

# planning for (further) efficiencies

Seamus Ward reports on the prospects for 'Gershon II' as the Government bids to make another round of efficiency savings across the public sector.

'Business lobbyists are increasingly calling for deep cuts in public services to fund tax breaks for companies and the super-rich, despite record levels of profitability. The Government must do more to defend public services, ensure they are properly funded, value the work of public servants and abandon this relentless round of arbitrary cuts and targets'

■ **The past ten years has seen a growth in funding in most parts of the public sector, notably health and education. But this has not been a programme of handouts alone, with the extra funds being accompanied by tough targets and cost-cutting programmes that have produced savings that run into billions of pounds.**

With a slowing economy, last year's Comprehensive Spending Review (CSR), which set out spending plans up to 2011, heralded a period of slower funding growth for the lucky few, and little or no growth for others. But no matter how much their income is set to grow, all parts of the public sector will be expected to bear down on their costs during this CSR period and beyond.

The Government's starting point was Sir Peter Gershon's efficiency review in 2004, which was published alongside that year's CSR. Over the three-year period to 2007, the former Head of the Office of Government Commerce set a target of £21bn in savings from job cuts and greater efficiency, through better procurement, for example. Now the Government is set to revisit this efficiency programme, with a new initiative that is already being dubbed Gershon II.

#### new initiative

Government departments have reported total savings for the last CSR period of £23bn. Emboldened by this, when he unveiled the 2007 CSR last October the Chancellor Alistair Darling revealed a move to "embed value for money across government".

Public sector organisations were told to plan for savings of at least 3% a year over the

CSR 07 period. This would release £30bn by 2010/11 to reinvest in further improvements in key public services, building on the success of the Gershon efficiency programme and implementing the results of a series of zero-based reviews of spending in each department.

But within a few months, and with the Conservatives breathing down their necks on public sector efficiency, ministers were keen to display their bureaucracy-slashing credentials once more. In this year's Budget Darling announced that the Government would begin planning for efficiencies in the post-CSR period.

Indeed, the Budget report said: "The Government intends to maintain a firm discipline on back-office costs and administration, and to ensure that efforts to drive efficiency in the public services keep pace with developments in the private sector."

The Government needs to get as much as possible from every pound spent – having been forced to increase his borrowing projections and cut his growth forecast, Mr Darling now predicts public sector net debt will rise to 39.8% of gross domestic product in 2010/11. The Treasury's golden rule states it should go no higher than 40%.

#### two strands

The Government's programme has two strands. The first will focus on how policy can make the public sector more efficient; the second – the Operating Efficiency Programme (OEP) – will be led by a series of private sector experts charged with identifying cost savings in a number of areas.

Both will inform the Government's value for money framework for the post 2010/11 period,



which will be set out in the 2009 Budget.

The first strand, the Public Value Programme (PVP), is based on the notion that value for money does not begin and end with tight control over back office costs. The Treasury believes there must also be a continual effort to find smarter ways of doing business and in taking wider policy decisions. While it promises that the Programme will be exhaustive, examining all major areas of public spending to identify scope for value for money savings and incentives, a number of specific areas have been named. These include road building, health sector commissioning, regeneration spending, value for money incentives in public sector budgeting frameworks and the way major public sector IT projects are run and accounted for.

#### OEP – focus on five areas

While there is little more detail on the PVP, Chief Secretary to the Treasury Yvette Cooper, who is overseeing both strands, has given more information on the OEP. As with the PVP, this programme is intended to be wide-ranging but will focus initially on five areas. It will examine cross-cutting areas of government spending and draw on both private and public sector expertise, though private sector experts will lead the work in four of the areas. The work streams are:

- **back office and IT** – led by former Logica Chief Executive Martin Read
- **collaborative procurement** – led by former VT Group Chief Executive and Chairman Martin Jay
- **asset management and sales** – led by Standard Life Chairman Gerry Grimstone

- **property** – led by Labour peer Lord Carter of Coles
- **local incentives and empowerment.**

The back office and IT stream will compare the public sector with the most efficient businesses. Ms Cooper believes the latter's experience suggests savings of between 10% and 50% may be possible. An estimated £7bn a year is spent on finance and human resources alone in the public sector so the savings could run into the billions. There will be a particular focus on getting better value from large IT projects.

The public sector buys goods and services worth more than £160bn a year but only a fraction is bought collaboratively. The second stream will assess the scope for collaborative procurement across the public sector.

The asset management and sales stream will look at how the public sector manages its asset base, which is worth more than £800bn. Its work will include the potential for disposals. Disposals could also feature in the fourth work stream – property. The Treasury says departments vary in how efficiently they use the space available to them and it feels there is scope to achieve significant savings.

The fifth area – local incentives and empowerment – will encourage frontline professionals and users to submit their ideas to cut waste.

#### mixed reaction

The programme has drawn a mixed reaction. Some, such as Trades Union Congress General Secretary Brendan Barber, feel that job cuts in the name of greater efficiency have gone too far and are now beginning to affect public

sector organisations' ability to deliver their core activities. Further cuts will mean some public services will not be delivered. Mr Barber says cuts in the number of tax inspectors, for example, will inevitably affect tax receipts.

He is particularly worried about Gershon II and a perceived anti-public sector bias. "Buried in the Budget small print is the news that there will be an additional round of operational cuts after the current CSR round," he says.

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Top civil servants' union the FDA was more supportive, though not without concern. "The FDA supports any examination of sensible ways to create more efficient government, but there is a trap here for ministers," says FDA General Secretary Jonathan Baume.

"Too often in the past ministers have simply focused on cost reductions with no serious analysis of the implications of cutting critical posts or other resources. This can have the longer-term and obviously perverse consequence of undermining the efficiency of public services," he adds.

The results of the twin strands will not be known until next year's Budget but there is little doubt about its outcome. To paraphrase Sir Eric Geddes, the intention is to squeeze the public sector until the pips squeak. ■

Seamus Ward is a freelance journalist