

An overview of policy, spending and public service markets

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It is a time of change, uncertainty and opportunity for organisations that provide services to the public sector. In this paper we identify the latest trends in UK policymaking and assess the general direction of travel in public service markets.

- A new coalition government, a large structural deficit and major cuts in public spending indicate a period of significant change in policy and public service provision. The ‘emergency’ Budget of 22nd June set unprecedented targets to reduce the UK’s fiscal deficit from £149bn in 2010 to £20bn in 2015. The government aims to achieve around 80% through cuts to spending and benefits. Domestically, political attention will focus on schools, welfare and the economy. Health and the public sector workforce are also on the agenda.
- Chancellor George Osborne has repeatedly stated an intention to protect frontline public services and many senior ministers are keen that the government is seen to balance economic recovery, fiscal prudence and social justice.¹ As such, a proportion of savings will be sought through cutting bureaucracy, expensive IT projects and what are perceived as costly Labour government initiatives. But cuts to a number of programmes are inevitable.
- In order to tackle the deficit effectively, delivery methods, partners and the results that services achieve are all coming under scrutiny, with a new Efficiency and Reform Group “at the heart of government” that will “support departments to deliver savings in specific areas, including renegotiating contracts, maximising collective buying power and using benchmarking to improve performance.”²
- While there is a commitment to protect the frontline, public services across the board are being streamlined, with government keen to see delivery made efficient and cost effective. This means that the public sector and local authorities will have to think more creatively about service delivery and attempt to engage more positively with the private and voluntary sectors. Practically, however, the squeeze on budgets and funding may test further development of these relationships.
- Centrally only health and international development will have budgets protected. Education and defence will be hit less than other departments, which can expect spending to fall by 25-35% by 2014/15. Net capital spending is planned to fall from £49bn to £21bn by 2014, with strict criteria on economic impact. Economists disagree on how a sharp reduction in government spending will affect recovery. A Spending Review from July to October 2010 will establish departmental budgets and priority initiatives for the next four years. However, a coalition split and another general election cannot be ruled out, which may affect priorities.

¹ George Osborne Speech, *Making £6.2bn savings*, 24th May 2010, http://www.hm-treasury.gov.uk/press_05_10.htm

² George Osborne, Queen’s Speech Economy Debate, 8th June 2010, http://www.hm-treasury.gov.uk/speech_chx_080610.htm

- In England, the direction of policy travel presents medium to long-term potential for providers of public services. Choice, competition and personalisation (or ‘people power’) will remain the themes in shaping public services up to 2015. Conservatives want long-term, structural reforms to key services. Ministers aim to roll back direct state provision, devolve power to individuals and communities, and enable the private and voluntary sector to step in. This fits with the ‘Big Society’ initiative. Senior Liberal Democrats agree.
- Private and voluntary providers now deliver more than a third of public services, a market valued at £80bn in 2008.³ Commentators expect outsourcing to the public service market to grow, even as government spending falls.⁴ Education has seen comparatively less outsourcing to private providers than areas such as health, social care and welfare.⁵ To date much of what has been contracted-out in education involved vocational and adult training. Government’s plans for academies and free schools aim to challenge that settlement.
- The policy and spending agenda also poses short-term risks to providers. The emphasis is efficiency and value for money. In some policy areas this will drive innovation, reform and shared-services; but straightforward cuts are likely for less popular services out of the media spotlight. Departments are renegotiating existing contracts with large suppliers. Downward pressure on budgets - especially at local level - will lead to a tougher commissioning environment, and less ring-fencing.
- There is an increasing emphasis on payment-by-results as a means of ensuring excellent outcomes and value for money. In the Big Society paper, the Conservative Party outlines a new vision for public service delivery: “we have developed a detailed framework for opening up public services to new suppliers, and improving accountability and value for money through techniques like payment-by-results, competitive tendering, publishing performance information, and giving people the opportunity to choose between competing providers.”⁶
- This signals a positive shift for private companies operating in the public sphere. However, the primary challenge will come from the voluntary sector and social enterprises, which the Conservative party in particular considers an arm of service delivery that needs to be developed and fits with rhetoric on the Big Society. None the less, while third sector organisations are credited with being able to reach service users better than the state, especially in deprived areas, there are major doubts over their ability to raise the upfront investment required to finance payment-by-results or significantly grow provision.

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³ Julius Review <http://www.berr.gov.uk/files/file46965.pdf>

⁴ ‘Outsourcing move reopens old wound’, *Financial Times* 28th July 2010

⁵ Oxford Economics <http://www.oef.com/>

⁶ Conservative Party, *Big Society Paper*, <http://www.conservatives.com/~media/Files/Downloadable%20Files/Building-a-Big-Society.ashx?dl=true>