of most healthcare services; this an approach that has already been developed for non-emergency elective care.

Education: the majority of education services are provided by the public sector. Independent providers of education services are already helping to tackle failure in the school and further education systems, but there is potential for them to do more. They have demonstrated their ability to deliver value for money services and can bring innovative new ideas to transform schools and further education colleges.

Policing and Criminal Justice: at present there are only 12 prisons in England and Wales run by private companies, yet the DeAnne Julius report (2008) showed that competition for services had

raised efficiency by 30% in some cases. Only a small percentage of policing and immigration services are outsourced and Probation Trusts currently outsource less than 2% of services, so at present the provider base is limited. There is also scope for a greater diversity of providers in the delivery of court administration services.

Local Government: in some areas of local government there is significant competition and a diversity of providers (e.g. waste management), but in others such as social housing management there is very little (at present only 1.6% of housing is managed by the private sector).

Develop new rights for communities and public sector employees to provide services

The CBI welcomes the Government's commitment to developing new rights for communities and public sector employees to provide services where they believe they could do a better job compared to existing provision. Encouraging public sector employees to create co-operatives and mutuals supports the Government's aim of involving a greater diversity of providers in the delivery of public services.

It is clear from the experience of CBI members that where employees are involved in shaping organisations and sharing in the rewards of success they are more likely to innovate and develop new and more effective ways of working. Big Society models such as co-operatives and mutuals that are based upon greater employee engagement could therefore result in significant benefits for users. For example, the mutuals model is based upon the involvement of employees, stakeholders and users in the decisions that affect the service, resulting in a greater focus on outcomes and in turn increased accountability. It is crucially important however, that these organisations face competition and are encouraged to partner with other providers to help realise their potential.

How could giving public employees “rights to provide” operate across the public sector and how could Government make it easier for employees to act on this?

If the “rights to provide” model is to operate effectively across the public sector, the Government must ensure that any organisations provide staff with real autonomy and allow managerial flexibility while ensuring there are no incentives for them to take risks that are not in the public interest. As with any other provider they must produce the service outcomes expected of them; as such it is important that proper accountability exists with robust arms-length contracts that specify clear outcomes and performance standards.

Co-operatives and mutuals must also face competition. Without this their creation could result in structural change with little improvement in service delivery. Making it easier for communities and public sector employees to provide services must not be just a rebadging exercise. For example, divesting PCT provider arms for community health trusts risks rebadging existing provision and will not bring any of the benefits of the social model or make community health services more proactive, patient-centred or outcomes focused.

To make it easier for employees to act on “rights to provide” they must have access to the information and support they require to do this. This can be achieved through greater transparency, as well as access to any support they might need to establish the organisation. For example, employees may need support to help them develop commercial skills and knowledge, as well as access to experts who can help them with a range of matters including finance, the law and pensions. To address these issues partnerships with private sector organisations that are experienced in commercial matters should be encouraged.

Where and how could new forms of organisation or finance be used to support “rights to provide”?

Employee-led organisations should be encouraged to cooperate with other similar organisations, or form joint ventures with private and third sector bodies, so they can benefit from their scale, finance and expertise.

The CBI believes that innovative partnerships between private sector bodies and co-operatives could enable the strengths of both to be harnessed, the result being higher quality and more cost-effective public services. Strategic partnerships would help bring about shared benefits for both partners, providing access to complementary skills and experience, cross-sector learning and new perspectives and approaches. The benefits of partnership working are explored in greater detail in our joint report with ACEVO entitled *Win-Win: The leadership of private and third sector public service partnerships*. Joint ventures between employee-owned organisations and private sector partners could be particularly useful when it comes to supporting “rights to provide”. In a joint venture, the private sector provides expertise and working capital, and the risks and rewards of the project are shared by both partners.

The Government should also consider the possibility of using innovative new financial instruments such as social impact bonds to help support “rights to provide”. Social impact bonds involve investors committing to pay to help improve outcomes, before receiving a return on their investment when those outcomes are attained.

How could giving communities and voluntary and community organisations the right to challenge be implemented across the public sector more broadly? What public bodies and which specific public services might this include and which would not be appropriate?

Giving communities and voluntary and community organisations a right to challenge to run local services is an important step. This will ensure that users of public services have the opportunity to become more involved in the delivery of those services and mould them so that local needs are met.

It is not just communities and voluntary organisations that should have this right. Any provider from any sector that can demonstrate they are able to deliver a service more efficiently and for better value to the taxpayer should also have this opportunity.

Attract external investment and expertise into the public sector to deliver better and more efficient services

The CBI supports the Government's aim to identify public services where outcomes and value for money can be improved by the injection of third party capital and expertise. In the current financial climate the Government is understandably not keen to increase spending through higher upfront costs, even with an expectation or guarantee of further savings later.

Given this context, the CBI welcomes the Government's commitment to explore how private sector investment could be used to meet growing public demands for high-quality public services, as well as the role that private sector expertise can play. Our report *World-class public services: meeting the delivery challenge* identifies a range of different models for delivering public services that aim to make the best use of private sector

investment and expertise, which the Government should look to use in the delivery of high quality services in the future. In particular there is scope for greater use of service based models such as joint ventures, the prime contractor model and outsourcing, that draw on private sector investment and expertise.

Public-private partnerships have brought enormous benefits to public service projects resulting in better integration of design and delivery, effective risk sharing, increased transparency and accountability, a greater focus on sustainability and better outcomes for users.

When budgets are falling, the role of private sector investment is even more important as there will frequently be timing gaps between when capital projects are needed and when funding becomes available. Based upon the payment lag between capital investment of a project and the schedule of available funds, a funding gap is identified which could be financed by the private sector, with the cost of such financing included in the project cost. The funds provided by the private sector partner would be used to bring forward the delivery of major projects while deferring payment until funding is available. The equitable and effective management and distribution of risk and reward will be critical for making this work.

Can you identify specific opportunities for bringing private sector investment and expertise into the delivery of public services? Please provide us with specific examples of how this might be achieved.

Public service delivery models that use private sector investment result in greater financial transparency and due diligence, providing an additional safeguard against service failure. New public service delivery models that combine private sector capital investment with the provision of services will ultimately allow for the modernisation of many services and facilities across the board, from hospitals to prisons. As part of our current work on new models the CBI is

currently examining areas of public services where there is potential for greater outsourcing and we would be happy to share the final report with the Government.

Evidence also suggests that in addition to private sector investment, private sector expertise in areas such as technical design, project planning, financial management and performance management have already brought new rigour to public service projects.

Specific opportunities for bringing in private sector investment and expertise include:

Policing: there are many police activities which do not require warranted powers; private providers could be used to deliver specialised support here that will free up police for front line duties. For example, where private providers have already been used to process people and run custody suites it has freed up police officers to deal with core policing activities; there should be no need for police services to retain facilities on a just in case basis, when they could be provided by the private sector. Other activities the private sector could provide include training, call handling, forensic science services, investigation support, security at major events and event mounted and dog unit deployments.

Criminal Justice: there is scope for private providers to operate more prisons (which has been shown to improve efficiency across the system), run community sentencing programmes, deliver probation services, court administration services, and also administer legal aid. The CBI welcomes the Ministry of Justice's commitment to introduce greater competition into the criminal justice system and we look forward to engaging with them on this.

Healthcare: with the proposed move towards GP commissioning, the private sector could be of particular value in assisting GPs with the management of healthcare budgets. There is also much greater scope for private providers to deliver

community health services, and also to step in and offer support where trusts are failing, following the example set by Hinchbrook where social enterprise Circle stepped in.

Education: there is scope for private providers to be much more involved in delivering education support services. The benefits of private sector investment and expertise are clear where this is already occurring, available evidence showing that they can innovate and deliver value for money educational services in challenging conditions. For example, one CBI member entered a joint venture with Surrey County Council to provide education support services and advise on education policy and strategy. As a result standards of education and attainment have risen across Surrey and savings of £7.6 million have been saved over the period of the joint venture. This example demonstrates that the private sector should not just provide back office support services such as payroll and IT support to schools, but that their involvement could be more strategic, supporting local education authorities and the leadership and management of schools. It is a similar situation in the Further Education sector, where the private sector plays a very limited role at present but could contribute considerably. More details are set out in our recent report *Fulfilling potential: The business role in education*.

Work and Pensions: the Department of Work and Pensions has long been committed to competitive markets and is relying upon the independent sector for the delivery of the Work Programme. The approach the DWP has taken to the Work Programme is one the CBI strongly supports. There is scope however, to also put a range of non-core functions the department currently performs internally out to tender. These include benefits and pensions services administration and call centre operation, all of which could be delivered more efficiently if the private sector was involved. There is also considerable scope for more employment services to be delivered outside Jobcentre Plus (JCP); the lack of competition to deliver the services currently provided by JCP is something of

an anomaly given the forward thinking approach DWP has taken with regard to welfare to work.

Local Government: many councils have become expert commissioners proficient at seeking and selecting solutions from a range of providers. There is more that could be done however, if local authorities come together to consolidate, share and outsource back-office services such as HR and payroll. Greater benefits will come from taking this reform into middle office functions and frontline services where the private sector could help to deliver shared services in areas such as waste management and street maintenance. The private sector can also assist with front-line services that are typically less visible, such as the modernisation of councils' customer contact centres, which could integrate services for those who use them most so as to reduce duplication of intervention and make council activity more outcomes focused. Private sector providers could therefore play a major role assisting councils in developing 'Channel Shift' services that will mean public service delivery and public interaction occurs digitally by default. Within the scope of local authorities, social housing management also stands out as an area where a lack of competition means residents are stuck with the status quo and have no way of benefiting from the most innovative private providers who could improve homes and communities (for more information see our report *Improving homes, improving lives: Using competition for better social housing*).

Personal data: there is significant scope for private sector investment and expertise to help provide IT support in the delivery of personal data management for public services. As the Government looks to move away from mass data storage and towards individuals controlling their own data, private sector providers can play a role in developing the online services that will be necessary to bring about this change.

What barriers are there to these opportunities? How can they best be overcome?

Pensions: the CBI believes that pensions are one of the most significant barriers to entry into public services markets. Providers of public services are often treated differently depending upon whether they are from the public, private or voluntary sectors. Contracts are typically awarded based upon factors other than quality and value for money. Ensuring there is a level playing field is a commitment to fairness for all providers, will allow the Government to assess whether it is obtaining the best value for money, and remove the barriers that currently limit more private sector investment and expertise being brought into the delivery of public services.

The CBI welcomes the Government's recent decision to scrap the two tier code, which should now encourage more providers, including SMEs and social enterprises, to enter public services markets. The CBI also welcomes recent announcements that the Government is to consult on the discount rate and Fair Deal in relation to public sector pensions reform. There are however, still many issues to be dealt with relating to pensions to ensure private providers can become involved in the delivery of public services.

When staff are transferred under TUPE from the public to the private sector, providers are not always allowed to access existing public sector pension schemes, but the cost of setting up a similar scheme on the open market is excessive. For example, the cost of the pensions non-public providers may be expected to pay for staff in public sector roles can involve contribution rates up to 40% of salary; this is more than double the average employer contribution in non-public service schemes. Pension costs therefore act as a significant barrier to market entry, while the failure to account for the cost of pensions under public provision also means public providers have an unfair advantage when bidding for contracts (for more details see our report *A question of balance*).

Reforming pensions practice in public services contracting).

The CBI believes that the least worst solution to address these issues is to apply the Admitted Body Status (ABS) mechanism used in local government to all other sectors. This approach would mean public sector staff stay in their public sector pension scheme if they are involved in delivering public services. While the ABS option appears costly, this is because of the nature of the public sector schemes it allows access to; ABS would become affordable with reform of public sector pensions. More broadly in relation to TUPE, the CBI believes there must be more reliable information for providers early on in the contract award process regarding which staff are likely to transfer out of the public sector and the liability they represent. The current lack of clarity can mean contracts fall through at the last moment when providers receive this information.

Poor Quality Commissioning and Procurement: another significant barrier to realising these opportunities is poor quality commissioning and procurement. Poor commissioning and procurement skills have had an impact on the extent to which the benefits of private sector investment and expertise have been brought in to deliver services. The CBI therefore welcomes the Cabinet Office's 'Accelerating Procurement' review, which is seeking to partly address this issue. To improve commissioning and procurement skills the Government should look to pool procurement resources across departments so that the most qualified officials work on the largest projects, as well as expanding opportunities for public sector commercial officials to spend time working on secondment in the private sector. The Government also needs to ensure staff have the necessary skills to effectively manage contracts, with a focus placed not just on compliance by a provider, but performance enhancement to ensure the best outcomes.

As the Government seeks to tackle the issue of poor quality commissioning and procurement the

CBI believes several specific issues should be addressed:

- Small providers and new entrants are often excluded as exhaustive selection processes reward the last man standing. The CBI argues that solutions must be assessed on their merits even if the provider does not have any previous examples of Government contracts to draw on.
- When commissioning and procurement of services is carried out centrally, SMEs can sometimes inadvertently be excluded. The CBI advocates greater use of the prime contractor model to address this issue, as this enables smaller organisations to participate but does not subordinate them.
- At present providers are confused about where decision making lies in Government and what freedom and authority each part of the system (e.g. departments and the centre) has. It will be important to ensure that Senior Responsible Owners are held accountable for the decisions made and that they have the appropriate skills and experience to carry out the job effectively.
- At present the procurement process is too slow, wasteful and difficult to navigate, putting off a broad range of providers from bidding for contracts. Streamlining the procurement process by tackling waste and standardising paperwork will reduce bid costs and encourage the development of a broad provider base.

Extend innovative payment and funding mechanisms

The CBI supports the Government's plans to examine the payment and funding mechanisms for public services and particularly welcomes the focus that is now being placed on payment by results.

It is clear that good providers want to be challenged to perform better on outcomes and value for money and are willing to take on higher levels of risk on service delivery in return for a fair return on investment. By giving providers freedom to design service packages and holding them to account by making their payment dependent on achieving contractual outcomes, commissioners can incentivise the achievement of outcomes that really matter. By using contracts to penalise failure as well as reward success, outcome-based commissioning with payment by results will ensure that risk transfer is genuine and providers are held to account for their performance.

Where have personal budgets been successful and why were they successful? Should government have done anything differently here?

The CBI has previously acknowledged the benefits of personal budgets in the delivery of adult social care services; their success here was due to the fact that they made the user the procurer. These benefits have also been demonstrated in a scheme involving a CBI member where parents and carers of children with disabilities have taken control of personal budgets to purchase activities for their children. Personal budgets give individuals greater choice about the services they receive, resulting in better outcomes and higher satisfaction rates.

Early evidence from adult social care schemes also indicates that personal budgeting can lead to reduced levels of expenditure on care services as users make different choices and selections from those made by professional social workers and commissioners on their behalf.

Are there specific areas of public services where the use of personal budgets should be introduced or expanded? Are there barriers to successful implementation and how can they be overcome?

It is clear there is scope to extend the use of personal budgets to other areas of public services, but it is critical that their use permits genuine choice. Personal budgets must allow the individual in charge of the budget to use it in the way that they believe is best for them.

To avoid duplication and overlap in the delivery of services, personal budgets will also need to integrate a broad array of different funding streams are integrated (e.g. for health and social care). For this to be achieved greater information sharing and budget pooling will be needed so that it can quickly be determined where there is overlap in support provided to people and therefore where funding streams can be brought together.

One specific area where use of personal budgets could be expanded is in the provision of welfare services. In this example a budget for procuring different employment-related services is given to an adviser (a budget holding lead professional) who with an overview of different services available selects the most appropriate course of action for the less knowledgeable client. To ensure that this is as effective as possible, the lead professional has to develop an appropriate course of action.

One key barrier is the fact that different individuals have varying levels of knowledge about the type of service they might need, as well as the capability to make the choice for themselves. Effective use of personal budgets may in some cases require the use of organisations that are commissioned to help users handle the responsibilities that come from being put in charge of a budget, as has been the case with welfare.

In what areas of public services is it most appropriate and feasible to link the payments received by providers to the results they deliver? In these areas what is an appropriate balance between payment for activity (outputs) and payment for outcomes? How might this change over time as public service providers and markets develop?

The CBI believes that across all public services the default setting should be to link payment for providing public services to outcomes. It is clear that there are some services however, where a payment by results approach can be most easily adopted. These services are ones where the outcomes are most readily identifiable ('clean outcomes') as in welfare to work, preventative healthcare, early management and early years learning. For other services, determining a 'clean outcome' can sometimes be more challenging and requires greater data to help develop the payment mechanisms, with commissioners taking the time to engage with the market and define a strategy as previously highlighted.

Private sector providers have demonstrated that they are willing to move towards payment by results contracts. For this to be successful however, it will be important to ensure there are appropriate contract lengths, fair risk and reward sharing and regulatory and reporting structures that promote innovation.

In moving towards contracts based on outcomes, commissioners will also inevitably need to consider the maturity of the market. At an early stage it might be appropriate to offer lower-risk opportunities with some payment for activity, so as to encourage a number of providers to bid (as with the Work Programme). This will be particularly important for encouraging the involvement of SMEs, social enterprises and civil society organisations. Once a sustainable market has been established, it will be possible to transfer greater risk to providers and shift the balance towards incentivising outcomes.

How can the Government increase the use of payment by results mechanisms in these areas? For example, could setting proportions of services to be paid by results work?

If the Government is committed to paying providers by results it should seek to do so wherever it feasibly can to deliver higher quality services and cost savings.

The most significant challenge for increasing use of payment by results will be encouraging financial backers to support providers. To achieve this there must be greater transparency with data made available about the likely performance of providers to enable financial backers the confidence to enter the market.

How should funding models such as personal budgets and payment by results be linked to other commissioning structures, for example the role of local authorities and the integration of funding through the formation of community budgets?

Adopting a community budgeting approach where budgets are pooled will be useful for tackling complex, interconnected challenges such as poor public health, high reoffending rates and long-term unemployment. As highlighted previously, the integration of funding for different services will be important if the real potential of personal budgets is to be realised.

Local government should commit to a future built around community-based collaboration, budget pooling and closer joint working. Local authorities should seek to ensure the elimination of duplication of services and effort between agencies, as well as improved and more coherent services for people and communities where there is a focus on outcomes as opposed to inputs.

The sixteen community budget pilots have shown what can be achieved. We now need pace and drive to ensure that the benefits are realised, with

community budgeting being rolled out widely, and large portions of spend (e.g. health) brought within their remit. Independent providers who have worked in partnership with local authorities should play a role in learning the lessons from the pilots- they are well positioned to share information about best practice they have encountered, particularly as many of them have operated in more than one community budget area.

Increase democratic accountability at a local level

Shifting the focus from 'bureaucratic accountability' to 'democratic accountability' will be one of the many components that will help to raise standards across a range of public services and ensure they become more responsive to those that use them the most.

As the Government has indicated, opening up public service markets to a greater diversity of providers will be particularly important in the shift towards 'democratic accountability', as this will provide users with the opportunity to hold services to account through the choices they make. The CBI also believes there must be much greater transparency across the public sector so that local citizens and businesses have access to the data they need to allow them to make informed choices and hold services to account.

Do you have examples of services that are currently overseen at a national level which you believe should be decentralised to a more local level? In your example who would be best placed to be democratically accountable?

The CBI believes the Government must distinguish between transactional and transformational services when considering which services should be decentralised and which should not. Transactional services are ones which the public using a given service would not see, and would not

be interested in its provision or design. These activities should be centralised to achieve economies of scale, standardisation and simplicity.

Transformational services are ones that the public interacts with directly, would regard as 'frontline', would like to see protected and which can be enhanced by their involvement and perspective. These activities should be decentralised, with services designed and commissioned locally. Transactional services include not only the delivery of HR and pensions where there is already good outsourcing practice, but also the delivery of welfare benefits, collection of revenues and taxes and passport control at our borders as well as procurement of commodities, equipment, furniture, uniforms and vehicle fleets where more could be done.

Transformational services might include the arrangement or deployment of police officers and staff in neighbourhoods; the way officers and staff are configured to address identified local policing priorities; or the workflow of activities that social workers or community health workers undertake, where the way they prioritise duties could be determined at a local level to improve the whole team's effectiveness and efficiency.

Do you have examples of services where a monopoly of provision is undermining accountability, choice and competition at the local level?

Community health and education provision are run as near-monopolistic markets at the local level. The lack of competitive pressures means that public sector providers, in a monopoly position, are not always the most efficient providers, tending to produce lower output at higher cost than in competitive markets. By breaking open local monopolies in these services and allowing a greater diversity of providers to enter the market, the benefits of consumer choice would also be realised, with providers necessarily having to

focus on the satisfaction of pupils, parents and patients as well as lowering costs.

How can Government support local groups to become more involved in holding services to account through greater participation? What barriers currently exist?

Greater transparency is a key thread of this response and it applies equally here. Not only will it better enable local groups and others to hold public services to account, but will ensure that those funding local services (e.g. local citizens and businesses) have access to transparent, comparable information on the outcomes and costs of public services regardless of who is providing them.

Government plans to disclose central government spending and contracts over £25,000 and council spending and contracts above £500, together with regular publishing of data in an open and standardised format represents a significant step forward. The CBI also welcomes the Government's consultation on the NHS Transparency Framework as an important opportunity to establish what information will be most useful to users to hold providers to account with respect to healthcare services.

It is also critically important that data should be high quality (not standardised to the lowest or most general grade), easy to understand and benchmarked against the performance of other providers as Westminster City Council does with social housing. Any new system for disclosing data and contracts must also respect intellectual property so innovation is not stifled, ensure commercially sensitive information is dealt with sensitively, while contract awarding must prioritise value for money, not the lowest priced bid.

Maintain continuity of service and managing risks in light of these reforms

Greater attention needs to be paid to the critical issues of continuity of service and managing risk in relation to public services. It is critical that as a result of these reforms users continue to have access to the services they need and deserve.

In seeking to maintain continuity of service the first step will be ensuring there is competition to deliver services and the right providers are chosen at the outset. Opening up public services to competition where little currently exists will be important for safeguarding against failure. Where public services are delivered by independent providers operating in a competitive environment, failure can often be dealt with quickly due to the existence of a range of alternative providers ready to step in.

Are there any circumstances in which the Government should act when local services are failing to deliver the quality that is desired, or are experiencing financial difficulty? What action should it take in these circumstances?

It is clear that Government should act when local services are failing to deliver the quality desired or are experiencing financial difficulties. It is important that the Government establishes effective and robust failure regimes that quickly address the causes of failure so as to ensure there is continuity of service for users.

In the past there were often long delays before action was taken to address failure, and this was often followed by unsatisfactory solutions being proposed, one example of this being proposals to merge failing police forces. The problem with these plans were that they removed the link between the local police force and the community they served, while there was also the risk that instead of bringing up the failing service the better force could be brought down.

When a service is failing, it is important that there is substantial change to turn things around and not simply tinkering at the edges.

The CBI believes failure regimes must create opportunities for alternative providers to step in and help failing providers, as both independent finance and expertise can provide the much needed support and innovation required to turn a service around quickly.

The trailblazing case of Hinchingsbrooke Hospital, provides a template for examining how failure might be dealt with in the NHS, setting an example to other underperforming trusts. Circle (a social enterprise) was appointed as recommended bidder for Hinchingsbrooke following the establishment of a competition (open to NHS Foundation Trusts and independent providers) to award a contract for a temporary franchise. By choosing not to reward failing management by simply bailing out the trust, and instead drawing on independent sector expertise, there is likely to be greater innovation with better outcomes for all patients.

In a market-driven service environment, are there circumstances in which the Government should be monitoring the financial health and service level of delivery organisations or should this responsibility rest with another body? Where this should be the Government's responsibility, what is the appropriate information for Government to collect and when is it appropriate for any action to be taken?

It is crucial that public service providers are secure, financially healthy and able to deliver the services that citizens need. There will inevitably need to be mechanisms to ensure this, and good contract management is essential, but it is critical that man-marking does not occur. If delivery organisations are constantly being inspected and asked to submit data about their performance, the time taken up dealing with these issues could potentially have a negative impact on their ability

to deliver the high quality service that is rightly expected of them.

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For further information contact:

Emma Watkins
Head of Public Services Policy
Public Services and Skills Directorate

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