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## CBI submission ahead of the Comprehensive Spending Review

Long-term economic prosperity hinges on ensuring everybody can benefit from growth and jobs, which in turn requires sustainable public finances and investment in drivers of productivity growth. The CSR is an important milestone in our onward economic journey because government cannot achieve the twin goals of sustainable public finances and strong productivity growth without transformational public service reform.

In this submission, the CBI sets out the spending areas and reforms the government should prioritise in order to achieve fiscal sustainability and stronger productivity. Our recommendations for bold, meaningful reform, if implemented in full, have the potential to save £2bn in year one, rising to £16.3bn in year five (**Exhibit 7**, p. 9). In addition, we highlight the role business can play as an enabler of public service transformation and how government can unlock this potential.

### Executive summary

To help ensure everyone can benefit from long-term economic prosperity, the CSR should deliver:

1. **Sustainable public finances (p.2)**:
    - ***Providing a buffer against future economic challenges***
    - ***Investing sensibly in the drivers of productivity growth***

2. **Sustainable public services (p.6)**:
    - ***Maximising the contribution of public services to social and economic prosperity***
    - ***Going beyond efficiency to transform how public services are delivered***
        - ***Making Whitehall a smarter central state***
        - ***Supporting local public services to tackle common challenges***
        - ***Challenging the NHS to boost its productivity***

3. **Sustainable public service markets (p.16):**
    - ***Adopting new commercial behaviours to harness business investment and innovation***

# 1. Sustainable public finances

## *Providing a buffer against future economic challenges*

The UK government can best protect the UK's economic credibility and the long-term sustainability of public services, which both business and households value, though balancing its overall budget over the economic cycle.

The CBI supports the government's focus on deficit reduction to return the public finances to balance by the end of the parliament. We also support the government's medium-term fiscal strategy for eliminating the deficit primarily through current spending restraint, since this approach minimises negative impacts on UK competitiveness and growth, as supported by OECD research.

Most tax rises damage incentives to work, innovate or invest and with time have an increasingly negative impact on UK competitiveness and growth. Capital investment can enable greater efficiency and productivity for individuals and firms. For example, investment in infrastructure can help alleviate transport bottlenecks and improve connectivity. In contrast, some of the negative effects of reductions in current departmental spending and welfare expenditure can be offset over time by higher private sector activity and can often increase incentives to work.

## *Investing sensibly in the drivers of productivity growth*

Delivering a fiscal surplus by the end of the parliament will depend on a combination of fiscal consolidation and robust economic growth. A recovery in productivity growth to 2.2% per annum is vital to achieve sustainable economic growth. While the CBI expects a recovery in productivity growth, there are clear downside risks to this forecast.

Since the financial crisis, no G7 economy has seen average annual productivity growth of more than 1%, therefore the forecast recovery in productivity should not be taken for granted. Investment in infrastructure, innovation, education and skills are all crucial drivers of productivity growth. Such growth enhancing spending, regardless of whether it is classified as "current" or "capital" in the government's accounts, should be protected in the fiscal consolidation. Furthermore, in order to sustain current rates of economic growth and deliver sustained improvements in living standards, productivity enabling spending should be increased in the longer term as a share of GDP once the public finances are in a more sustainable position.

The government's focus on productivity should also identify steps to nurture the UK's medium-sized businesses, which are so crucial to future economic performance. Despite accounting for less than 2% of all firms, they generate 23% of private sector revenue and employ 16% of the workforce and include some of our fastest growing 'scale-up' companies.

**Recommendation 1.1:** Growth enhancing spending in infrastructure, innovation, education and skills should be protected during deficit reduction and increased as a share of GDP once the public finances are in a more sustainable position.

**Delivering infrastructure projects in a timely fashion**

A government strategy that provides long-term certainty and stability is essential if industry is to invest in order to deliver on the UK's infrastructure ambitions. One of the strong positives from the last parliament was the government's 2013 Spending Round commitments to a £15 billion Road Investment Strategy (RIS) and a £38 billion rail investment programme. Yet with 57% of businesses still expecting the UK's transport infrastructure to worsen in the coming five years, it is vital that the government provides more detail and then delivers on these plans in full and as quickly as possible. As part of the CSR process, the government should:

- Set out clear project plans with start dates and timescales for RIS projects: whether it's the £2bn upgrade plan for the A303, a £1.5bn commitment to improve the A14 or £290m to part-dual the A1, it's vital we see spades in the ground for projects that will help tackle critical pinch points on the Strategic Road Network;

- Provide reassurance that maintenance will be protected: upgrades to the road network are critical, but with 85% of businesses concerned about the quality of road surfaces, government cannot afford to neglect maintenance, avoiding costly, congestion-creating problems before they happen. Retain a focus on funding for short-term Repair, Maintain, Improve (RMI) projects as a key part of the Road Investment Strategy;

- Give a clear signal key electrification projects will be delivered on time and budget: business wants to see a commitment from government that key rail projects remain on track – such as Great Western Electrification or the Northern Hub programme. Where projects have been delayed, such as the Manchester to Leeds TransPennine line, it is essential granular delivery plans are set out to boost confidence.

**Building more homes**

Businesses need a flexible and mobile workforce, but the high cost of moving home and a lack of decent and affordable housing are barriers to attracting and retaining employees. Our members cite a lack of affordable housing as a main risk to competitiveness. Doubling the number of new homes being built every year within a decade could be achieved through the development of a comprehensive new housing strategy.

In addition, the forthcoming Housing Bill must strike a balance between the interests of homebuyers and business alike, and we welcome the government's commitment to engage across the sector to reach workable solutions.

**Making the UK an innovation leader**

Innovation is crucial to the UK economy as a significant driver of productivity. The UK historically falls behind international competitors on levels of R&D investment and innovation. UK investment in R&D has been stagnant as its international peers pull ahead. For every £1 invested in R&D in the UK, France invests £1.40. In addition, our *Pulling Together* report calculated that funding on Innovate UK in the last Spending Review was around 0.03% of GDP compared to Finland – classed as an 'innovation leader' according to the Eurostat Innovation Index – which devotes nearly ten times as much of its resources to its innovation agency. To improve productivity for the long term, the CSR should focus on:

- Ongoing protection for the research budget and reaffirming the government's framework for capital spending in science up to 2020/21;

- Increasing overall government spending on R&D as the public finances return to a sustainable position, with the long-term aim of reaching a combined public/private spend of 3% of GDP. To ensure that public funding for Innovate UK generates maximum value, offering loans and equity funding alongside existing programmes could enhance investment in R&D and appeal to a wider range of business.

We are currently engaging our members to understand the latest thinking on driving business innovation in the UK, and our policy position paper will be published in September, with its recommendations to accompany the CBI's submission to the Autumn Statement.

**Harnessing industrial strategy**

Industrial strategy successfully supports the UK's world-leading industries through an industry and government partnership to boost investment, support exports and deliver productivity gains. Although it is still early in what is decidedly a long-term agenda, we've already seen some solid achievements. High-tech manufacturers have developed a coordinated approach to tackling challenges and public funding has ‘crowded in’ significant private investment through the Aerospace Technology Institute and Advanced Propulsion Centre. The productivity gains in the automotive and aerospace sectors as a result of this investment are clear. The government should publicly outline how it will take forward an industry-led strategy by providing industry with details of their plans to deepen and strengthen the industrial approach.

One particular challenge to the UK’s industrial sector is energy costs. The UK’s energy infrastructure requires significant investment in order to secure and decarbonise our supplies, but it is equally important that the right plans are in place to manage the policy costs borne by both households and businesses. Many of the UK’s energy-intensive industries are facing significant competitiveness challenges, with heavy users facing electricity costs around 50% higher than the EU15 median. The CBI welcomed the action taken in the last parliament to support these industries by freezing the Carbon Price Floor and providing compensation for indirect policy costs. It is important that these compensation packages are maintained in this parliament, while the government works with industry to pursue a long-term strategy for energy-intensive industries.

**Boosting exports**

Increased trade is vital to improving our productivity, as international competition forces businesses to operate more efficiently, whilst enabling them to take advantage of economies of scale and service a wider market.

Business supports the prioritisation given to this objective in the first 100 days of this parliament, as well as the maintenance of a high level of ambition and engagement with high-growth markets. We also support the whole of government approach this government has outlined, joining up the work of departments behind this agenda, though it is important that current levels of support aren’t undermined by structural changes.

Our members value the support government provides to their international ambitions, from companies that are exporting for the first time to established international businesses. The increased focus on support for medium-sized businesses in UKTI and UK Export Finance has been particularly welcomed, though there is more to do to raise awareness of this support with companies across the UK.

While business understands the need for efficiency savings to deliver sustainable public finances, as a productivity enhancing measure, the CBI would like to see government spending on supporting export growth protected.

**Improving vocational skills**

Delivering more high quality vocational education – in particular through apprenticeships rightly forms a key plank of the government’s productivity plan. The CBI has been clear, however, that a statutory levy is not the route we would have followed. This is because levies typically distort skills systems by incentivising quantity over quality and by encouraging employers to invest solely in levy funded programmes at the expense of other – often more appropriate – forms of training. Nevertheless, the aim of the CBI has never been about who pays for the system but rather the quality of training it produces, and our goal now – given that the government has chosen a levy model – is to make this work effectively for business. To do this, government must give employers real control over standards, so that only business-relevant training is funded, needs to ensure that levy funds are only accessible by levy payers and must ensure that employers are consulted on the rate and reach of the levy – and not simply on its implementation.

Apprenticeships are not a panacea and, government must also create more routes to higher level skills – particularly at levels 4 and 5. The new Institutes of Technology, have the potential to open up more pathways to higher level skills - but we also need to look to part-time learning in higher education as a key tool. To this end, CBI members would like to see further progress in removing the ELQ bar that constrains working people from investing in their skills. The CBI would like to see complete removal, but our first priority is extending the removal to all STEM subjects.

Childcare has a critical role to play in any strategy to help improve the UK's productivity. Good quality early year's childcare has a beneficial impact on children's development and supports parents getting back into the labour market. Implementation of the 30 hours free childcare to working parents of 3 and 4 year olds will be a step in the right direction however in the long-term provision needs to be expanded. Making 15 hours free childcare available for 1 and 2 year olds could make a real difference to both children and their parents by encouraging more parents to return to work more quickly, avoiding loss of crucial skills and improving children's life chances.

# 2. Sustainable public services

## *Maximising the contribution of public services to social and economic prosperity*

For individual UK residents, the significance of public services can be incalculable. To the cancer patient whose life has been saved by the NHS, or the young offender who is helped to transition from prison into a stable home environment, their impact can't easily be quantified.

Public services also matter to individual businesses. For example, when an employee is supported to manage a mental health condition, or unemployed people with transferable skills are helped into work, it makes the workplace a better place for everyone.

Such individual experiences are reflected in the overall economic significance of public services. They enrich the business environment by underpinning a happy, healthy and well-educated workforce. This supports productivity and makes the UK a more attractive place to invest and grow a business.

Public services also make an important contribution to the public finances by ensuring people's expectations are met in a fiscally sustainable way. Our population is ageing, with one in three born in 2013 expected to live to 100, and expecting services to be as responsive to their needs as the best of the business world. These trends should be celebrated. Increasing life expectancy is a great success story, and higher levels of public engagement with service delivery could yield great improvements.

Yet we also need to think fundamentally about how society responds to these trends. Public spending is forecast to increase to 42% of GDP by 2065 – well above the forecast for tax receipts – largely due to the public service demand associated with our ageing population. These trends are forecast to undo the majority of the spending restraint achieved since 2010 and, in turn, lead to persistent deficits of around 5% of GDP and an increase in debt to around 90% of GDP by the 2060s.

Ringfencing of budgets for the NHS, schools and defence does not mitigate the need for reform in these areas to ensure continued value for money.

## *Going beyond efficiency to transform how services are delivered*

The government was right in the last parliament to focus on efficiency. Given historical waste and duplication, this was an important place to start, and more than £14bn was saved – an impressive feat.

The government in 2010 described transforming public services as the second phase of its plan for reducing the deficit – moving onto this phase is now urgent. This means adopting measures that will continue to deliver savings across multiple years and ideally beyond the CSR period. At a service level, it requires being clear on the outcomes that matter to the public, and working across services to achieve them.

To be successful, government should not draw heavily on non-recurring savings or one-off revenue raising measures. For example, releasing government land – while potentially an important boost to housing supply and productivity through more efficient use of resources – is neither a sustainable nor reliable way of tackling the deficit.

In addition, for reform to be sustainable, it should involve a combination of top-down measures, which are enacted by departments directly, and bottom-up solutions, which departments enable and encourage local services to carry out. At the same time, government must be assertive in challenging the NHS to improve its productivity.

If our recommendations described below are implemented in full, we believe they have the potential to save £2bn in year one, rising to £16.3bn in year five **(Exhibit 7)**. Yet, in the longer-term, the potential for reform is much greater. In a 2012 report, the CBI estimated government could ultimately save as much as £20bn each year if localities enacted a radical pooling of resources in pursuit of common goals.[1]

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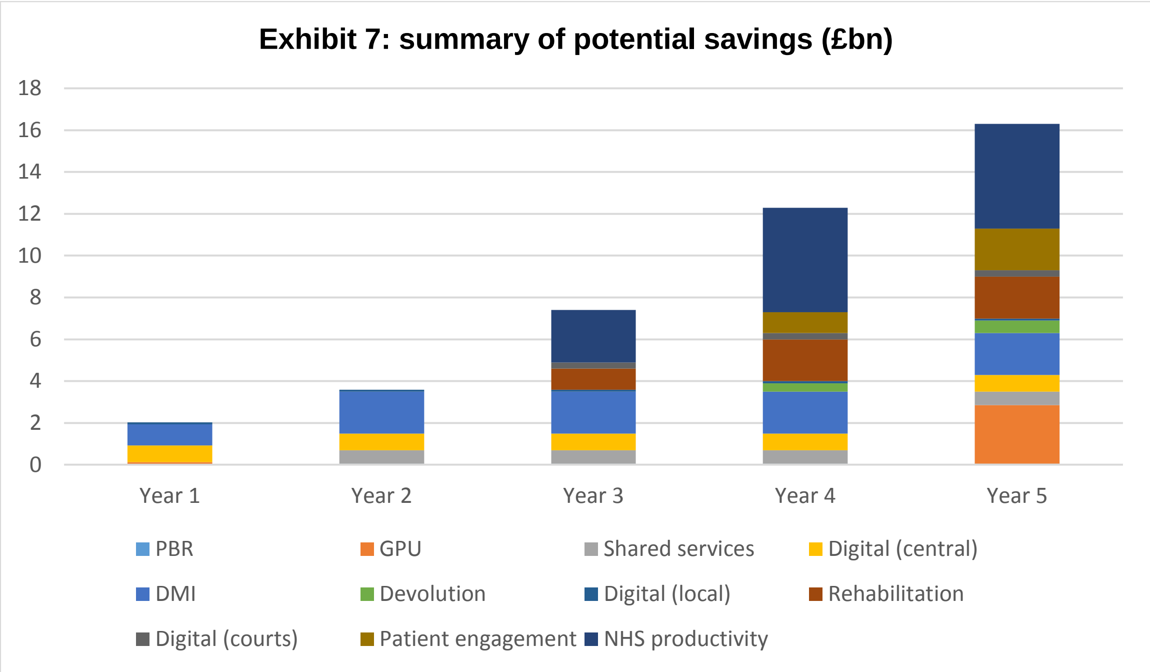
[1] CBI, *Joining Up, Joining In*, 2012




## *Making Whitehall a smarter central state*

Whitehall can be proud of the progress departments have made on efficiency over the last five years. The next five years should see a focus on scaling up cross-department approaches by:

- **Contracting to solve multiple problems by default**
- **Strengthening the Government Property Unit**
- **Extending shared services**
- **Digitising transactional services**
- **Extending the Debt Market Integrator**

**Contracting to solve multiple problems by default**

The government should contract for multiple problems by default, taking a joined-up and cross-departmental approach to commissioning public services. Departments and other public bodies tend to work in isolation from each other to tackle societal issues. For example, the NHS is the main public body dealing with mental health while the police deal with criminal behaviour, with close collaboration being the exception rather than the norm.

The Troubled Families programme has demonstrated how a joined-up strategy combined with the use of a Payments-by-Results (PbR) model to tackle multiple disadvantage can improve outcomes whilst reducing costs over a period of time. The programme has already saved an estimated £1.2bn and more than halved the costs of interventions with each family from £12,000 to £5,000.[2]

Government should seek to replicate this model to other cohorts, such as former personnel. A coherent strategy across relevant agencies (including Cabinet Office, MoD, DWP, NHS, DCLG and local councils) and contracting providers familiar with supporting this cohort, will be better equipped to tackling problems

[2] Department of Communities and Local Government, *'More than 105,000 troubled families turned around saving taxpayers an estimated £1.2 billion'* - March 2015

such as mental health issues and unemployment, improving long term outcomes and generating savings over the individual's life.

The Forces in Mind Trust concluded in a 2012 study that the cost of ex-personnel poor transitioning into civilian life amounted to £113.8m.[3] The CBI estimates that based on the Troubled Families model, adopting a similar joined-up approach could save around £56m annually to this cohort alone.

**Recommendation 2.1:** Commission new transformative programmes that use the PbR model to solve multiple problems

**Potential savings:**

*Assuming the extension of PbR to a single new cohort group, for example ex-servicemen.*

**Year 1 –** No saving (*assuming a 12 month market testing and procurement process)*

**Year 2-5 -** £56m annual saving *(assuming 50% reduction in costs of poor transitioning into civilian life)*

### Strengthening the Government Property Unit

Government currently has a property estate worth £370bn, with annual running costs of £25bn.[4] Since 2010 the Government Property Unit (GPU) has made improvements to government's asset use. So far a total of £600m a year has been saved in running costs and a cumulative saving of £1.4bn attained through selling the variety of land and buildings.[5]

Plans announced in the March Budget for a new commercially-driven approach to land and property asset management across the central government estate are commendable. To maximise the contribution of public sector assets to future cost-savings, the GPU should take the lead in ensuring decisions concerning the disposal of government land support service transformation.

In practice, this means the GPU helping the wider public sector make better use of assets that are retained, rather than simply focusing on asset disposal. Significant private sector expertise exists in this area and reflecting this thinking in areas such as workforce and contracting could yield further savings. Similar, local government-led initiatives have reduced running costs by a further 20%.[6]

**Recommendation 2.2:** Establish the GPU as an executive agency of Cabinet Office and empower it to advise the wider public sector on using asset disposal as a catalyst for service transformation.

**Potential savings:**

**Year 1 - 4** £1bn annual saving *(assuming review to GPU mandate)*

**Year 5 -** £2.8bn saving *(assuming similar savings as comparable local government initiatives)*

### Extending shared services

[3] The Forces in Mind Trust, *The Transition Mapping Study: Understanding the transition process for Service personnel returning to civilian life*, August 2013
[4] Cabinet Office, Government's Estate Strategy, October 2014
[5] Cabinet Office, *Government's Estate Strategy,* October 2014
[6] Department for Communities and Local Government, *50 ways to save*, December 2012

Government's drive towards increasing Whitehall's use of shared services in the last parliament through the creation of two independent centres was positive. However, to unlock the full benefits of the shared services centres, government must ensure that all departments are enrolled onto one of the two standard operating models by the end of parliament.

Although the shared services centres are currently supporting 17 customers, many key departments including the Treasury, Home Office and Department of Business, Innovation and Skills continue to operate individually.[7] As early as possible government should migrate all departments onto the shared services centres in order to realise as much of the potential £640m savings by the end of parliament.[8]

Migrating the remaining departments to the centres will require leadership from the centre. The Cabinet Office must strengthen the evidence base for migration and communicate its benefits both in terms of improving the quality of administrative functions and establishing significant savings. The Cabinet Office should draw on the example of local government to illustrate the potential for savings – there are currently 416 shared service arrangements occurring between councils across the country which has resulted in £462m worth of savings after 5 years.[9]

**Recommendation 2.3:** By the end of parliament all government departments should be signed up to one of the shared services centres.

**Potential savings:**

**Year 1 –** No saving

**Year 2-5 -** £640m annual saving *(based on government estimates)*

**Digitising transactional services**

Government must continue to build on the positive work of the Government Digital Service (GDS) which has begun redesigning services to fit around the changing expectations of users. By the end of parliament all remaining departmental transactions should be available via online platforms.

GDS has estimated that digitising transactional services across eight key departments could save £1.4bn each year.[10] For some government services the average cost of a digital transaction is almost 20 times lower than the cost of a telephone transaction, about 30 times lower than the cost of a postal transaction and about 50 times lower than the face to face transaction.[11]

Digitising the remaining 22% of transactional services not already available online will not only yield savings but also transform the way that the users interact with public services now and into the future, to fit more easily with their everyday lives.[12]

While full data is not available, based on the GDS' own figures on the 801 transactional services across central government, the CBI estimates that completing the digitisation of these services could save an estimated £800m each year.[13]

**Recommendation 2.4:** Complete the digitisation of departments' transactional services.

[7] National Audit Office, *Update on the Next Generation Shared Services Strategy*, 2014
[8] National Audit Office, *Update on the Next Generation Shared Services Strategy*,2014
[9] Local Government Association, *Shared services map*, http://www.local.gov.uk/shared-services-map
[10] Government Digital Service, *Digital Efficiency Report*, 2012
[11] Cabinet Office, '*Government publishes costs of transactional services for the first time'*, January 2013
[12] Cabinet Office, '*Government publishes costs of transactional services for the first time'*, January 2013
[13] Cabinet Office, 'Government publishes costs of transactional services for the first time', January 2013

**Potential savings:**

**Year 1-5 -** £800m annual saving *(based on government estimates)*

**Extending the Debt Market Integrator**

The introduction of the Debt Market Integrator (DMI) programme in the last parliament was an encouraging step towards tackling the debt owed to government from unpaid fees, taxes, fines, loans and ineligible benefits, which stands at an estimated £22.6bn.[14] To unlock its full potential for transforming the way debt is collected the DMI should serve as the central strategy for managing debt across all departments by the end of parliament.

To ensure the success of the DMI government should first address the current challenges facing the programme. This includes the lack of clarity on the level of debt owed and where it comes from, as a result of ineffective data sharing and cultural barriers which prevent an aligned approach across departments. As departments often have different policies on litigation and debt collection the Cabinet Office should continue to work with the Behavioural Insights Team to ensure that behavioural change aligns with internal structures.

At present the NAO states that £6bn of debt is written off each year. Tackling this through the use of the DMI could save government an estimated £15bn in total by the end of this parliament.[15] An improvement in the collection of debts and the associated reduction in the amount of debt written off each year would serve to reduce the deficit on an ongoing basis.

**Recommendation 2.5:** All departments should be using the DMI as the standard debt collection strategy.

**Potential savings:**

*Based on government estimates.*

**Year 1 -** £1bn saving

**Year 2** - £2bn saving

**Year 3** - £2bn saving

**Year 4** - £2bn saving

**Year 5** - £2bn saving

## *Supporting local public services to work together to tackle common challenges*

Ringfencing of other budgets has placed significant cost pressure on local services. Some local authorities have dealt with these pressures well, delivering savings as well as better outcomes. However many local councils still fail to explore market solutions which places limits on the innovation and investment they're able to access. The next five years should see a focus on the opportunity of devolution, and ensuring areas such as criminal justice catch up with central and local government, through:

- **Empowering committed and capable local leaders who face common service challenges**
- **Digitising local government transactional services**

[14] National Audit Office, *Managing debt owed to central government*, February 2014
[15] National Audit Office, *Managing debt owed to central government*, February 2014

- **Strengthening rehabilitation support for current prisoners**
- **Digitising courts administration and trials where feasible**

**Empowering committed and capable local leaders who face common service challenges**

The public service challenges facing the UK vary across regions (**Exhibit 8**, p. 12). As such, applying a blanket approach would be ineffective.

Government should build on the precedent of public service collaboration within Greater Manchester by supporting more local leaders to take on new powers to drive public service reform, to help tackle challenges which face their geographical area.

For this to work, local leaders must be able to identify a common challenge facing public services in their communities. This could include long-term unemployment, avoidable hospital admissions, or reoffending.

As with any devolution deal, localities should also be able to demonstrate a clear leadership structure, a commitment to minimising bureaucracy, and how the new settlement would support economic growth.

Health and social care integration is a clear area of opportunity, so there should be a strong presumption in favour of handing down related powers within devolution deals. The inclusion of health and social care in the Cornwall devolution deal illustrates that government recognises the potential for public services devolution, this must continue with the future set of devolution deals.

**Recommendation 2.6:** Local leaders should be supported to tackle common challenges by being granted further powers after demonstrating shared commitment and capability to meeting them.

**Potential savings:**

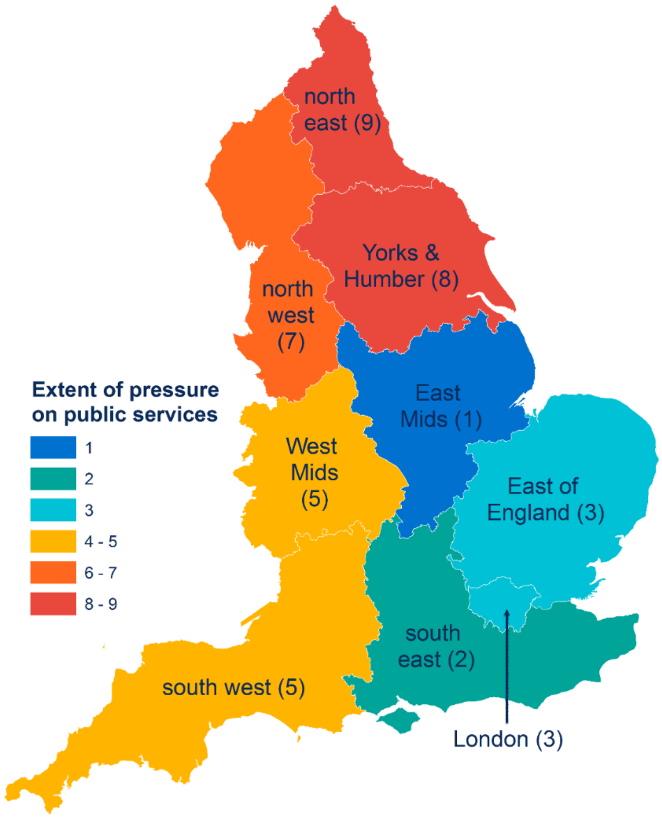
*Assuming the extension of health and social care integration to the four devolution areas set out in the Budget.*

**Years 1-3 –** No saving *(assuming introduction of governance processes, system redesign, and pooling of budgets)*

**Year 4** - £400m saving *(assuming savings proportionate to Manchester projections)*

**Year 5** - £600m saving of which £350m is expected from Manchester *(assuming savings proportionate to Manchester projections)*

**Exhibit 8: weighted scoring of the extent of pressure on public services across English regions[16]**




**Digitising local government transactional services**

In light of decreased funding and increased demands some local councils have stepped up to challenge, with the help of business, and found ways of utilising technology to deliver transactional services more effectively online whilst reducing costs. Government must promote further consolidation and digitisation of local transactional services, ensuring that when powers are devolved all local councils become digital-by-default.

The development of transactional services online appears to be flourishing in a number of councils across the country. The London Borough of Barking and Dagenham has achieved a 100% digital shift for benefit claims, reducing processing time by 30 days and saving £617,000 annually. Whilst Hammersmith and Fulham's online self-service portal has saved £1.15m.[17] Although these examples illustrate real progress there remains inconsistency across local government with some councils significantly trailing behind on digital uptake.

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[16] Scoring based on: hospital emergency admissions (*NHS statistics: weekly hospital admissions from A&E*, June 2015), levels of re-offending (*Ministry of Justice Open Justice website: likelihood of reoffending data* Oct 2012 to Sept 2013) and levels of unemployment (*ONS Labour Market Statistics*, July 2015)

[17] Local Government Association, *Transforming public services, using technology and digital tools and approaches*, July 2014

To ensure that the UK remains a leader in digital technology all local councils receiving devolved powers should commit to digitising local transactional services as part of the devolution package. Cornwall recently gained significant devolution powers but remains ominously behind other local councils in terms of digital reach. Only 6% of the councils transactions are part digital and less that 2% end-to-end digital. [18] If Cornwall adopted the same digital approach as Newham Council they could potentially achieve a similar saving of £15m a year.[19]

**Recommendation 2.7:** Digitise all local government transactional services when powers are devolved.

**Potential savings:**

**Year 1-5:** £100m annual savings *(assuming £10m saving for one third of unitary authorities)*

### Strengthening rehabilitation support for current prisoners

The key barriers to successfully reducing reoffending, which currently costs between £9.5bn - £13bn a year, are the culture of violence and drug abuse within prisons, and a lack of support for prisoners in areas contributing to offending (including homelessness, a lack of education/qualifications, mental and physical health needs, drug/alcohol abuse, and criminal attitudes) and related cycles of criminal behaviour that many display.[20]3.

By tailoring support to offenders' specific needs, the greatest results can be had from rehabilitation programmes. The violent and drug-abusive culture within prisons can be reduced with a high standard of integrated health and social care. Education and training must also be improved in order for ex-prisoners to reintegrate into society.

Integrating and improving the rehabilitation support that is available for prisoners becomes easier when a prison is managed by a single organisation. As such, government should consider market testing whole-prison outsourcing, in a return to the approach adopted at the beginning of the 2010 parliament.

**Recommendation 2.8:** Strengthen the collaboration between prisoner support services including healthcare, adult social care, education and welfare-to-work services; market test whole-prison outsourcing.

**Potential savings:**

**Year 1:** No saving *(assuming market testing and procurement process and/or introduction of new systems)*

**Year 2:** No saving *(assuming lead time for prisoners to benefit from enhanced support)*

**Year 3:** £1bn saving

**Year 4:** £2bn saving

**Year 5:** £2bn saving

[18] Cornwall Public Sector Group, *Digital Strategy*, January 2015
[19] Cornwall Public Sector Group, *Digital Strategy*, January 2015
[20] Ministry of Justice, *2010 to 2015 government policy: reoffending and rehabilitation*, May 2015

**Digitising courts administration**

54% of trials in 2014 were defined as ineffective, meaning they didn't go ahead on the day as planned, or ended unexpectedly without a hearing.[21] Digital approaches could reduce the costs associated with this.

When in-person hearings are deemed unnecessary they could be replaced by online or phone conversations. Similarly, initial evidence could in many cases be shared by email or conference calls, and cases for family or civil courts could be filed online.

Related to this, administrative time could be saved by updating IT systems with the aim of a single, common information management system.

Over the longer-term, the introduction of digital approaches to the court system could yield further benefits, by streamlining information sharing with other public services, such as local government and the police. This would not only simplify the user experience of transitioning between these services, but also present opportunities to design better support systems for vulnerable people.

**Recommendation 2.9:** Develop a common information management system for the court system and move court processes online where appropriate.

**Potential savings:**

**Year 1:** No saving *(assuming market testing and procurement process and/or introduction of new systems)*

**Year 2:** No saving *(assuming lead time for systems redesign and change management)*

**Year 3:** £300m *(assuming 50% reduction in admin costs, 25% reduction in other staff costs, and 50% reduction in ineffective trials)*

**Year 4:** £300m

**Year 5:** £300m

## *Challenging the NHS to boost its productivity*

Ringfencing of the NHS budget and reliance on a pay freeze has allowed the NHS to avoid many of the tough decisions taken in local and central government in the last five years. The next five years must be about a radical programme of modernisation of NHS efficiency through:

- **Implementing the Carter recommendations for boosting productivity**
- **Harnessing the potential of patient engagement**

### Implementing the Carter recommendations for boosting productivity

The NHS has yet to attempt many of the efficiency measures undertaken between 2010 and 2015 by central and local government. Although the delivery of clinical services introduces greater complexity, many reforms already adopted by the wider public sector are highly relevant to the NHS.

The interim report released by Lord Carter of Coles in June 2015 highlights the extent of the opportunity. For example, increasing HR and administrative productivity through tighter management of annual leave, sickness and training could yield up to £1.6bn in savings. Similarly, reflecting central government's shift

[21] Ministry of Justice, *What does a one nation justice policy look like?*, June 2015

towards acting as a single customer could help eliminate cost variation in the procurement of basic consumables, which Lord Carter estimates could save the NHS £1bn.

Implementing the Carter recommendations – and achieving the related savings of £5bn - in full is essential if the NHS is to be financially sustainable in the context of wider pressure on public spending. Through its control of the NHS mandate, the Department of Health should elevate productivity targets to being a senior leadership objective.

Unlike most other healthcare systems in the advanced world, the NHS lacks a generally accepted metric for hospital efficiency. The Adjusted Treatment Index (ATI) developed by the Carter review and currently being piloted in 22 NHS trusts should be mandated for use in all NHS hospitals.

**Recommendation 2.10:** Enshrine NHS productivity targets in the NHS mandate and enforce use of the Adjusted Treatment Index (ATI) across NHS trusts.

**Potential savings:**

**Year 1:** No saving *(assuming completion and dissemination of final Carter report)*

**Year 2:** No saving *(assuming implementation of ATI method and mandate review)*

**Year 3:** £2.5bn *(based on conservative assumption of 50% saving set out in Carter report)*

**Year 4-5:** £5bn *(based on assumption of saving set out Carter report)*

### Harnessing the potential of patient engagement

More NHS patients than ever before are grappling with long-term health conditions, ranging from diabetes to heart conditions to mental health issues. The acute care model that is prevalent in the NHS was designed in 1948 and is increasingly misaligned with the needs of 21st century patients.

There is growing evidence that engaging patients as active participants in their care – rather than resigning them to being passive recipients – can yield significant improvements in cost-savings and clinical outcomes. Examples could include a patient with diabetes measuring their own sugar levels.

Rebalancing from the acute sector to public health and care closer to home, while encouraging self-care, could help trigger greater patient awareness of these benefits. Greater patient awareness has the potential to reduce avoidable A&E attendances, hospital admissions, and the length of hospital stay.[22]

Evolving patient behaviour will help reduce demand on NHS services yet professional behaviour must change in order to enable this. Engaging more fully with patients' preferences and motivations, and recognising that adapting a care pathway to help fulfil them can have a direct impact on clinical outcomes, is essential.

**Recommendation 2.11:** Mandate local Health and Wellbeing Boards to champion patient choice within local priority setting and medical training.

**Potential savings:**

**Year 1:** No saving *(assuming mandate review)*

**Year 2:** No saving *(assuming dissemination of objectives across localities)*

**Year 3:** No saving *(assuming updates to medical training and patient dialogue)*

[22] Nesta, *The Business Case for People Powered Health, April 2013*

**Year 4:** £1bn *(conservative assumption of 25% realisation based on Nesta figures)*

**Year 5:** £2bn *(conservative assumption of 50% realisation based on Nesta figures - rising to a potential £4bn when implemented fully across the whole NHS)*

# 3. Sustainable public service markets

### *Adopting new commercial behaviours to harness business investment and innovation*

In addition to providing access to private sector efficiency and specialist expertise, business can help drive transformation through:

- **Investment.** Transformation typically requires up-front investment in new technologies, systems and processes. Corporate balance sheets can help achieve this without requiring a significant outlay from government.

- **Innovation**. Many government suppliers work internationally and for private as well as public clients, ensuring that cutting-edge approaches can be harnessed to reengineer services.

Making full use of this potential will require government to act differently as a customer. If government is to shift from a focus on efficiency to transformation, this must also be reflected in its commercial behaviours.

The CBI represents 85% of government strategic suppliers and maintains a network of contacts across the wider public services industry, 28% of which are classified as midsized businesses.

Based on consultation with these companies, we have identified changes that are required to help align government commercial behaviour, which continues to focus on driving efficiency, with the need for transformation (**Exhibit 9**, p.17)

To help bring about these changes, government should develop the Crown Commercial Service and Government Digital Service into advocates for transformative commercial behaviour across departments and the wider public sector.

This would free the GDS and CCS from their service delivery roles, which in the case of the GDS could in most cases pass to the market, whereas the CCS' commercial responsibilities could revert to departments. An important exception should be the CCS' common procurement function, which has the potential to achieve significant savings for departments and should be retained.

The role of the Cabinet Office should be to advocate heightened commercial capability within departments, with a focus on strategic supplier relationships and contract management. Over time, this ambition should extend to the wider public sector, and working in conjunction with NHS England in particular to address longstanding weakness in commercial capability across NHS trusts.

**Recommendation 3.1:** Develop the GDS and CCS into champions for public service transformation across the wider public sector, leaving supplier markets and individual departments to focus on delivery.

**Exhibit 9: government commercial behaviours associated with transformation**

| Efficiency behaviour | Transformation behaviour |
|---|---|
| **Output-based** | **Outcome-based** |
| *Focusing on delivering outputs at less cost within contracts.* | *Identifying, exploring and agreeing strategic outcomes across contracts.* |
| **Contract leadership** | **Corporate leadership** |
| *Entrusting midlevel officials with accountability for contract delivery.* | *Escalating commercial objectives to senior leaders; championing objectives across organisation.* |
| **Reactive contract change** | **Proactive contract change** |
| *Altering contractual agreements only when something goes wrong.* | *Looking ahead to anticipate changing needs, and iterates the contract over time.* |
| **Procurement dialogue** | **Dialogue-by-default** |
| *Restricting dialogue to within a procurement process.* | *Engaging the market in defining outcomes before procurement and maintain strategic dialogue after contract award.* |
| **Risk transfer** | **Collaborative risk management** |
| *Using contracts with the private sector to minimise government's exposure to risk.* | *Working collaboratively to judge which partner is best-placed to hold which aspects of risk, and how this can be mitigated.* |
| **Contract management** | **Relationship management** |
| *Structuring supplier relationships around the delivery of contractually agreed outputs.* | *Elevating supplier relationships to look beyond the immediate contract to wider government objectives.* |