

# *We can cut the deficit*

*Ten proven ways of reducing the public sector  
deficit while improving public services*

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# Foreword

It is easy to agree that Britain must reduce current levels of public spending and seek significant improvements in public sector productivity. But it is proving harder to achieve the consensus that we need on how this challenge should be tackled. There is a danger that all ideas are dismissed; we are currently presented with a false choice between 'protecting front-line services' and cutting the public sector deficit.



By contrast, the MCA believes that this is a moment for ambition and positive thinking. This booklet argues that it is possible to reduce the deficit while continuing to raise the performance of our public services. Indeed, it may be that we can only now hold out the prospect of tangible further improvements in quality if we also pursue the quantifiable cost-savings and efficiencies that are also required to cut the deficit. On an optimistic reading, the current crisis in the government's finances could be the catalyst for a giant step forward in the organisation and effectiveness of the public sector.

There are many other ideas for reducing the deficit that we have not included in this document. What you see here is a selection from within the management consulting industry. Even by themselves, they collectively go a long way to achieving the scale of the savings that are now required.

It has become fashionable to ridicule all ideas for reducing waste or increasing efficiency, and to imply that any reductions in public spending will automatically be translated into declining services and reduced performance. This is one of the intellectual casualties of the party political debate in the run-up to polling day. No private sector organisation would take the same attitude.

The truth is that organisations of the scale and complexity of modern government can secure these sorts of savings, given the will and the skills to do so. We hope that this contribution to the debate will help them along the way.

A handwritten signature in black ink that reads "Alan Leaman".

Alan Leaman  
Chief Executive  
Management Consultancies Association

# Introduction

As the country goes to the polls, this election may well be won by the party which can come up with the most credible plan to restore the UK to economic health and, most importantly, cut the public sector deficit.

All three of the main parties have suggested ways in which they would rebalance the government books should they be elected. The Conservatives have advocated freezing public sector pay, cutting quango bureaucracy and caps on some public sector pensions. Labour have suggested that they will reduce the deficit by means of fair tax increases, a firm grip on public spending including cuts in lower-priority areas, and strategies for growth that increase tax revenues and reduce spending on benefits. The Liberal Democrats count reform of prisons, the scrapping of the ID card scheme and reform of public sector pensions as ways by which they would rebalance the books. And all of the parties are equally pressing about the need to reduce wasteful government spending if the deficit is to be reduced.

In this paper, member firms of the Management Consultancies Association have set out their suggestions on how the public sector deficit can be reduced without the government raising taxes or cutting frontline services. Many of our member companies are respected across the globe for their strong commitment to innovation, delivery and client service. A UK government-sponsored report on the professional services sector in March 2009 called our consulting industry a 'world leader'.

Our members have suggested methods such as changing public procurement models, greater offshoring and applying Lean principles to government as ways in which the incoming administration can make government more efficient, improve services and ultimately save the taxpayer money.

Whether or not we elect a new government on 6 May, there must be a major drive to improve public sector productivity. Even in spending areas that are ring-fenced, the adjustment from a decade of rising investment plus the public's expectations of continuing improvements in services will make it essential that organisations deliver more for less.

The management challenges will be enormous and, for almost everyone in the public sector, unprecedented. No organisation, public or private, would seek or could afford to recruit full time staff with the specialist experience to undertake all that needs to be done. Few would proceed without the benefit of outside advice and expertise.

The public sector will have to learn and apply lessons from elsewhere in how to cut costs while still improving services. It may have to use the crisis as a catalyst for changes far more radical than anything yet proposed. It will certainly require strong leadership and masses of staff and stakeholder engagement. It will need to secure massive changes in its use of staff, IT and property. It will need to continue to innovate, even as resources are being cut back.

The incoming administration would do well to listen to the advice of our member firms. Genuine management consultancy will be central to any serious effort to reduce the deficit, improve public services and cut costs for taxpayers who rightly expect high quality services at a price that won't break the bank. It is clear that consultancy can provide the ideas for cutting the deficit; what matters is whether the public sector has the capacity to deliver and whether the incoming administration will have the will and courage to make the kinds of changes that are necessary.

### **About the MCA**

The Management Consultancies Association (MCA) is the representative body for management consultancy firms in the UK. Our member companies comprise around 70% of the UK consulting industry, estimated to be worth £8bn in 2009, employ more than 40,000 consultants and work with over 90 of the top FTSE 100 companies and almost all parts of the public sector.

The MCA's tough entry criteria and rigorous Code of Practice mean that MCA member companies are widely acknowledged to provide high quality services to their clients. Many of their achievements are recognised in the MCA Awards.

The MCA informs and influences public debate on topical issues, and provides authoritative data on the industry. It commissions research and policy analysis and represents the industry in discussions with Government and other stakeholders. The MCA also facilitates networking and the sharing of best practice within the industry through events, publications and initiatives such as the Young MCA.

[www.mca.org.uk](http://www.mca.org.uk)



## 1. Delivering first class business services

Dave Allen, Partner, PricewaterhouseCoopers

Delivering first class front line public services requires first class supporting business (shared) services, enabling more resources to be focused on key front line priorities when budgets are under immense pressure.

Our response to HM Treasury's Operational Efficiency Programme suggested up to £8bn potential revenue spending savings each year through bringing the public sector up to the standards of the commercial sector in the provision of back office services and IT<sup>1</sup>. Most recently, we reconfirmed that estimated annual savings of £4 billion are achievable in three functions - Finance, HR and procurement processing - with around 80% of the saving coming from locally delivered services.

*Up to £8bn potential  
revenue spending  
savings each year*

The journey to achieving these benefits requires:

- Simplification and standardisation of processes, involving re-engineering end-to-end processes.
- Sharing and consolidation of activity.
- Reducing the average cost of employment e.g. through outsourcing and/or off-shoring.

Realising this size of benefit requires significant change. A mandate is needed from the top, with the centre asserting the need for shared services to cross organisational boundaries and considering transferring existing central government shared services to centralised ownership, permitting the aggregation and extension of services under arms length arrangements.

*Realising this size of  
benefit requires  
significant change*

A tipping point has been reached for shared services in the public sector. Action must be taken now to deliver the efficiency savings and service improvements which the fiscal situation and the public demand.

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<sup>1</sup> 'A Response to HM Treasury Operational Efficiency Programme – Prospectus' PricewaterhouseCoopers, 2008; 'Freeing the Front Line', PwC's Public Sector Research Centre, April 2009



## 2. Learn to share more

Shaun Dunphy, Senior Manager, Alsbridge

It puzzles me that there is still ambivalence in central government departments towards mandated sharing of technology and back office services. When you add together implementation, licensing, maintenance and upgrade costs, not to mention hardware refreshes, there is a phenomenal amount of public money being spent on Departmental solutions for broadly similar cross-government needs. Even within single departments implementations tend to be limited to mainly core areas. Agencies and NDPBs are too ready to play the “*but we’re different*” card. I suggest the answer lies in highly integrated public services demonstrating joined-up thinking when it comes to both back- and front-office services. To my mind this must be a better way of consuming limited funds for the benefit for all concerned.

The major cost savings will be around minimising or avoiding the development of bespoke processes into the new shared systems and services. The old adage of “Simplify, Standardise and Automate” rather than the current habit of “Map, Replicate and Customize” could lead to annual cost savings typically in the region of 12% to 16% in running costs. In addition, there would be a significant reduction in upfront costs which are caused by engaging dedicated teams of functional design consultants to implement a variety of alternative approvals routes through the system to cope with non-standardised rules. There are also benefits which are less easy to quantify such as the positive impact on staff mobility because they will not need to relearn back office processes/forms/policies when they change roles/positions.

If we turn to the private sector there are numerous examples of multi-national businesses rolling out a standard Enterprise Resource Planning (ERP) system and back office services across multiple countries, with multiple charts of accounts, tax regimes, procurement, HR policies, working hours and pay rates. To some extent this has achieved clarity of vision and a Borg-like mindset – “*resistance is futile, you will be assimilated*” – but business benefits in terms of management information to support fact-based strategic decision making clearly outweigh the initial resistance to change.

Can the public sector do it? Yes - the pioneering vision of some local government authorities provides exemplars, as does the early work across the Northern Ireland Civil Service. But now is the time to integrate the mainstream based on today’s economic realities.

*A phenomenal amount of public money is being spent on departmental solutions for broadly similar cross-government needs*

*Shared systems and services could lead to annual cost savings in the region of 12% - 16% of running costs*



### 3. *Unlocking the true value of built-assets*

Bill Green - Partner, Head Local Government & Communities, EC Harris

Many public sector organisations operate from dispersed property portfolios which do not optimise the value or effectiveness of the estate, and do not necessarily meet all their operational needs or aspirational targets. The more effective use of these built-assets can generate significant efficiency savings whilst unlocking wider benefits for local communities. Using property as a catalyst for transformation encourages:

- Front line services out of their silos to create fully integrated services
- Portfolio rationalisation programmes generating capital receipts
- Projects acting as a catalyst for wider local regeneration programmes
- Cultural change in people and processes driven on the back of a move into better facilities

Whilst short term capital values have been affected by market conditions, organisations can still unlock significant value and realise substantial efficiencies through service transformation programmes driven by portfolio change. Major benefits include: operating cost reduction; improved efficiency in service delivery; and increased operational flexibility.

Our experience demonstrates the benefits that can be achieved and highlights the need for more public-sector bodies to effectively use their built-assets as a driver for change.

*More effective use of built-assets can generate significant efficiency savings whilst unlocking wider benefits for local communities*

*Whilst short term capital values have been affected by market conditions, organisations can still unlock significant value*



## 4. Commissioning to Deliver Efficiencies

Richard Selwyn, Government & Public Sector, PIPC

Commissioning has been gaining popularity throughout central and local government over the last 5 years. It is fair to say the profession is still immature – but we have already seen a huge impact on the role of Government together with significant efficiency savings.

In one way, commissioning is simple. It's derived from systems thinking, procurement and user-centric design principles. So, if you think about a local area or population, commissioning is how you use all the public resource to achieve outcomes for customers in the most efficient, effective and sustainable way.

So how is commissioning being used to improve Government and the efficiency of services?

- Commissioning gives us a completely different way to look at the system by mapping all of the resources available, often leading to innovative solutions, e.g. if you want children to grow up healthy then the first place to start is by working with parents because they have a much greater impact on health than any new service will.
- We need to find the best way of using resources such as finances and the workforce. In some parts of the public sector we still spot-purchase substantial quantities of services such as children's residential care. Moving from spot-purchasing to frameworks can save 20% whilst improving the lives of our most vulnerable children. But we also have to look at all the other resource in the system that isn't directly controlled – how can we influence this? In local Government less than 10% of public resource is controlled by the Council – Total Place is showing us that we get far greater impact on outcomes and targets by influencing the spend of other agencies – with efficiencies projected at 15% in London.
- We tend to offer services to those that don't really need them, for example, multiple health visits for the well off. By understanding need and the end user, commissioners can target resource to where it will have the greatest impact.

*Commissioning is revolutionising the way we think about the role of government*

*By understanding need and the end user, commissioners can target resource to where it will have the greatest impact*

- And finally, commissioning is about system design - understanding that services are complex, and using new approaches such as co-production with users and engagement with communities, are often the best ways of achieving outcomes that government is charged with delivering. Often finding a new way of delivering traditional services can have the greatest efficiency saving attached – upward of 50% in some cases.

Commissioning is revolutionising the way we think about the role of government and raising our aspirations to achieve *more for less*. Whilst there is still a long way to go, commissioning might be our best chance to meet public expectation: delivering better services with fiscal restraint.

*Finding a new way of delivering traditional services can have the greatest efficiency saving attached – upward of 50% in some cases*



## 5. Towards a new collaborative service model

Dave Allen, Partner, PricewaterhouseCoopers

New thinking is needed to meet the scale of the government's fiscal challenge. Public services – particularly locally – continue to underperform when working across organisational boundaries. This impacts adversely on quality and outcomes, and tragically so in some recent much-publicised cases of child neglect. It also builds cost and inefficiency into the system. Worthy efforts have been made to ensure greater collaboration between public service organisations, but these are often at the margin of mainstream activity which limits their impact.

The Government's latest response – Total Place - seeks to achieve more ambitious "joining up" to deliver radically better outcomes and efficiencies. PwC's work for London Councils, along with some of the 13 pilot areas participating in the national scheme, highlighted the scale of the opportunity (as does our work across seven public services in Coventry, developing an optimal care model which translates the theory of Total Place into practice).

Of nearly £75 billion of public money spent in London in 2008/09, less than half was directed through bodies directly accountable to Londoners. We found that overcrowding of agencies can lead to confusion in delivery while different national goals often conflict with each other and can undermine the key foundations for successful public services including early intervention and 'case management' support to individuals cross-agency.

We identified that a more devolved, direct approach to funding could improve services and save money, with potential savings of almost 15% - or about £11bn each year if applied across all spend in London.

*Of nearly £75 billion of public money spent in London in 2008/09, less than half was directed through bodies directly accountable to Londoners*

*A more devolved, direct approach to funding could improve services and save money with potential savings of £11bn each year if applied across all spend in London*



## 6. Send it offshore, and save

William Benn, Partner and Head of Public Sector, Alsbridge

An immediate way for a new government to save money on the overhead cost of generic administration is to send the work offshore. Not passports, not defence or intelligence work, just the standard transactional work of finance and administration.

Traditionally this has been too sensitive – for reasons of data privacy and security, and for the political concern about UK jobs being lost. However, there is now a pressing need for significant cost reduction, and the outsourcing market is robust and mature enough to cope with the high standards and rigour that government requires.

Saving on the cost of administration can be addressed by standardisation, simplification and automation – all of which are being implemented in government right now (with varying degrees of success). The private sector can also easily play the trump card of offshoring – saving an extra 30% or more over and above the 10 to 20% savings that can be achieved by onshore shared services. This would bring real cash savings to government in a very short space of time. For example, through this process the top five spending government departments should be able to save around £10 million each per year – that translates to £0.25 billion over a five year term.

Banks have already had to address the issues of security and privacy in their move to offshore working, and so solutions are well proven. And the concern about jobs going overseas has to be set against the concern about eye-watering public sector costs, and the immediate need for savings to preserve frontline services.

So, shake out the simple admin, send it offshore, and save.

*The outsourcing market is robust and mature enough to cope with the high standards and rigour that government requires*

*Through offshoring the top five spending government departments could save around £10 million each per year – £0.25 billion over a five year term*



## 7. Make Government Lean

Stuart Smith, Managing Director, Bourton Group

The biggest dilemma facing the incoming Government is how to cut the deficit while maintaining or even improving the level of state provided services to the UK public. We all know that there is waste in the way that public services are delivered, you only need to experience it to feel it. But the worst type of waste is hidden within the bureaucracy of the procedures, policies and 'red tape' that accompanies most public sector delivery. How much of the taxpayers money the government wastes every year varies greatly but even the most optimistic figures are in the £3-£6 billion per annum range, whilst the more pessimistic Tax Payers Alliance quotes £101 billion!

What is the best way to deliver what we, the customer of the services, need in an economic way? This is the question that most successful private sector businesses have already answered - by becoming lean and agile. Lean Sigma is a philosophy of seeking continuous improvement in everything we do by rigorously addressing waste and defects in the processes that we operate. Effort put into process improvement rather than expensive IT solutions can enable better service delivery for significantly less cost – experience of Lean Sigma implementations shows that approximately 20% can be removed from operating budgets while at the same time improving quality and reducing time taken.

For example, the budget for the NHS is just over £100 billion. Since 2001 the NHS has shown a 0.3% decline in productivity. Even if adopting Lean Sigma programmes across the NHS simply reversed the decline in productivity, this alone would generate £3.3 billion in savings. If one assumed (very conservatively) that only 25% of the total NHS budget (£27.5 billion) was spent on things that could be positively impacted by Lean Sigma programmes, then assumed that these improvements would only achieve half of the typical 20% savings you might expect in the private sector then, in the NHS alone, Lean Sigma programmes would save an additional £2.75 billion making a total saving of £6.05 billion a year.

*Because Lean Sigma programmes look at both process flow and waste, the root cause of inefficiency and the real cost of poor quality is easily identified and eliminated*

*Lean Sigma programmes could save the NHS £6.05 billion a year*

In November 2009, the Local Government Association announced that local councils were wasting £4.9bn each year in needless bureaucracy. Of course it is one thing to know it is there and quite another to eliminate it in a way that will ensure the savings are sustainable. Because Lean Sigma programmes look at both process flow and waste, the root cause of inefficiency and the real cost of poor quality is easily identified and eliminated. Given the potential highlighted in only these two areas of the public sector, it is likely that significantly more than the lowest estimates would be saved if Lean Sigma programmes were widely adopted in central and local Government.

*It is likely that significantly more than the lowest estimates would be saved*



## 8. Simplify procurement processes

Tim Williams, Public Sector Practice, Navigant Consulting

The government could make significant savings by cutting the transaction costs of public procurement. The biggest mistake the incoming Labour government of 1997 made was to implement overly complex procurement processes for public programmes.

An example of this is the Treasury Green Book, which sets out the core principles on which all public sector economic assessment is based and how these principles should be applied in specific areas such as managing risks, optimism bias, competition, impact assessments and taxation in PFI and the public sector comparator. The costs of such procurement have been horrendous and the achievements limited. Any new government must take an axe to such procurement costs. They were wrong in principle and have squeezed out competition.

The cover price scandal exposed by the Office of Fair Trading amongst construction companies bidding for public contracts was partly caused by companies seeking to avoid the huge costs of bidding.

Even if such procurement costs were affordable during the boom years they are no longer affordable.

Such a small step as cutting the costs of public procurement alone would save £300m by 2015.

*Any new government must take an axe to such procurement costs*

*Such a small step could save £300m by 2015*



## *9. Front line services tipped to hold potential to dwarf efficiency savings in back office*

Jane Ludlow, Associate Partner, Public Sector, Operational Efficiency, Atos Origin

Through our extensive, practical experience of delivering efficiency improvements in both the public and private sectors, Atos Origin has identified a whole new area for major savings in public spending that hasn't been sufficiently addressed to date – front office services.

Since Gershon in 2004, the Government's drive for efficiency savings has focused on back office (administrative) functions. To date, there has been a reluctance to take a hard look at customer-facing, or front office, activities - possibly stemming from the, in our view, mistaken premise that this is the best way to 'protect front line services'.

In fact, optimising end to end customer service costs, from first interaction to service delivery, now represents the biggest potential for new savings. And experience demonstrates that this does *not* have to be at the expense of service quality. Redesigning and restructuring services (for example, by streamlining across currently separate silos or transferring services online) offers real scope for improving BOTH effectiveness AND efficiency.

By far the most important thing a new Government must do, therefore, is to break with old habits and mantras, and put in place new governance, budgeting and corporate and personal incentives that will allow and encourage public sector staff to think fundamentally differently about how services are delivered. For our part, we are already doing this across our 12 major Public Sector Account teams and their clients, across our supply chain partners, and by integrating our efficiency capabilities end to end across our service lines.

Just one example of what can be achieved is illustrated below:

Within the West Midlands' Strategic Health Authority (SHA), Atos Origin was selected to support the application of 'lean' principles across a whole health economy in Stoke-on-Trent and North Staffordshire. This work involved engagement with patients, clinicians and managers in a sector that employs

*There has been a reluctance to take a hard look at customer-facing, or front office, activities*

*Our approach led to improvements in A&E performance, reductions in waiting times potential recurring savings of nearly £50 million over a 3 year period*

11,000 people and serves a population of 483,000. The requirement was to deliver two things – improvements in quality and reductions in costs.

Over an 18 month period, our approach led to improvements in A&E performance, reductions in waiting times, reductions in delayed discharges and the identification of 21 projects with potential recurring savings of nearly £50 million over a 3 year period. This represented a return on investment of more than 50:1. This innovative and market leading approach was selected for presentation as a key note address at the recent world six sigma conference in Florida to delegates from more than 20 countries.

*This represented a  
return on investment  
of more than 50:1*



## 10. Cutting through the noise, cutting the cost: cutting the (communications) deficit

Neil Morris, Chairman, Digital Public

Last year the COI spent £208m on advertising<sup>1</sup> – a 13% year-on-year increase over 2008. While the Tories attack the spend as “state spin” and the COI defends it as “saving lives and money”, there is a third way which improves the effectiveness of public service communications, whilst cutting the cost by more than 60%.

Under the current model, imperfectly targeted campaigns push messages to resistant audiences, often concentrating the majority of spend on expensive channels such as TV advertising. We’d propose a new model where empowered audiences pull information when they need it.

By nature, public service messages are often focused on quite specific audiences – teenagers dabbling in drugs for example. They’re often newsworthy (at least compared to commercial product advertising) and usually have a behaviour change as their goal – often one that requires sustained effort or impact (such as giving up smoking or motorists watching out for cyclists). All of this means that a time-limited campaign, particularly one using broadcast media, may well be an expensive and less effective approach.

By providing co-ordinated messages online, to broad segments of citizens, we can reduce the need to “push” messages through expensive paid-for marketing channels and radically improve engagement and take-up of online-delivered public services.

For example, a family starts to use the service when they need to research their daughter’s secondary school and apply for a place online. The service then, as the teenager grows older, supplies the parent with targeted information on:

- Diplomas
- Health and sexual health
- Youth alcohol, information about drugs and counselling
- Teen road safety

*Imperfectly targeted campaigns push messages to resistant audiences, through expensive channels*

*There is a third way which improves the effectiveness of public communications, whilst cutting the cost by more than 60%*

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<sup>1</sup> <http://marketingmagazine.co.uk/news/991934/COI-overtakes-P-G-208m-annual-adspend/>

- Internet safety
- Tax credits and HMRC Payments for Parents

Each of these were, in Feb 2010, the subject of individual uncoordinated and expensive campaigns. These campaigns would no longer be needed. Instead, much lower marketing spend would be focused on an initial burst to promote an entirely online service, then occasional additional bursts to remind people. Cost savings would be around £120m in Year 1 and £160m a year in subsequent years.

*Cost savings would be around £120m in Year 1 and £160m a year in subsequent years*

# Contributors

The MCA would like to thank the following for contributing to this paper:

William Benn	Alsbridge
Shaun Dunphy	Alsbridge
Jane Ludlow	Atos Origin
Stuart Smith	Bourton Group
Neil Morris	Digital Public
Bill Green	EC Harris
Tim Williams	Navigant Consulting
Richard Selwyn	PIPC
Dave Allen	PricewaterhouseCoopers