
ADAPTING TO THE CHANGING NEEDS OF GOVERNMENT

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With budget cuts running into many billions of pounds over the next few years, Government should put value creation at the heart of public sector reform.

As Government tackles the biggest deficit in peacetime history, the picture for the public sector in the coming years is of major efficiency savings and cuts in investment and services.

Changes in the way services are delivered, reduced provision, salary tightening, shrinking departments and redundancies are inescapable as Whitehall faces one of the toughest spending squeezes in modern times.

The major shift in public expenditure, from relative largesse to acute scarcity, presents a huge challenge to government departments, executive agencies and all public sector organisations and services financed by the taxpayer.

How will they cope? How will they change from behaviours suitable in an era of spending increases to those suitable in an era of spending decreases and still deliver good value to customers?

In this context, putting value creation at the heart of the delivery of public services becomes even more important.

In recent years, we have seen many government initiatives to reform the public sector: targets, standards, entitlements and public service agreements; new models and frameworks; departmental capability reviews; efficiency drives; trading fund reviews; changes in regulation and inspection of the NHS and schools.

All these have been instigated and imposed in the drive to improve efficiency and effectiveness in public services.

But despite these reforms, the public sector frequently experiences an apparently contradictory combination of dedicated hard work by public servants and wasted resources, with significant inefficiency and a low level of rationalisation.

Whilst they have achieved some benefits, target-led reforms imposed from the centre have diminishing returns. Central goals and targets do not in themselves encourage public sector leaders and employees to meet the objectives behind the goals. Indeed, motivation can be undermined by an over-reliance on detailed targets, leading to a box-ticking mentality, which loses sight of their underlying rationale.

Figures at a glance

£99bn

Annual reduction in government spending by 2015–16 (2010 budget)

25%

Implied average real cuts in budgets over four years (2010 budget)

8.4%

of GDP – reduction in public sector net borrowing over five years

And, as the National Audit Office has reported, the success of externally mandated efficiency drives has been patchy.

What can be characterised as the “comply or fail” approach has meant that, whether or not an individual organisation was optimising value, as long as it stayed within its spending budget and met its targets it was deemed to be in good standing. If it did not, it was categorised as at risk and could be subject to some form of intervention.

To be effective, the response to the economic climate needs to find new ways to harness the potential for public service value creation.

Managing for value as well as compliance

So what is the reason for the apparent contradiction between hard work and waste of resources and what can be done about it?

The incentives encourage managing for compliance but not managing for value. The single most important missing ingredient in the reforms to date lies in the enormous potential power to drive improvement from getting organisations to manage at every level for value.

The risk is that the response to the new public expenditure climate will be largely based on demanding and complying with centrally mandated cuts in expenditure.

In CVA's experience, the most robust and successful response to cost cuts is through a focus on value, improving efficiency by prioritising customer needs and the need to be competitive.

The new public expenditure environment provides the ideal opportunity for a strategic response to design value optimisation into organisations so that value is “driven up” as well as down from the centre.

Public sector organisations should be explicitly managed to optimise value for their customers and for taxpayers. It is no coincidence that organisations that achieve this generally have high staff morale – people enjoy working in, and contributing to, successful, high performing organisations.

Designing value into an organisation

CVA's blueprint for designing value optimisation in an organisation is based on the following key principles:

- ◆ Clarify the overarching mission and identify what services are core and what are additional;
- ◆ Identify customers, taxpayers and other stakeholders and their principal measures of success;
- ◆ Develop a high level set of value-based metrics and benchmarks;
- ◆ Identify the appropriate business and customer segmentation including those segments which add or reduce value;
- ◆ Identify the critical building blocks, interdependencies and linkages;
- ◆ Identify, evaluate, challenge and decide on business options;
- ◆ Put in place a change programme and align incentives with value creation.

It is often assumed that defining value in public sector organisations is too difficult as it risks an easy trade off between cost, which is quantifiable, and quality, which is not.

CVA's approach to designing value into organisations makes these mutually compatible.

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