



**RSM! Tenon**

**Impact, Insight, Innovation**  
**The Comprehensive Spending Review - one year on**

# Foreword

It would be all too easy to write a report on the impact of the Comprehensive Spending Review (CSR) of October 2010 that was all 'doom and gloom'. These are, of course, difficult times for many organisations whose boards and senior management are making tough decisions. Without doubt it is also tough for the millions of people who work in or with the public sector and the third sector.

In some respects, a report on a topic as complex as the impact of the CSR will always pose more questions than it can provide answers. There is no one model that suits all organisations in reacting to and surviving the cuts. But, it is no time to be timid. The best organisations are those that come up with brave and innovative solutions. Those in our case studies are just a few of the many who have been proactive in finding new ways of working with others to improve services and save money. They have seen an opportunity to better serve their communities, or are taking full account of the risks and uncertainty to ensure that they are prepared for what lies ahead.

We hope you will find the results and ideas within this report thought provoking.



**Richard Smith**

Director

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# 1. Executive summary

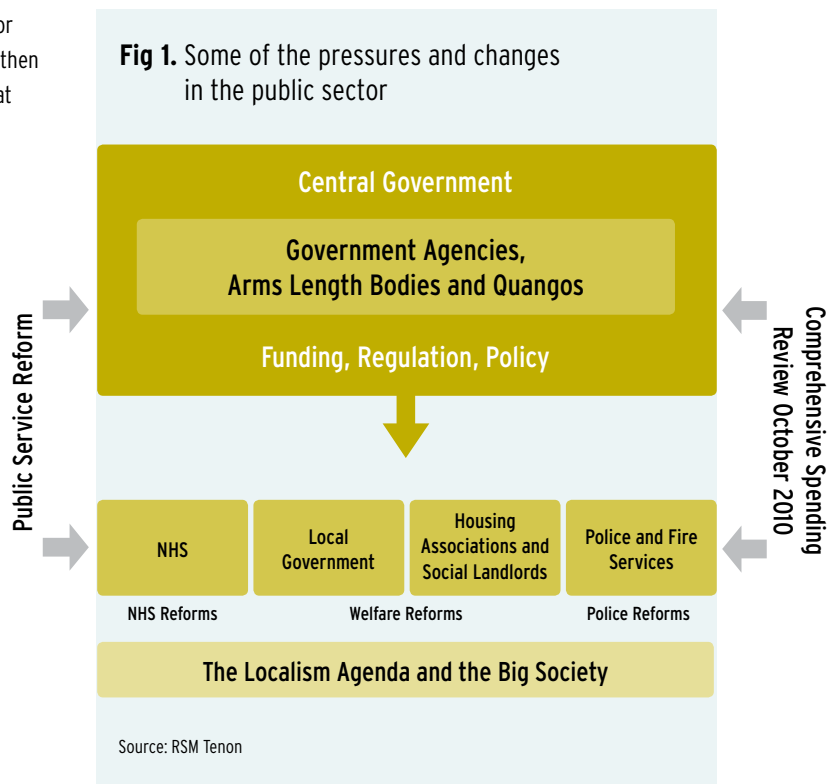
**Making efficiencies and savings is not a new concept. This time, though, the decisions are more difficult and in many cases more far-reaching.**

This report was originally intended to be solely a review of organisations' opinions about the impact of the October 2010 Comprehensive Spending Review (CSR). As our research has progressed, it has become an exploration of the passion and enthusiasm that many people and organisations have for public service and for community. We have also considered the actions they are taking to protect frontline services, whether provided by the public sector, or by an organisation in the third or voluntary sector.

Alongside the public sector cuts, we must remember that first of all there is a recession. For some organisations the credit crunch that hit the UK in 2008 (albeit the crunch had been triggered by various events in prior years) had a major impact. This was particularly true for organisations that provide services to end users. This had an impact on the voluntary and community sector in particular as demand for some services increased significantly. The impact of the CSR cuts then compounded the growing demand by putting those authorities that help to fund some voluntary services under significant financial pressure.

Can organisations respond quickly enough to create the sustainable change required?

**Fig 1.** Some of the pressures and changes in the public sector



Our report's title 'Impact, Insight, Innovation' reflects the content. In the following pages we reflect on the impact the CSR has had on various sectors, bringing insight from our specialists and from organisations in local government, health, social housing and the voluntary and community sectors. It is noticeable that not all organisations surveyed yet fully understand the impact of the CSR. There is uncertainty about the future - much of this relates to the various policies introduced by the coalition government that are progressing through parliament.

In total, 66% of respondents believe they fully understand the CSR's implications but responses vary significantly from sector to sector. Notably, it is those sectors where other policies are still to be finalised that are least certain. Particularly with regards to local government, uncertainty rests predominantly on two levels:

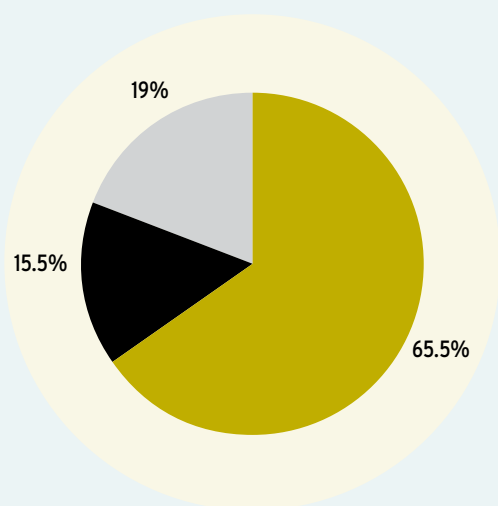
- **Uncertainty about the next local government settlement i.e. that for 2013 onwards; and**
- **Uncertainty about new policies such as the Welfare Reform Bill**

Welfare reform is also a significant factor for social landlords, as well as for some charities and community organisations. The housing sector provides housing and shelter for those who most need it, but the lines around what is affordable and the benefits that the government will pay are becoming blurred.

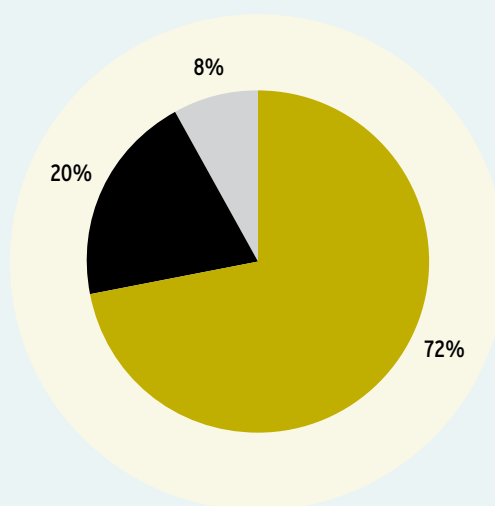
With more uncertainty on the horizon, early and decisive action will put boards and management teams in good stead to lead their organisations in the future.

**Fig 2. Responses by sector:** Do you feel you fully understand the implications of the CSR for your organisation?

**Local Authorities**



**NHS**



Considering the savings required of local government, we question whether local government can respond quickly enough to effect the cuts in the Spending Review period to 2014. In fact this is a question for any organisation facing cuts, whether formal savings or reduced funding from other sectors: can you respond quickly enough to create the sustainable change required?

Our surveys, research, work and discussions with organisations make it clear that, while this is for many a challenging time, it also presents an opportunity for those who are forward looking and open to new ideas, models and working with other organisations. This does not necessarily make it easier, but those public sector bodies that have been proactive in working towards sustainable and real savings since (and indeed

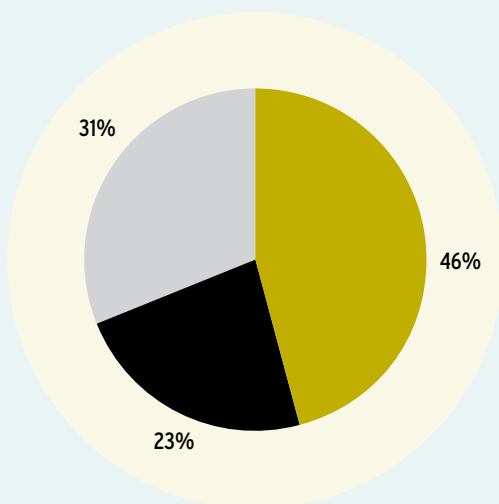
before) the CSR are well positioned to bring about real change. This must also be true for those organisations or businesses reliant on the public sector or affected by changes in government policy.

With more uncertainty on the horizon, early and decisive action will put boards and management teams in good stead to lead their organisations in the future.

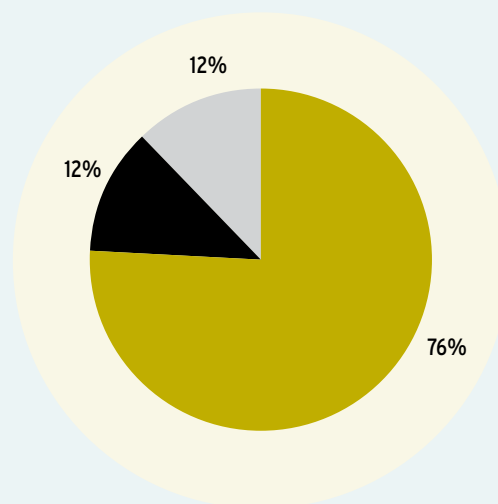
Common messages arising from our research include:

- **Uncertainty in organisations awaiting full details of welfare reform, also reflecting other policies that are progressing through parliament**

### Social Landlords



### Voluntary and Community Sector



■ Yes
 ■ No
 ■ Partially

Source: RSM Tenon

- The impact of the local government cuts are being felt elsewhere, in particular in the NHS and community groups
- Public sector job losses, always to be expected, have naturally increased over the past year. However there does not appear to be confidence in small and medium-sized enterprises (SMEs) or voluntary organisations, which in future may be the businesses that deliver public services (albeit through an alternative route)
- For the Big Society to work there needs to be an effective public and community sector. This creates interdependencies

- Many sectors are linked, and policy or structural changes in one will have an impact on others
- Significant financial and development risks that housing associations and providers are having to navigate to protect the interests of both the group and their residents
- Collaboration and working together will be more important for all organisations to ensure the best quality service at the best cost

## 2. Background to the CSR and this report

Since May 2010 we have not only seen an emergency budget and the 2010 Comprehensive Spending Review, but also a wide range of new policies from the coalition government, as one would expect at the beginning of a new administration.

### 2.1. A time of change

One of the coalition government's primary aims is to reduce the national debt. The CSR marked the beginning of unprecedented funding cuts across the UK public sector.

Central government departments saw average funding cuts of 19% while local government was faced with a 28% cut in funding over the period covered by the CSR, 2011/12 to 2014/15. In reality the majority of public sector organisations are experiencing cuts to varying levels. Even the NHS, where funding was protected, is required by the Department of Health to make efficiency savings of 4%.

It is essential that local government and the public sector more generally, make deeply considered, sustainable cuts rather than simply relying on short term financial savings. Prior to the CSR many councils were developing plans to make cost savings and improve their efficiency and effectiveness. After all, making efficiency savings is not new to the public sector. While councils continued to make savings, not all had a formal, long term programme in place. Even those councils that had implemented an efficiency programme may not have predicted the actual level of cuts to be imposed. Pre-CSR the level of funding to be given to local authorities was not known, which in turn made planning far more difficult.



Last year, Britain's deficit was the largest in peacetime history - the state borrowed one pound for every four it spent.

Executive Summary, Spending Review October 2010, HM Treasury

**Fig 3.** Some of the policies and decisions introduced by the coalition government



Source: RSM Tenon

However popular or unpopular any cut or policy change is with any sector, organisation, or individual; each is planned as part of the government's overarching aim of streamlining public services to reduce public spending as part of its plans to reduce the national deficit. Some of these changes will have a direct impact on citizens, the benefits they receive, the services available to them and job security for those employed in the organisations making cuts. Others are intended to improve efficiency but without affecting front line services.

The South West has been proportionally hardest hit with a 5.9% decrease in people employed in the public sector between June 2010 and June 2011.

## 2.2. Employment, business and the Big Society

Reduced public funding has understandably had a very significant impact on public sector employment. The Office for National Statistics' employment data shows that public sector employment stood at 6,037,000 at Quarter 2 (June) of 2011, a decrease of 111,000 or 1.8% on the previous quarter<sup>i</sup>. In the year to June 2011, public sector employment decreased by 240,000 (a 3.8% reduction).

London has the largest number of public sector employees (791,000), followed by the South East (687,000) and the North West (686,000). Every region of England has experienced public sector employment decreases to some degree; as shown at Figure 4.

**Fig 4. Public sector job losses**

Region of England	Number of Public Sector Employees as at Q2 2011	% Change in Public Sector Employment from Q1 2011 to Q2 2011	% Change in Public Sector Employment from Q2 2010 to Q2 2011
North West	686,000	-2.6%	-4.3%
North East	278,000	-2.1%	-5.4%
Yorkshire and the Humber	540,000	-1.8%	-3.1%
West Midlands	506,000	-2.3%	-3.1%
East Midlands	389,000	-1.8%	-2.0%
East of England	456,000	-2.6%	-3.6%
London	791,000	-1.5%	-4.4%
South East	687,000	-2.4%	-3.1%
South West	508,000	-3.1%	-5.9%

Source: Office for National Statistics

The elements of The Big Society agenda are:

- **Community empowerment**
- **Opening up public services**
- **Social action**

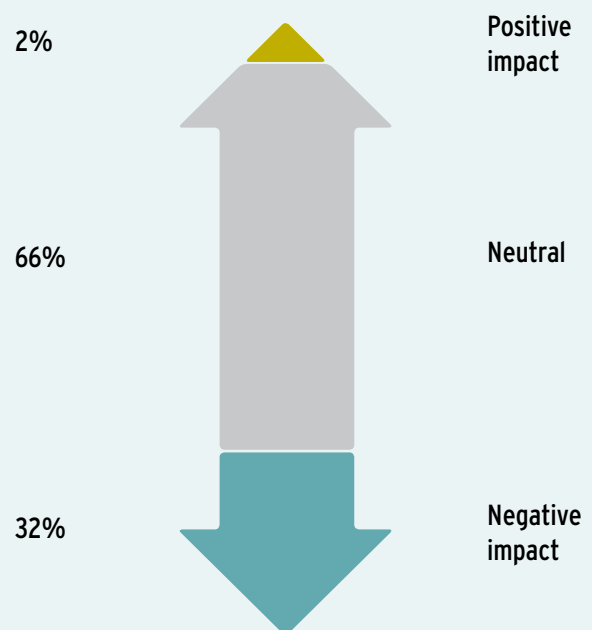
Alongside public service reform, the government intends to create a Big Society where "everyone plays their part, shifting power away from central government to the local level as well as getting the best possible value for taxpayers' money"<sup>ii</sup>.

In September 2011, RSM Tenon and independent polling company YouGov surveyed a large proportion of small and medium sized enterprises (SMEs) to examine the effects of the CSR on their businesses. Only 2% of SMEs feel the CSR has had a positive impact on their business, with 32% confirming it has actually resulted in a negative impact.

Our May 2011 survey, again undertaken with YouGov, found that 18% of senior SME managers see the government's funding cuts to be the greatest danger to their businesses. In 2010, this figure stood at 13% and so has increased by five percentage points over the course of the year to stand as SME leaders' greatest area of concern.

This evidence clearly illustrates the ripple effect of the CSR. The CSR was essentially about reducing the national debt and as a result substantially cutting public sector funding, yet collaboration between the public and private sectors exists. As such it is not surprising that both the public and private sectors share some of the same concerns.

**Fig 5. SME responses: What has been the impact of the CSR for your business?**



Source: RSM Tenon

### 2.3. The scope of this review

The coalition government has made significant changes at all levels of the public sector, from the abolition of regional government offices, closure and mergers of quangos, to an unprecedented cut to the defence budget.

In producing this report we began to think about the various impacts of the CSR and how they were inter-related across the public sector, and in particular across those services that work closely with local authorities. The many changes to public policy coupled with the requirement to make cost and efficiency savings has made examining the effects of the CSR a complex process.

It can be seen as a ripple effect, starting from central government and filtering through down to the wider public sector to voluntary and community organisations. Local government has borne the brunt of funding cuts but its functions clearly interlink with other sectors such as social housing, social care and voluntary and community organisations. For this reason we have chosen to focus our report around local government but examine the effects of the CSR in relation to other areas of the public sector and some of those organisations that work closely with it.

### 2.4. Methodology

This report examines the effects of the CSR one year on. It looks at the impact the CSR has had on public sector finances and examines the many different avenues that public sector organisations have ventured with the aim of finding cost savings. In forming our report we issued questionnaires to councils, social housing providers, NHS trusts and voluntary and community organisations. Our aim was to seek views from a range of public sector organisations and the information obtained has been used to generate the findings in this report. In order to inform our findings we have also undertaken extensive research, drawing on our relationships with public sector organisations as well as on the vast data available in the public domain.

**Fig 6.** The ripple effect from cuts in local government spending



### 3. Local government

While the CSR announced the total grant for all local authorities over the period of the Spending Review, it is the Local Government Finance Settlement 2011/12 that allocated specific monies for each individual authority. It was only at the publication of the Settlement that local authorities knew the extent of their individual income cuts.

#### 3.1. Local government spending power

Prior to the CSR, the government had made its intention to cut public sector funding well known. The actual level of funding cuts to be imposed was, however, unknown and some approximation was required in order for authorities to prepare. Pre-CSR, a number of councils took the opportunity to examine their programmes and operations to consider where potential savings could be made. After all, making savings is not new for local authorities, which have been making savings and efficiencies through various initiatives for many years.

Some councils took this process one step further and delivered cost savings, which have been reflected in their accounts for the year ended 2010/11. Those councils that have planned early for the funding cuts may find themselves in a better position moving forwards as they understand where real cost savings can and will be made.

The CSR means that central government funding to councils decreases by approximately 26% over the period 2011/12 to 2014/15. For 2011/12 the government has allocated £650m to ensure that councils are able to freeze council tax without a detrimental impact on local services. Those councils that chose to freeze council tax have seen what amounts to the equivalent of a 2.5% increase in funding in 2011/12.

The CSR stated that once the Office for Budget Responsibility's projections for council tax were taken into account, council budget decreases were around 14% over the four year period. Speaking at the Conservative Party Conference on 3 October 2011, Chancellor George Osborne announced that the government will allocate £805m for councils to freeze council tax for a second consecutive year in 2012/13.

The Local Government Association has commented that formula grant (excluding police grant) is being cut by some 12% in 2011/12 and estimates that the sector faces a £6.5bn funding gap<sup>iii</sup>.

A summary of the average estimated change in revenue spending power by region for 2011/12, compared to that in 2010/11, is shown in Figure 7.

**Fig 7.** Average estimated change in revenue spending power by region

Region	Average change in estimated spending power in 2011/12	Average change in estimated spending power in 2011/12 - post Transition Grant
East Midlands	-7.03%	-6.51%
West Midlands	-5.74%	-5.74%
East	-6.14%	-5.72%
London	-5.31%	-5.19%
North East	-7.55%	-7.28%
North West	-8.27%	-6.75%
South East	-5.20%	-4.95%
South West	-4.73%	-4.72%
Yorkshire & The Humber	-6.02%	-5.95%

Source: Department for Communities and Local Government



We have the grant figures for this year and next and we are working to deliver the savings required to survive the reductions. However we do not know what will happen at the end of 2012 when the grant for the 2013/14 year is made known.

What does this hold for local government? Will there be more reductions? How deep will the cut be and for how long?

Sylvia Delahay, Executive Director and Section 151 Officer, Amber Valley Borough Council

As shown at Figure 8, those councils with a reduction in revenue spending power of more than 8.9% (in either 2011/12 or 2012/13) have been awarded Transition Grant. 37 authorities across England have been awarded a proportion of the £85m grant available in 2011/12.

**Fig 8. Number of Transition Grants awarded to local authorities**

Region	Number of councils awarded Transaction Grants
East Midlands	6
East	5
London	3
North East	3
North West	13
South East	3
South West	1
Yorkshire & The Humber	3

Source: Department for Communities and Local Government

The North West is facing significant cuts. More authorities within that region are being awarded Transition Grants than in any other area of England.

### 3.2. Making cost savings

The majority of respondents to our survey (85%) were confident that they would achieve the required savings; however, this contradicts the 34.5% of local authority respondents who stated they did not fully understand the implications of the CSR for their organisation.

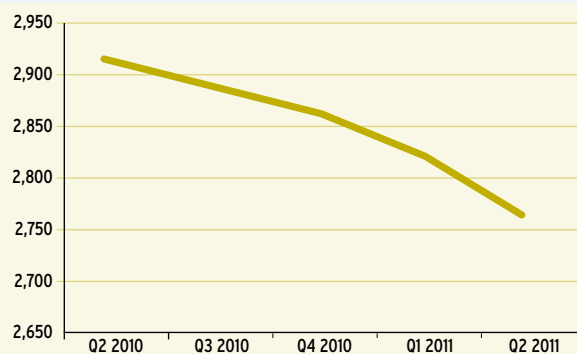
There are two main reasons for this. First, uncertainty over the next local government settlement and medium term financial plans. Second, local authorities are awaiting the final outcome of related policies and new legislation such as the Localism Bill and the Welfare Reform Bill.

### 3.3. Local government employment

One of the primary mechanisms to save costs adopted by local authorities has been some form of internal restructuring. A total of 91% of respondents confirmed that they had undertaken restructuring within their organisation and a further 6% plan to do so. As a result a substantial number of public sector job losses have occurred.

The Office for National Statistics has confirmed that in the second quarter of 2011 (April to June) employment in local government decreased by 57,000 to 2,767,000<sup>iv</sup>. Overall local government employment fell by 5% between Quarter 2 2010 and Quarter 2 2011; the decrease is illustrated in Figure 9.

**Fig 9. Local government employment June 2010 to June 2011 (millions)**



Source: Office for National Statistics

Some local authorities have implemented pay freezes or salary reductions to save costs. In the case of salary reductions, some council employees are being required to re-apply for their job at reduced pay. Birmingham City Council and Shropshire Council are two such examples. In both cases employees were required to accept new terms and conditions of employment to remain working for the authority.

Even before the CSR, the Local Government Association's workforce survey 2010 found that a recruitment freeze had been implemented across 63% of local authorities, while 45% had reduced management costs<sup>v</sup>.

Local government employment decreased by 57,000 in the three months to June 2011.

### 3.4. Service reduction

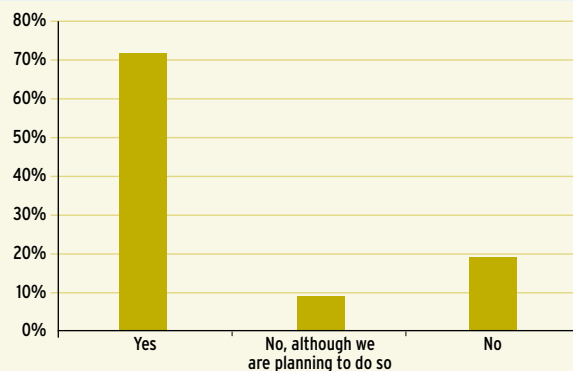
The reality is that public sector organisations are having to provide services with reduced funding and resources. Councils in particular have been seeking the answer to the overarching question: how can we meet reduced levels of funding while at the same time maintaining service delivery? Our survey shows that 72% of councils have already cut or reduced services to some degree and a further 9% are planning to do so.

Some examples of those areas that have been affected by service cuts include:

- Libraries
- Social care
- Street lighting
- Speed cameras
- Waste collections
- Youth/children's services

81% of councils in England have either cut or reduced services or are planning to do so.

**Fig 10. Local government responses:**  
Has your organisation cut or reduced any of its services?



Source: RSM Tenon

### 3.5. Using reserves and utilising assets

28% of local government respondents stated their organisation has needed to dip into reserves in order to deliver services, while 19% expect to do so in the coming year. Of those that had not used their reserves, 69% had made cuts to services and all had undertaken restructuring exercises.

In December 2010, the government stated that local authorities hold around £10bn in reserves, earning very little as a result of low interest rates. Those councils that have "substantial reserves should also consider using these to address short term costs and pressures, and invest now in order to realise savings in the longer term<sup>vi</sup>."

Eric Pickles, Secretary of State for Communities and Local Government, has urged councils to take a “good hard look”<sup>vii</sup> at their assets. The coalition government has produced a map that can be used to locate and gather information on public sector assets. The map identifies around 180,000 assets owned by nearly 600 public sector organisations, including central government. The Department for Communities and Local Government has estimated public sector assets to be worth approximately £385bn, with almost two thirds being owned by councils. The map identifies widespread property that is owned by the public sector, which goes beyond what is required to deliver frontline services. As such, the government has noted the possible scope for savings.

Pilot projects, known as capital and asset pathfinders, found that an average 20% saving could be made by either rationalising public assets or co-locating local services, which should be based on customer need.

In seeking to utilise assets, councils may find it beneficial to consider the purpose of their property and land and whether they are being used to best effect. In the aim of making cost savings, councils may benefit from considering where collaboration or co-sourcing of services may be possible so that unnecessary assets can be used to bring in funds. This in turn will help to alleviate some of the cost pressures councils are experiencing.

47% of local authorities are using their reserves, or expect to do so in the coming year.

### 3.6. Ensuring efficiency

Some of the things that councils have been doing in response to funding cuts include:

- **Sharing services, which can not only improve efficiency but achieve service improvement**
- **Reducing waste, particularly within back office functions**
- **Controlling junior and senior pay, ensuring that it is kept to acceptable levels**
- **Sharing senior management amongst councils**
- **Actively seeking new delivery models**

In seeking to ensure efficiency there is not one model that will suit all councils. It is important that councils consider their own particular circumstances. In considering efficiency savings, councils should take the opportunity to revisit their core objectives and implement changes that fit within the overall strategic plan.

## 4. Social housing

Social housing is faced with significant policy changes in a number of different areas

### 4.1. CSR for housing

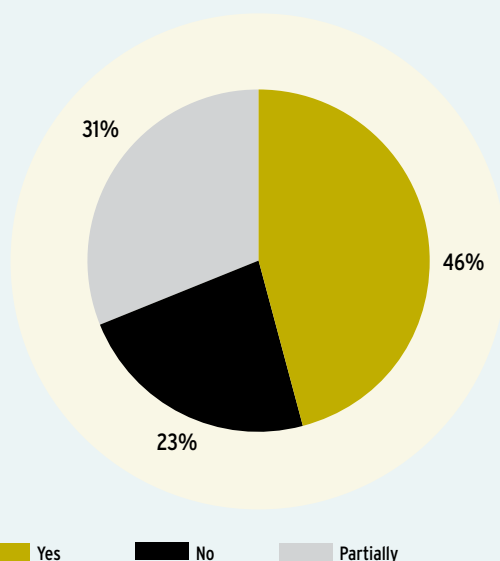
Social landlords take many different guises. Often a group will include individual associations with very specific purposes. Some of those will be registered charities in their own right, as well as part of a wider social landlord organisation. The results of our survey of social housing providers remind us how closely linked social housing is to local government, the NHS and other social care providers, as well as of course having a far more commercial element.

That 54% of respondents do not fully understand the implications of the CSR for their organisations reflects the level of uncertainty for social housing, and in particular the wider policy changes that impact the sector.

The headline CSR and policy changes for social housing are:

- Welfare reform, including announcements made in the June 2010 emergency budget
- Reduced social housing grant for new development
- Creation of new affordable tenancies linked to the new grant regime
- Changes to the agencies regulating social housing
- Reductions in local government budgets leading to reduced funding for social care

**Fig 11. Social housing responses:** Do you feel you fully understand the implications of the CSR for your organisation?



Source: RSM Tenon

### 4.2. Welfare reform

The welfare reforms mean:

- Introduction of one universal credit to replace the variety of benefits and tax credits that currently exist
- Payment of benefits direct to individuals on a monthly basis (at the moment most housing benefit is paid to the landlord on a fortnightly basis)
- Caps on housing benefit payable to reflect a maximum that will be paid

One of the main factors for future uncertainty is the impact of the government's welfare reforms. A massive 81% of respondents feel that their organisation does not completely understand the implications of the planned changes to housing benefit when the welfare reform introduces the new universal credit, as well as the caps in housing benefit. There are two important strands here for social landlords to understand: the impact on their residents and the impact on the social landlord itself.

81% of respondents from social housing felt that their organisation does not completely understand the implications of housing benefit reforms.

Research completed in 2002 by London and Quadrant showed that paying housing benefit directly to residents causes the level of rent arrears to double<sup>viii</sup>. Social landlords are therefore facing the dilemma of how to manage an increased level of rent arrears while providing an appropriate level of support to residents to help them understand the changes, to ensure they manage the changes and to avoid them falling in to arrears where possible.

## CASE STUDY 1

### Alliance Homes: The impact of housing benefit caps

Alliance Homes manages approximately 6,000 properties of which 4,000 properties receive some level of housing benefit towards rent. Given the welfare reforms in progress and the caps in housing benefits announced in the emergency budget in June 2010, Alliance Homes undertook a review of its resident profile. It determined that 1,200 working age tenants are under-occupying properties and may face reducing levels of benefit, leaving them to fund the shortfall in rent.

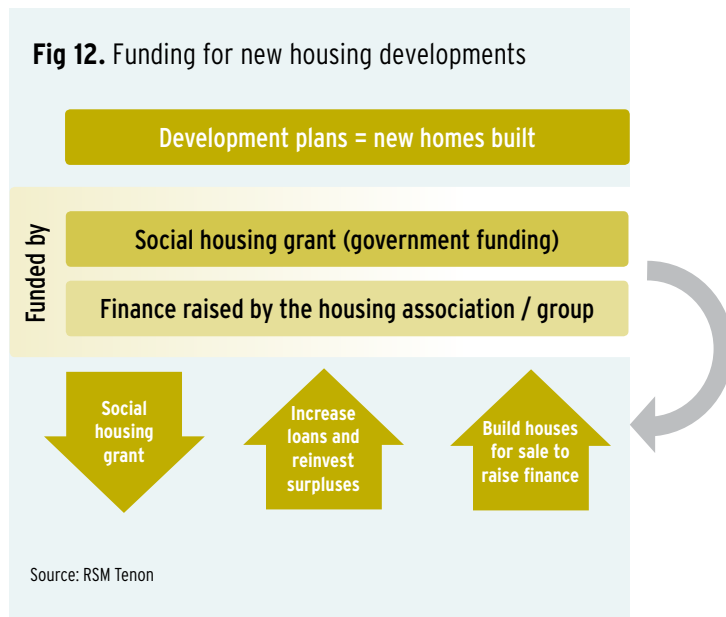
Alliance Homes is very concerned about the impact of some aspects of these reforms. It has already taken action to focus on how best to support its residents in the current economic environment, including creating a Financial Inclusion Team and working with partners to provide a range of support services to the community.

The caps in housing benefit create specific concerns for all registered providers. Alliance Homes' position is not untypical of the sector as a whole.

- Given that a significant proportion of properties in receipt of housing benefit are under-occupied, if residents now need to find the shortfall between their rent and their housing benefit, will more residents fall in to arrears? Alternatively will registered providers have to fund any of the shortfall themselves? This may impact on long term business plans and potentially on existing loan covenants.
- Much of the housing development in the sector has focused on larger properties for families. Do planned developments now need to reflect smaller households?
- Could organisations such as Alliance Homes end up with housing stock they cannot fill as it will be too expensive for some households? Conversely, will those families in genuine need of accommodation, who would otherwise qualify for social housing, be unable to secure such accommodation due to the profile of housing stock not reflecting the profile of households in need of social housing, at least in the short-to-medium term?

## 4.3. Development

Fig 12. Funding for new housing developments



Social landlords are still building new homes despite the stagnant property market. However, they now receive less social housing grant for each new property and are raising additional finance to cover the costs of development. As well as increasing borrowing and using surpluses, social landlords are also building homes for sale to fund the cost of homes that will become social housing stock. These homes can now be let under affordable tenancies at up to 80% of market rent levels subject to affordability tests and local authority support.

Given the international economic crisis that continues to unfold, and the uncertain housing market in the UK, social landlords are taking a risk by investing in building property that may not sell.

Even if the finances were not a problem, there is another important factor impacting development - the buy-in of local government. Local authorities have a veto which many may have forgotten in their focus on agreeing a contract between the housing association and the Homes and Communities Agency (HCA). How can local authorities agree to social housing projects if they have not yet set their own rent policies?

The social housing agenda could be delayed by aspects that have yet to be agreed and finalised in the Localism Bill and there is already evidence that some local authorities are holding back on agreeing any new social housing developments. It is clear that the government is increasingly turning to the housing market to provide an economic stimulus. The HCA has most recently been looking to extend the affordable regime and re-invest new 'right to buy' surpluses.



With reduced social housing grant for new build, we have seen a marked increase in the financial risk profile of social landlords. As providers borrow more or reinvest surpluses, they are building properties for sale to fund the cost. Business plans are predicated on selling units privately to fund the rest.

Given the current housing market and the national (and indeed global) economic uncertainty, I would encourage social landlords who are developing to ensure they are carefully analysing the risks as well as the opportunities of development.

David Taylor, Chair, Housing sector group, RSM Tenon

#### 4.4. Affordable rents

The government has introduced the concept of Affordable Rents, a new initiative which allows social housing providers to deliver a more diverse offer to citizens accessing social housing. Under Affordable Rents, homes are made available to tenants at up to a maximum 80% of market rent and providers will be able to offer flexible tenancies including short term tenancies where this is deemed appropriate.

For new social housing developments in London, a couple or family will have to receive a moderate income for Affordable Rents to work. At circa £60,000 per annum this hardly reflects the poorest people in most need of housing - those that many who work in the sector want to help. In fact any surpluses made from rents from the poorest people could now be perceived to fund people with relatively comfortable incomes.

This is exacerbated by the potential for empty (or void) local authority housing stock to be converted to 'affordable' housing. Each year, the proportion of a local authority's housing that is available for the poorest people could actually reduce if empty properties are converted to the Affordable Rents scheme. Therefore, there would be less available to support the poorest in society, which will impact on housing associations and other community organisations who provide housing and shelter.

Social landlords may well feel caught between all other sectors. As social care funding moves from the NHS to local authorities and each cuts budgets, housing associations and housing charities could be left with residents who need a care package, but who are no longer being fully funded. Housing associations cannot evict someone who needs supported housing or social care. This puts social care under extra pressure and has proved too much for some social landlords, which are withdrawing from this element of social housing.

While social housing was fairly immune from a direct impact and funding cuts at the CSR, policy decisions elsewhere and the cuts made to other sectors are having a very real effect on this sector.

#### CASE STUDY 2

##### Effects on rent arrears of paying tenants housing benefit direct

In seeking to understand the effects of paying directly to residents housing benefit, London & Quadrant Housing Trust undertook a pilot exercise during mid-2002.

In analysing the results London & Quadrant Housing Trust estimated that its rent arrears, which stood at £2.5m at that time, would increase to £4.5m if it were to continue paying housing benefit directly to its tenants. It also estimated that an additional transaction cost of approximately £300,000 would be created and extra staff resource would be required to pursue individual tenants in connection with their rent arrears.

The pilot found that overall tenants preferred their housing benefit to be paid directly to their landlord. Residents in both exercises stated that the benefit payment arrangement had led them to be in rent arrears.

Source: 'Lost Benefits', London and Quadrant Housing Trust, Inside Housing, (27 February 2004)<sup>viii</sup>

## 5. The National Health Service

The National Health Service (NHS) has been far from immune to the effects of the CSR; like other public sector organisations it must make savings.

### 5.1. The need for the NHS to make savings

Savings are not new to the NHS. Pre-CSR, the need for the NHS to make efficiency saving was anticipated by Sir David Nicholson, with the 'Nicholson Challenge' set out in the 2008/09 NHS Annual Report. The NHS must make efficiency savings and it is essential that greater value is extracted without reducing quality or service.

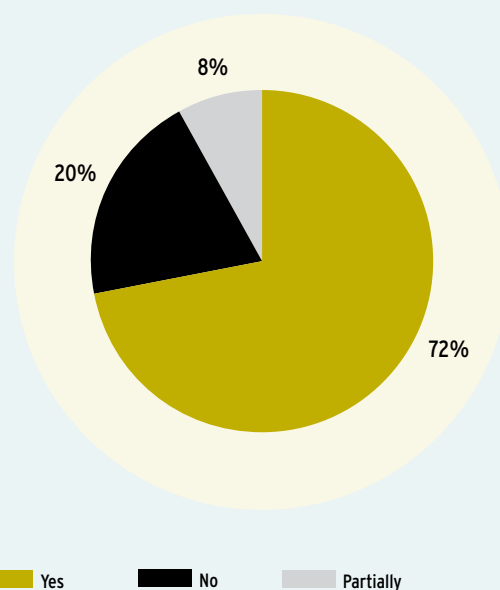
With the aim of meeting growing demand and actually improving service quality, the King's Fund has stated that the NHS has to improve its productivity by an estimated £20bn over the course of the next four years<sup>ix</sup>. Throughout the NHS as a whole, this is equivalent to a productivity gain of between 4% and 5%. Productivity is now a key focus for NHS organisations with the NHS Improvement QIPPs (Quality, Innovation, Productivity and Prevention) initiative bringing productivity to the forefront alongside quality.

The challenge for the NHS is to do more with the same resource. The Department of Health has stipulated that the NHS must make £20bn of efficiency savings by 2015. From its review of NHS Foundation Trusts' Annual Plans for 2011/12, independent regulator Monitor reported that Foundation Trusts (FTs) are planning to deliver cost improvement plans (CIPs) of 4.4%, with similar levels in 2012/13 and 2013/14<sup>x</sup>. Monitor noted that FTs have clear CIPs in place to deliver savings in 2011/12 but that maintaining this throughout the remaining two years will be a significant challenge.

Monitor stated that FTs are facing their most challenging time yet. The regulator has confirmed that operating income is expected to increase by 7.5% in 2011/12, followed by a year-on-year decline of approximately 1% per annum. CIPs show that trusts are planning to make savings through incorporating more effective and efficient working on the front line, but also by reducing administrative and associated clerical costs. The NHS must look beyond its traditional one year financial window; savings must be recurring and sustainable.

72% of NHS bodies stated that they understood the implications of the CSR. However the real challenge for NHS organisations will be achieving cost savings, without reducing service quality, while at the same time substantially restructuring as a result of the reforms contained within the Health and Social Care Bill.

**Fig 13. NHS responses:** Do you feel you fully understand the implications of the CSR for your organisation?



Source: RSM Tenon



The financial pressures facing the NHS were inevitable; the CSR has accelerated the impact rather than created those pressures. NHS bodies have a difficult path to tread, managing their finances and making savings but also ensuring any financial savings do not impact productivity or quality. In the medium term, we may well see greater consolidation of services within the NHS, with services transferring to other bodies, resulting in potential hospital closures and mergers of NHS.

Tim Merritt, Chair, Health sector group, RSM Tenon

## 5.2. The Health and Social Care Bill

The NHS White Paper 'Equality and Excellence: Liberating the NHS'<sup>xi</sup> set out the government's vision for the reorganisation of the NHS. In discussing the reforms before the Health Committee in July, Andrew Lansley noted that for most clinicians the restructure is "not an upheaval, it is an empowerment", yet the associated challenges should not be underestimated. Delivering efficiencies whilst going through major restructure is not easy; careful planning is essential.

As at October 2011, the Health and Social Care Bill had undergone its second reading in the House of Lords and is now proceeding to the committee stage. The Bill proposes significant changes to the structure of the NHS and as such has been the subject of intense and high profile debate such as the recent open letter to the House of Lords from around 400 health professionals. The letter stated: "It is our professional judgement that the Health and Social Care Bill will encode the NHS's ethical and co-operative foundations and that it will not deliver efficiency, quality, fairness or choice<sup>xii</sup>."

The NHS must look beyond its traditional one year financial window; savings must be recurring and sustainable.

Under the Bill, responsibility for budgets and commissioning care will be delegated to commissioning consortia. An autonomous NHS Commissioning Board will be created to support clinical commissioning groups in their commissioning decisions. As a result Primary Care Trusts (PCTs) will be abolished and Strategic Health Authorities (SHAs), will be replaced by the National Commissioning Board.

All trusts are expected to become Foundation Trusts, which will mean meeting the Foundation Trust authorisation criteria. A new consumer champion HealthWatch will also be established, with Local Involvement Networks (LINKs) evolving into local HealthWatch organisations.

The NHS White Paper stated that, with the aim of making efficiency savings, management costs would be reduced by more than 45% over the following four years. However, the King's Fund has argued that "there is no substantive evidence that the NHS is over-managed" and that in reality creating new bodies, such as commissioning consortia and Health and Wellbeing Boards, is likely to increase the number of management and administrative posts<sup>xiii</sup>. A survey undertaken by the Foundation Trust Network and reported in the Health Service Journal noted that NHS providers are planning to cut pay budgets by £1.9bn in 2011/12<sup>xiv</sup>. The Foundation Trust Network has reported that an average 63% of savings will come from reductions to the pay bill.

The abolition of PCTs and SHAs will in itself enable savings to be made yet the NHS reforms, by the Government's own admission, are far-reaching and challenging. Implementation will be time consuming and resource intensive and will take place at a time when the NHS is expected to make efficiency savings. The task will be great and so it is essential that NHS bodies ensure tight control over their spending.



The settlement increases overall NHS funding in real terms every year, with total increase of 0.4 per cent in real terms over the Spending Review period... The NHS will need to make efficiencies to deal with rising demand from an ageing population and the increased costs of new technology.

Spending Review October 2010, HM Treasury

## 5.3. Collaboration between the NHS and local government

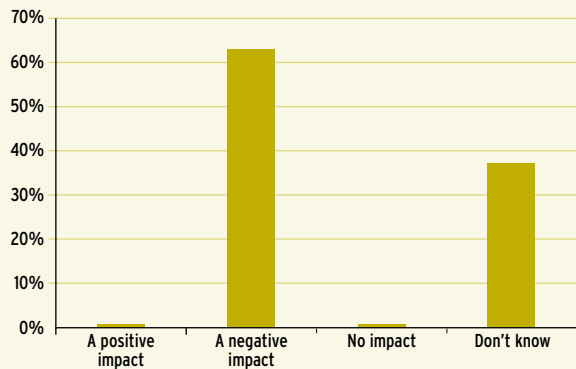
Local government plays an important role in developing the health agenda in their locality. There has for some time been a greater emphasis placed on developing effective relationships between the NHS and local government. This relationship is set to continue and will be compounded by the Health and Social Care Bill's provision to introduce statutory Health and Wellbeing Boards, which will be led by local authorities.

Health and Wellbeing Boards are currently being established and will provide a key mechanism for bringing together clinical commissioning groups, councillors and local communities to ensure both patients and the public are able to receive a more joined-up health and social care service. Local Health and Wellbeing Boards are to be established by 2013.

Under the Health and Social Care Bill responsibility for public health will be transferred to local government. The responsibility for public health is an important development for local authorities; however none of our NHS respondents thought that the transfer of responsibilities would have a positive impact on the efficiency of public health programmes. 62.5% of respondents believed that it would have a negative impact, while 37.5% were unable to determine the level of impact, indicating that there is a degree of uncertainty.

62.5% of NHS respondents believed that the transfer of responsibility for public health would have a negative impact.

**Fig 14. PCT responses:** In your opinion, will the transfer of responsibilities for public health from the NHS to local government impact the efficacy of the Public Health Programme?



Source: RSM Tenon

In light of the close working relationship between the NHS and local government, concerns have been raised about the level of service cuts being imposed by councils. These relate in particular to local government cuts to elderly care, mental health and services for vulnerable young people.

Speaking in February 2011, Dr Frank Atherton, President of the Association of Directors of Public Health, commented: "When budgets get tight there is always a risk that partnership working suffers. Local government has an important role in supporting people in the community and without that their problems get worse and the NHS has to step in<sup>v</sup>." In terms of social care particularly, local government, the NHS and the voluntary and community sector are inextricably linked and all play a key role.

The NHS, although not faced with the level of cuts given to local government, does face its own challenges. The CSR resulted in a tough settlement for health and social care. In both cases substantial efficiency savings are required in order to maintain care levels and also to improve care services. Our survey respondents state that local government funding cuts impact on the NHS to some degree.

The Secretary of State has confirmed that the Spending Review settlement would provide councils with the necessary resources to be able to sustain eligibility levels for social care. Based on the evidence submitted, the Health Committee could not agree, noting "councils will need to sustain further efficiency savings of up to 3.5% per annum to avoid reducing their levels of care, and this will not be easy<sup>vi</sup>."

The House of Commons Health Committee in its December 2010 review of public expenditure stated that the local government settlement will "inevitably impact on the provision of social care".

Under Best Value Statutory Guidance issued by the Department for Communities and Local Government, local authorities "should be responsive to the benefits and needs of voluntary and community sector organisations of all sizes (honouring the commitments set out in Local Compacts)." The Government has made its position clear: that authorities "should seek to avoid passing on disproportionate reductions<sup>vii</sup>." As such it is essential for councils to consider overall value (economic, environmental and social) when reviewing services.

Despite ministers confirming that £2bn would be invested in social care by 2015 there remains concern. Such concerns have been raised by research that shows the social care sector to be encountering particular difficulties. One example is research undertaken by Age UK who, through freedom of information requests, obtained data from 139 local authorities. Age UK noted that in 2011/12 social care net expenditure totals £791 per person over the age of 65; down from £864 in 2010/11<sup>viii</sup>.

The Learning Disability Coalition Local Authority (LDCLA) found that 20% of councils are making cuts, compared with 10% in the previous year. The LDCLA went on to note that 57% of local authorities have increased their charges for services, raised eligibility criteria or were in the process of consulting on these options<sup>ix</sup>.

One of the major changes to grant funding for social care is that those elements that had at one time been protected have now had their ring fence removed. Funding for social care is no longer protected, so who will pick up the bill? This important question must be considered as provision for social care is, of course, still imperative. Having the ring fence removed does provide councils with greater freedom to make decisions that suit their particular circumstances, but it should be borne in mind that at this time councils are juggling competing priorities coupled with reduced resource.

## 6. The voluntary and community sector

### A new reality for voluntary and community organisations?

#### 6.1. Community businesses

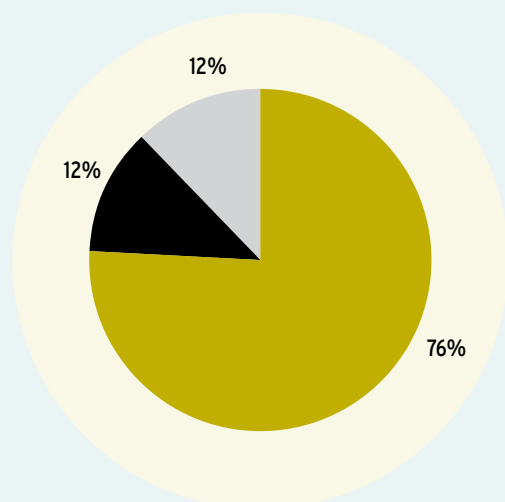
Increasingly it is possible to consider a number of different types of organisations as one new 'sector,' forming the 'third sector.' Here, we refer to voluntary organisations, formal charities and social enterprises as Community Businesses.

Community businesses form a key element of the Big Society, taking the strain from public services facing cuts, and meaning that members of the public get involved in what is best for their community.

These businesses use various models:

- Registered charities
- Social enterprises
- Community Interest Companies (CICs)
- Voluntary groups
- Mutuels and co-operatives

**Fig 15. Voluntary and community sector responses:** Do you feel you fully understand the implications of the CSR for your organisation?



■ Yes   ■ No   ■ Partially

Source: RSM Tenon

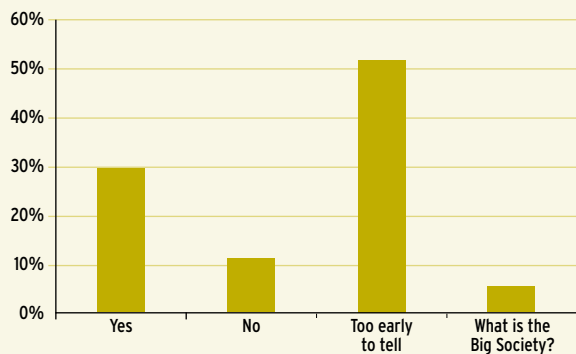
The common thread for all is that they are doing something for the good of others, or for a particular public service or need. Charities have traditionally formed two types: those that attract public donations and those that attract grants. The two are not mutually exclusive - many will receive both.

The way that those charities run will vary, with some being heavily reliant on volunteers. For the Big Society to work, charities and voluntary groups will need to continue to attract volunteers, and to be able to afford to organise those volunteers. However, it is too soon to see the Big Society really in action yet. Charities are already suffering from the impact of the financial crisis and this is being compounded by both cuts in public funding and a demand in growth from people who need or wish to access the services and help provided.

As with most other sectors, there is also residual uncertainty that will remain until Bills such as Welfare Reform and Health and Social Care are enacted, and the final details are set out. This is one of the reasons why 24% of charity respondents say they do not fully understand the implications of the CSR for their organisation.

Of the charities surveyed, 52% of respondents state that it is too early to tell if they are preparing well for Big Society opportunities, and another 12% stating they are not well prepared. This sets out the challenge for the government: if community businesses are not ready for the Big Society, is the wider society? Again, this reflects the many joined up factors that impact the sector including new legislation that is progressing through parliament.

**Fig 16. Voluntary and community sector responses:** In light of the government's available Transition Fund, do you feel that your organisation is preparing well for new Big Society opportunities?



Source: RSM Tenon

Sharon Palmer MBE, Chief Executive of Regional Action West Midlands (RAWM) has a very clear perspective on the impact on the Voluntary and Community sector. RAWM's 2009 report, *The Economic Footprint of the Voluntary and Community sector in the West Midlands*<sup>xx</sup> showed that Voluntary and Community organisations contributed £3.3bn to the economy of the region. Palmer sees the impact of the CSR as having a clear impact on the sector that is best understood when considered as:

1. The infrastructure of voluntary and community groups
2. Service delivered by those groups

Without infrastructure providing governance, direction and administration the good work offered by volunteers cannot always be fully effective. A simple example is that volunteers working with children and/or vulnerable adults must be checked through the Criminal Records Bureau. This is an important yet simple administrative office function which costs and must be done properly and thoroughly in order for the volunteers to be able to work with service users

Palmer states that for every 10 volunteers there needs to be one person who provides some form of facilitation, support or planning. While organisations faced with reduced income naturally do not want to cut front line services, cutting back on infrastructure can also impact on the ability to deliver those services.

Voluntary and Community organisations are critical to the success of the Big Society. They need to work together and with other organisations to ensure their continued existence and success.



The CSR has overlooked the impact that spending realignment has had on voluntary organisations. Councils and NHS bodies faced with saving millions of pounds may not think that a trim of £20k or £70k of a grant is unreasonable. Similarly raising the threshold for targeted help and mental health support to severe and enduring cases can be counterproductive. The assumptions made in raising the thresholds and thus withdrawing funding for lower level interventions ignore that this could be a third of income for some small charities and an intervention threshold raised increases the pressure further down on other services. So today's personal mental health struggle could become tomorrow's attempted self-harm or suicide needing higher intensity support, which of course costs more for those organisations who were trying to save money.

There is also a reluctance for some bodies to engage with service redesign due to political pressures. For example a significant cut to meet either a political master's vision or conversely to demonstrate how severe the government policy is for this area or service. Add to this the haste to implement and 2012 could see the Big Society falter as the natural providers of alternative solutions are decimated through funding realignment and changed priorities at a local level where some in the public sector see charities as competitors taking their jobs as opposed to an alternative provider with different solutions.

Is it all gloomy? Enlightened individuals and organisations are awakening to this new mixed economy and transitional funds have enabled some eligible charities with admin resource to meet the challenge and evolve. However initiatives such as the social bond exclude small charities and rely on larger organisations to come up with big schemes with clearly measurable outcomes.

It is a mixed picture for some time to come.

Allan Petchey, Director - Mind in Taunton & West Somerset

## 6.2. The financial impact for charities

For the voluntary and community sector, the last few years have been tough. Before the CSR review, many organisations were already seeing increase in demand for their services, some of which resulted from people losing their employment or homes as a knock on result of the then financial/banking crisis. In addition, as uncertainty in the economy grew, people were less likely to give to charity. In fact the National Council for Voluntary Organisations found that during the recession, giving levels fell by around 10% and have yet to recover to their previous levels<sup>xxi</sup>.

These cuts were then compounded by the cuts in funding through government (central and local). However, this does not mean that individual giving has ceased, merely that charities need to fight for their market share and are looking at how they engage with the public to ensure they continue to donate.



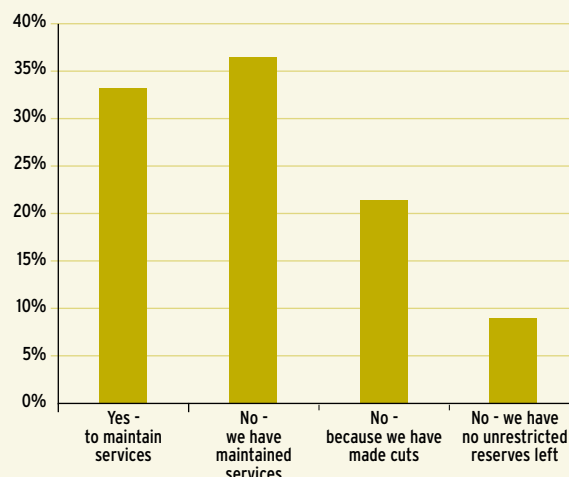
The Macmillan individual giving stream has performed well over the 2 years with income from our regular supporter base increasing each year despite a difficult economic climate.

Cancer is a mass market proposition and with numbers of people affected by cancer increasing each day we are finding there is widespread support for our unique cancer support service most famously epitomised by the Macmillan Nurses.

We are optimistic of a strong performance in individual giving over the next 12 months but are mindful of the economic climate and of the effects of the spending cuts on supporters' disposable income. Therefore we seek to broaden our product range to remain competitive and meet the needs of a changing supporter landscape.

Michael Dent, Head of Mass Market Fundraising, Macmillan Cancer Support

**Fig 17. Voluntary and community sector responses:** Is your organisation having to dip into its reserves in order to deliver services?



Source: RSM Tenon

## 6.3. Social enterprises

This is potentially a time of opportunity for businesses following the social enterprise model. For the purpose of this report, references to social enterprises include both CICs and mutuals. Social Enterprise UK, the national body for social enterprise, reported this year that 14% of all social enterprises are start-ups, less than two years old<sup>xxii</sup>.

65% of local authorities surveyed by RSM Tenon stated that they are considering transferring services to or commissioning services from social enterprises. Social enterprises could be described as the Big Society in action - creating social wealth and jobs.



Four characteristics of the commercial form of a social enterprise.

- The purpose of the organisation is service focus rather than profit
- Independent management in place
- Decision making is democratic
- Social factors weight more heavily than capital in the distribution of income

Helmut K Anheier, Non profit organisations: theory, management, policy (2005)<sup>xxiii</sup>



14% of all social enterprises are start-ups, less than two years old.

Social Enterprise UK

However, to be a start-up is a difficult and risky time as any entrepreneur will know. Many social entrepreneurs do not have the expertise to run a business. They are driven by providing a great service and giving something to their community rather than being tied up in the bureaucracy of business. In effect there is a conflict between the commerciality of running a business and the social drivers that lead social entrepreneurs to get involved. They need support to get running and to stay in business - it is a long road from having the vision to creating a trading business.

Although the government has stated that it wants to give more public sector trade to SMEs including social enterprises, there remain barriers such as having the right credentials, experience of working in the sector and backing from the banks. As noted on page 7, SMEs surveyed were not reporting a positive impact on their business from the CSR and 18% of senior SME managers see the government's funding cuts to be the greatest danger to their business, up from 13% in 2010.

MP Chris White is championing a Private Members Bill which would lead to the creation of a national strategy to promote social enterprise. This would add focus on social enterprise to the Local Government Act 2000 as well as placing a firmer requirement on those organisations that commission or procure public services to consider the potential to maximise the social, environmental and economic impact of public spend. Its intention is to strengthen the social enterprise sector and increase the importance of social value in public sector procurement.

The Greenwich Primary Care Consortium is just one of the many social enterprises that have been created in the last two years. The motives behind creating it reflect the desire for social impact that drives many social entrepreneurs. This contract could have been delivered by the private sector. Instead, the social enterprise has taken on the contract and is reinvesting surpluses in to the local community.



This is an exciting time for social entrepreneurs. They have an opportunity to step into the breach and deliver their services the way they have always wanted.

Paul Brown, Head of Social Enterprise, RSM Tenon



As a group of doctors working together in South London, we wanted to create a social enterprise as a vehicle for collaboration, to enable us all to work together to improve the health services provided to our patients. Creating our own social enterprise has given us that chance. Greenwich Primary Care Collaborative CIC is now up and running and providing high quality services, which generate revenues. From those revenues we are investing in local services, for example an education programme for clinicians across primary and secondary care.

Social enterprise has been an opportunity for us all to put something back into the local community. I see it as a big opportunity for groups of clinicians and other people to make a difference to services delivery in their locality.

Vijay Bajpai, GP and Chairman of Greenwich Primary Care consortium

### CASE STUDY 3

#### Greenwich Primary Care Consortium

Greenwich Primary Care Consortium (GPCC) is a social enterprise that began in a church hall meeting in 2009. A group of GPs got together to look at ways of improving healthcare outcomes in one of the most deprived boroughs in England. They sought a not-for-profit alternative to challenge a private provider for a new contract being offered by the local PCT.

The vision was of an organisation that would promote quality and help all share and collaborate, as a pathway to an improved service for all and a better work experience for local doctors, nurses and support people. The mission of the company was to raise the quality of primary care across Greenwich Borough and to reinvest every penny that was made.

The group developed an innovative model that included running a health centre situated near a major transport hub. The centre is open for 12 hours a day, providing services to both registered and drop-in patients. 15 jobs have been created, and health and well-being of a deprived area has been improved and the community interest company is playing a part in the regeneration of the whole area.

## 7. Preparing for the future

**Saving and surviving in uncertain times. A time for a critical look at priorities.**

### 7.1. Priorities and options

The public sector has now entered a sustained period of reduced spending; it is simply not an option to do nothing. The emphasis on obtaining and demonstrating value for money is now paramount. Organisations must look at all areas of their operations in order to ensure they are operating as efficiently as possible. Local government particularly must be proactive in its response to funding cuts and may consider procurement exercises, asset rationalisation, collaborations, consortiums, outsourcing, staff rationalisation and service cuts. However, councils are under pressure to make savings while minimising cuts to services and maintaining service quality. There is a need to make these savings as quickly as possible.

Typically we see one or more of the following at any organisation looking to make savings:

- Procurement savings
- Organisational transformation and/or restructuring
- Alternative service delivery models, including working with other organisations
- Reducing services
- Smarter and more efficient ways of working

We also see, although perhaps not as often as we would like, organisations taking a time of major change and financial pressure to revisit strategic priorities and check that these are still reasonable and relevant. Corby Learning Partnership is one such case where budget cuts have led to revisiting key objectives and outcomes, leading to a positive result for all involved.

### 7.2. Procurement savings

It is clear that organisations need to make significant and sustainable savings. There is much talk and plans for service cuts and alternative delivery models. Effective procurement should not be ignored as one route to reducing expenditure.

Savings and efficiencies are not limited to local government, albeit that sector has the largest savings to action. The NHS, working collectively towards a £20bn cost reduction, is also looking at how to reduce costs. A recent HSJ supplement looked at efficiency in the NHS, under a headline of "Exploiting the potential buying power of the NHS could make a big contribution to the £30bn savings target - without damaging frontline care or cutting staff<sup>xxiv</sup>." Working together NHS bodies can wield considerable purchasing power. This is also true for other sectors.

#### CASE STUDY 4

### Opportunity from Austerity: Corby Learning Partnership

Budget cuts by the County Council have resulted in the Corby Learning Partnership (CLP) having to seriously consider its future. The CLP is an education collaborative that was designed and created to help increase the level of educational attainment within Corby, involving all schools and colleges in the area. The work of the CLP is much needed in an area where there is a high level of socio-economic and health and welfare challenges. The termination of direct County Council funding has been compounded by Schools also considering their own budget situation. On the face of it, even the short term survivability of the CLP looked precarious.

The CLP leadership team took advantage of the situation to do something that, while risky, was necessary. They rallied the schools and took a clear line of direction from them on whether the CLP was still worth having. There was a unanimous agreement that it was worth holding on to and a general view that the activities of the CLP would be missed if it did not exist. This in itself was not a strong enough case for the CLP continuation or investment by Corby Schools. It became clear that the CLP could achieve more through collaboration with the schools to drive improvements in education across Corby.

This has now resulted in the agreement on a set of clear priority outcomes for the CLP with some very specific improvement targets and metrics. The Corby Schools have now for the first time signed up to a set of shared objectives that underpin the future operations of each individual school as part of the Collaborative. Moreover, the Schools are starting to get visibility of the outcomes that their continued investment will secure and the benefits to Corby education and families. The next stage of the CLP evolution involves revisiting the legal basis and set-up of the CLP to ensure that both the social and commercial opportunities that may present themselves in the future can be considered.

David Tristram, Chair of the CLP Leadership Group said, "The current financial situation has made us all think about what the CLP does, why it does it and what value is it adding to Corby Schools and families - we also knew that we may not like the answers! The debate has proved hugely beneficial and we are now clearer about what the CLP can achieve through the power of the collaborative, confirming its future need. The next stage will be to structure the CLP so that it can be made financially sustainable in the medium term and this will involve us also facing some difficult questions - what may have been suitable then may not be suitable now or in the future."

### 7.3. Reform or react

'Change' is a word that the public sector, and particularly local government, has become very familiar with over the last 15 years or more. Perhaps because the word has been used so enthusiastically, it no longer means as much as it should.

The government's push for public sector reform and hard savings will only be achieved through real transformation. What that transformed landscape will look like we cannot yet know.

Local authorities in particular are now in a privileged position. With cuts meaning reform and review of service provision and the Big Society and localism agenda pushing for services focused on community needs and led by those communities, local authorities have the chance to take the strategic lead at a local and community level.

Local government leadership teams may not always see the current drive for reform as an opportunity, but we believe it is and should be viewed as such. If the council leaders, either members or managers do not, then ultimately the communities they serve will suffer. Local authorities need to revisit the concepts but go beyond the old Best Value plans from 1999.

The unanswered question is: can organisations respond quickly enough to create the changes required and make the transformation expected? In five years local government will, and should, look radically different.

### 7.4. Service reduction

Determining areas where services can be reduced is often a very difficult task. Fundamentally, boards are seeking to answer:

- What statutory services must we deliver?
- What level of statutory services must we deliver?
- Which services deliver our priorities?
- Which services are under-priorities?
- Which services are over-performing?
- What can we cease to deliver or cut back on?
- What services can we get another organisation to deliver?
- What can we do differently and more efficiently?

When seeking to cut or reduce any service there are always concerns about public reaction. Many local authorities have undertaken consultation with the aim of determining those services that were deemed by the public to be less important. This is coupled with an impact analysis to understand the financial and qualitative impact of the decisions.

Organisations must understand: first, what their priorities are, and second, those areas or services where funding reductions will make the biggest impact. A key element of any service delivery is the emphasis on efficiency in particular and need for value for money has rarely been as important. The CSR allows and essentially requires the public sector to totally re-think and transform its services and how they are delivered.



## Local authorities must grasp this opportunity for change.

Matthew Humphrey, Chair, Local Government and Emergency Services sector group, RSM Tenon

### CASE STUDY 5

#### Tri-borough services

With the aim of delivering greater efficiency, in February 2011 the Chief Executives of the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council, published a consultation on tri-borough working between the three organisations.

The proposals are designed to ensure the three London boroughs work together in a way that will safeguard those services that matter most to the public. The tri-borough proposals for combined services are designed for the three organisations to make a saving of £70m over the next three years. The project seeks to:

- Reduce the number of chief executives from three to two
- Combine education and children's services
- Combine adult social care (commissioning)
- Combine library services
- Combine support functions including IT and HR
- Combine facilities management
- Combine some environmental services

The project will fundamentally change the way services will be delivered across the tri-borough partnership and will yield significant cost savings whilst sustaining the levels of service needed for the residents of those boroughs.

### 7.5. Outsourcing

Outsourcing can take many guises: the provision of services provided by the private, public or third sectors. It can also include the provision of services via a collaborative or special purpose delivery vehicle.

Regarding their plans for service delivery:

- 27% of survey respondents predict that 11-20% of their services will have been outsourced in the next three years
- 22% of authorities predict that 21-30% of their services will have been outsourced in the next three years
- 18% of authorities predict that 41% or more of their services will have been outsourced in the next three years

Services that participating authorities were planning to outsource included:

- Transactional services
- Internal audit
- Adult services
- Residential care services and home care services
- Waste management
- Facilities management
- Legal services
- Leisure services

### 7.6. Alternative service delivery

In seeking to make cost savings, many organisations are considering or actively pursuing collaboration with other organisations. This may be with public sector, community organisations and charities, social enterprises or traditional private businesses.

Collaboration is a key way in which local authorities can make savings and it is often pursued by neighbouring organisations, which have the advantage of being geographically close. This is not the case for Cheshire and Northamptonshire Police, who have initiated a project together based on their shared vision rather than close geography.

Key to any collaborative or outsourcing venture are clearly defined expectations and outcomes, underpinned by sound communication. Effective monitoring is essential, so that problems can be identified early and preventative action can be taken where necessary. As with all collaborative and outsource initiatives, key to success is the desire to make it succeed. There must be recognition that the larger savings expected will in reality only be delivered in the medium term.

RSM Tenon has found organisations that are expecting outsourcing or collaboration to deliver 35% savings in gross budget in the first year. Achieving this requires radical, immediate and fully effective change. The reality is that most organisations are not ready to take these steps so quickly. Those that are can face drops in the quality of service or information that have to be overcome while service equilibrium is re-established. In many cases collaboration may only achieve between 5% and 10% savings in the first year. In some cases costs increase at the start of the new arrangement.

The point is that alternative service delivery models can provide the efficiencies and quality improvements that many organisations need. However, these should not be expected in the short term. Given the current CSR demands, all organisations should recognise this.

### CASE STUDY 6

#### Northamptonshire Licensing Consortium

Five councils within Northamptonshire (Corby, Daventry, East Northamptonshire, Kettering and Wellingborough) combined resources and set up a centralised unit in 2004 to administer the processing of all licences under the Licensing Act 2003, Gambling Act 2005 and the Environmental Health Licensing.

The intention was to alleviate service pressures on individual councils which would have been created when new licensing legislation was introduced as well as realising economies of sharing one service. The introduction of a central administration unit also ensured that advice provided to customers was consistent.

Mike Deacon, Head of Environmental Services, East Northamptonshire Council said:

“Through the Northamptonshire Licensing partnership we are now able to build on a firm platform where resilience, capacity, consistency and customer satisfaction are still key drivers that we are able to develop whilst continuing to realise the financial benefit of working together and realising economies of scale. A model that is transferable and has the protection of ‘sovereignty’ at its core.”

### CASE STUDY 7

#### Cheshire and Northamptonshire Police: Transforming Business Services

In July 2011, Cheshire and Northamptonshire Police Authorities signed an agreement for the two forces to share a number of non-frontline services from Spring 2012.

While collaboration between constabularies is an established model, existing collaborations in place often focus on specialist elements of frontline policing services. The recent agreement between Cheshire and Northamptonshire takes this to a new level, focusing on shared ‘back office’ services delivered from one location.

Police forces are facing an unprecedented level of budget reduction; between them the two forces have budgeted for £54m of savings initially over four years. While the shared service alone will not deliver the overall savings, the intention of the shared service is to enable the forces to prioritise and protect operational policing services by making sustainable savings initially in the back office relating to HR, Procurement and Finance functions.

The two forces also share the cost of the Enterprise Resource Planning technology that will be introduced as part of the project, another benefit of working together by sharing implementation costs.

## 8. Supporting information

### References

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- viii Lost Benefits London and Quadrant, Inside Housing, (27 February 2004)
- ix The King's Fund (July 2011), 'How is the NHS performing? Quarterly monitoring report' p.3
- x Monitor Review of NHS foundation trusts' annual plans (2011/12) available at: <http://www.monitor-nhsft.gov.uk>
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- xii The Daily Telegraph 'Nearly 400 public health experts warn Lords to reject NHS reforms' [www.telegraph.co.uk](http://www.telegraph.co.uk)
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- xiv Health Service Journal (12 May 2011) Trusts reveal extent of cuts to paybill pp.4-5
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- xvii Department for Communities and Local Government (September 2011), 'Best Value Statutory Guidance', p.6
- xviii Age UK, 'Spending on older people's care to be cut by 8.4 per cent this year reveals new Age UK research' press release [www.ageuk.org.uk](http://www.ageuk.org.uk)
- xix Learning Disability Coalition Local Authority (2011) 'Social care - the continuing crisis: from the perspective of local authorities in England', p.4
- xx Regional Action West Midlands, 'The Economic Footprint of the voluntary and community sector in the West Midlands'. 2009
- xxi National Council for Voluntary Organisations, 'Counting the Cuts: the impact of spending cuts on the UK voluntary and community sector', August 2011
- xxii Social Enterprise UK, 'Fightback Britain, Findings from the State of Social Enterprise Survey', 2011
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- xxiv Health Service Journal, Efficiency Supplement, 29 September 2011

### Further reading

Copies of Acts and Bills along with information on their progression through the House of Commons and House of Lords is available at [www.parliament.uk](http://www.parliament.uk)

Other RSM Tenon papers and information are available at [www.rsmtenon.com](http://www.rsmtenon.com). We draw your attention particularly to the following two articles:

- 'Back to the future for public services': [www.rsmtenon.com/backtothefuture](http://www.rsmtenon.com/backtothefuture)
- 'GPCC case study': [www.rsmtenon.com/gpcc](http://www.rsmtenon.com/gpcc)

### RSM Tenon survey data

Our results are based on data from various surveys:

- YouGov poll (in collaboration with RSM Tenon) - 247 respondents
- RSM Tenon surveys (undertaken across four sectors) - 137 respondents

### About us

RSM Tenon is the largest provider of risk management services to the UK public sector, with over 650 clients across the Health, Education, Housing and Local Government sectors as well as government departments and agencies. We deliver a wide variety of specialist services to the public and not-for-profit sectors, including financial management, debt recovery, taxation and risk management services.

We are the UK's 7th largest accounting and professional services firm and the UK member firm of RSM International, the 6th largest global network of independently owned and managed professional services firms. The network includes over 32,500 people working in more than 700 offices in more than 80 countries worldwide.



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