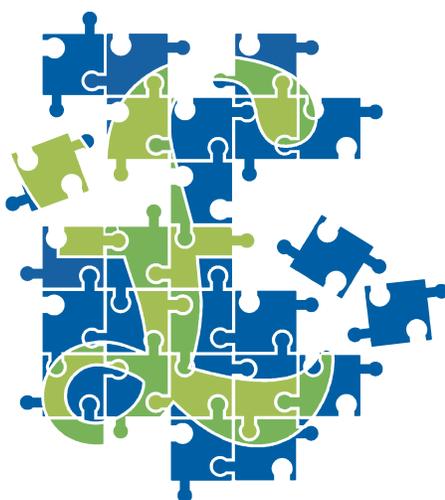


States of Jersey  
States Assembly



États de Jersey  
Assemblée des États

# Corporate Services Scrutiny Panel



## Comprehensive Spending Review: 2012 – 2013 and Delivery

Presented to the States on 4th November 2011

S.R.14/2011



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## 1. CHAIRMAN'S FOREWORD

When this iteration of savings in States expenditure was launched, we were promised something slightly different. Not just limiting expenditure by £65 million, but an in-depth, detailed analysis of what we do, and whether it could be done in a different way.

Effectively, it should be about identifying our core and non-core services. The diagram on page 18 of our report encapsulates the promises that were held out to us, as States Members, and to the public. The promised savings would go hand in hand with the necessary tax rises, the combined result being sufficient to bring us out of a projected deficit position by 2013.

Our conclusions as to the actual outcome of these undertakings are mixed, and we remain extremely concerned at the continued level of States expenditure, particularly in these constrained and uncertain economic times.

To start, we have been asking a very simple and direct question: "Where is the vision? "

The Corporate Services Panel has been asking this question for the last 3 years. Our findings are that if there is a vision, in the words of the Chief Minister, it is "cloudy".

Without a vision and the whole hearted take-up of business transformation, the current Comprehensive Spending Review (CSR) process is merely an attempt to balance the books. The Island deserves better than this.

The process has not been helped by the fact that there is a distinct lack of congruence of the perceived CSR objectives between the Chief Minister and the Minister for Treasury and Resources. The Treasury Minister viewed the CSR process as driving the changes required by the States machine whereas the Chief Minister saw it as part of an overall Integrated Business Improvement Programme and agreed that the vision was a little "cloudy".

Concentrating on the numbers alone will not produce the culture changes which are essential to the States machine. This is reflected in the relative importance attached to the cross cutting issues. As the Comptroller and Auditor General said in 2008<sup>1</sup>, the big prizes are the cross cutting issues, Procurement, Property, Human Resources and Information Technology. It was not apparent that the same importance has been given to these areas as we would have expected.

We do acknowledge that the CSR supervisory team have operated efficiently and have made a valiant attempt to keep the CSR process on track. However, from the evidence we have received, this is not sufficient to effect a meaningful business transformation. The team would seem to have fulfilled more of an administrative function, rather than driving the business transformation culture.

There must be a determined and dedicated high powered team in order to drive this transformation, as in the Birmingham experience, and a realistic time frame must be set. Two and a half years is insufficient – it is a five to ten year timeframe.

We have received recent updates on the CSR programme which we cannot discuss in detail due to the confidentiality restrictions. However, since we have not received the necessary details, it is difficult to make any meaningful comments. The summary appears to confirm that the process is on target to meet the £65 million savings. Unless there have been significant improvements since March 2011, plus compensation somewhere for the loss of some £7 million savings at

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<sup>1</sup> Emerging Issues Comptroller and Auditor General, May 2008

Education, we would be surprised to see the total savings of £65 million being attained. In reality we do not think that the promised savings will be totally achieved.

The budget anticipates a 20% increase in Income Tax receipts in the period 2011 – 2014, and on that basis the forecast deficit/surplus reduces from a deficit of £(66m) for 2011 to a surplus of £6m and then £9m for 2013 and 2014. A 2% variation in income tax receipts (downwards) would be sufficient to wipe out any projected surplus. Equally, it is not clear as to what extent the Budget estimates incorporate the purported savings. If those savings have been included in the Budget then, as the Fiscal Policy Panel observed, the results are extremely tight and leave very little room for error.

We do recognise that progress has been made, and indeed some of the smaller Departments appear to be on track to achieve all of their savings. However, the next Council of Ministers will face continued and significant challenges in the area of controlling expenditure.

Amongst these, Business Transformation and Cultural Change have to be one of the key priorities of the new Council, in order to break down the increasing ‘silo’ mentality that we (as States Members) often see in our dealings with Departments. The rewards are great and the downsides of NOT achieving change are too important to contemplate.

In conclusion, we feel that whilst the CSR programme has achieved some progress, it has not achieved what was originally held out when it commenced. There has not been a clear vision, and there appears to have been a lack of understanding or priority attributed to the cross cutting issues. This must not occur again if we are to have a chance of achieving a States which is both effective and provides genuine value for money.



Senator S. C. Ferguson  
Chairman – Corporate Services Scrutiny Panel

## 2. EXECUTIVE SUMMARY

A Comprehensive Spending Review (CSR) was initiated in 2010, and proposals were put forward to save 2% in 2011, 3% in 2012 and 5% in 2013. Having reviewed the first part of the CSR, we have now investigated proposals for the subsequent years and highlighted a number of issues.

We have found that there is no clear vision for the Island or what the role of government and the States is. The Council of Ministers is not inspired to create a clear vision for Jersey's future, and the main drive is that books should balance. It is our view that, once a clear vision has been developed, Ministers will know in what direction to take their Department and can develop clear strategies to develop this.

We have highlighted that only some Departments have defined their core and non-core services. We believe that it is imperative for all Departments to revisit what is core and what is non-core because not defining these could prevent more radical approaches being developed.

The Red-Amber-Green reporting enabled us to compare and contrast the progress being made in different Departments. We have found that some Departments are doing better than others regarding making their savings. Furthermore, some have rated nearly their entire CSR three year programme as green; therefore it is clear that they are confident in achieving their savings targets.

Whilst it was pleasing to see that some Departments are looking beyond 2013, others are only concentrating their efforts on 2011, 2012 and 2013. In order for fundamental change, all Departments should be looking beyond 2013.

Allowing frontline staff to suggest savings through their managers is an approach that improves services and is an integral part of business transformation. There was insufficient evidence that Managers are working "with" their staff in order to make significant cultural changes. The command and control philosophy still seems to permeate the States' system.

We conclude this report by explaining that, from the evidence presented to us, Departments fall into two camps. Some Departments recognise that the objective of the CSR is about saving 10% but also about fundamentally questioning what they do and how they do it. Other Departments, however, acknowledge the financial aims of the CSR but are still in the old model of evolutionary change. This is not surprising when the Minister for Treasury and Resources and the Chief Minister have very different perceptions as to what the objectives of the CSR Programme are and whether or not this includes defining and shaping the role of government in the future.

We have also concluded that there has been insufficient emphasis on the importance of transformation issues. Our expert witness, Professor John Seddon gave evidence of how to transform services through understanding the customer and the demand for the service. He explained that elsewhere in the UK, local governments are achieving savings in the order of 20% to 40% through transformation initiatives.

In summary, we are in unprecedented economic times and there must, therefore, be a greater obligation than ever before to ensure that the States provides value for money in the services it provides and is seen to be doing so. Where services are "non-core" they must be re-evaluated. Accordingly, whilst the present CSR has made progress, it has yet (and is unlikely) to fulfil the promises made at the outset. This will have to be addressed by the next Council of Ministers with greater vigour than ever before.

### 3. KEY FINDINGS AND RECOMMENDATIONS

#### 3.1 Key Findings

1. There is no vision between the two key Ministers. There is confusion about the objectives, scope and role of the CSR Programme and what is within the scope of other initiatives. The Treasury and Resources Minister viewed CSR as a programme that was re-defining the shape of the States – what it did and how it did it. It was all encompassing. However, in contrast the Chief Minister saw the CSR essentially focused upon achieving £65 million short-term savings within the 3 year period.

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2. Defining Core Services has only happened in some Departments and not in the context of an overall vision and definition of the role of government in Jersey, despite the initial assurance that it would occur. Even within a “core service” there will be elements of non-core activities which must be identified, costed, and appropriate strategies developed. Soft market testing with private and third sector organisations are an effective way to develop a challenge to the existing services model.

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3. The Programme Management Office would appear to be effective in managing the CSR Programme, but the Panel questions the value it is offering in providing capability to help Departments really transform.

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4. The lack of congruence between the vision of the Chief Minister and Minister for Treasury and Resources has contributed to the absence of a clear Business Transformation Programme. The qualities required to run the CSR programme are not the same to those required to run a Business Transformation Programme.

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5. Some Departments are doing better than others regarding making their savings. Some Departments have rated nearly their entire CSR three year programme as green; therefore, they are confident in achieving their savings targets. However, we also note that in March 2011, 54% of the overall total was defined as red. We would therefore question the likelihood of the CSR achieving its overall target by the end of 2013.

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6. The average total compensation package for the public sector now significantly exceeds the equivalent for the private sector.

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7. The review of Staff Terms & Conditions is one of the most critical indicators to the CSR Programme’s success and there are significant risks attached to the realisation of this saving.

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8. It appears that the biggest spending Departments are unlikely to achieve their targets which will endanger the success of the CSR programme objectives.

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9. We have found examples of Good Practice that should be shared more widely amongst Departments.

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10. The evolution of the public service is an ongoing process. In some Departments, the priority has been to make savings until 2013, with no vision for 2014 and beyond.

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11. Ministers need to acknowledge the importance of Cross Cutting Initiatives. Cross cutting initiatives are fundamental to the CSR process. The Panel believe that there is insufficient evidence of resources being allocated to allow for significant cross cutting savings to be initiated.

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12. Although frontline staff are able to suggest savings through their managers, the Panel has found insufficient evidence that Managers are working “with” their staff in order to make significant cultural changes. The command and control philosophy still permeates the States’ system.

### **3.2 Recommendations**

1. The Panel recommend that the CSR Programme, as a matter of urgency, clarifies the objectives, scope and role of the Programme. It is also recommended that this is within the context of a wider discussion to determine the vision for the Island and the role of government. To this aim the Panel recommend that there should be a public debate, led by Executive politicians about the role of the States.

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2. A clear statement must be produced from the Council of Ministers on the direction they intend to take the Island, and a vision for the level of government expenditure and priority areas for that expenditure.

This vision may relate to the provision of the most effective public services in Europe as a catalyst to attract further inward investment. Such a vision could clearly be a mechanism to stop the benchmarking of practice in mainland UK (often to find reasons not to change) and make Jersey the ultimate benchmark.

It would also reinforce the concept of CSR being with the States for life not just three years.

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3. The Panel recommends that it is imperative for all Departments to once again revisit what are the Core Services to their Department - which services are no longer required and which services are mandatory or political necessities. Also if they are required, who is best to deliver them – the Department, another Department, the private sector, or the third sector. There should be no areas that are not open to challenge.

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4. Councils such as Birmingham City Council (appendix C) have properly constituted, high level teams with political ownership and Directors of the main cross cutting services (Human Resources, Information Technology, Property and Procurement).

In order to take Business Transformation forward, there needs to be a high level team within the States of Jersey taking ownership with effective political leadership.

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5. The CSR Programme must ensure that there is complete consistency on the application of Red Amber Green reporting status definitions.

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6. The easy solution would be to freeze the public sectors wages bill. Evidence has shown that there is an emphasis on “catch up” once the freeze is lifted and the net effect is counter productive.

The importance of the terms and conditions revision cannot be stressed too strongly. This is the most difficult area of the CSR to accomplish and it is likely to take some time. It is, however, crucial and it is essential that adequate resources are devoted to this area and that the implementation plan is fast tracked to delivery significant and long-lasting changes to terms and conditions.

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7. Any failure in the Review of Staff Terms and Conditions has the potential to de-rail the entire CSR Programme. There is significant evidence that this can be the case from the UK Mainland where some authorities have not been managed such reviews effectively resulting in all other initiatives being put on hold for several months. We would recommend that this is considered as one of the main priorities and appropriate resources in terms of engagement as well as programme management is invested into this area.

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8. It is essential that changes in services are monitored to ensure that alternative methods of delivery of services do deliver the savings.

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9. The Panel recommends that each major element of the CSR programme must have a developed contingency plan in the event of non-delivery of their savings target.

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10. Departments must continue to evolve their services and evolve their thinking in order to make savings in future years and become more efficient. Departments should be planning to make further efficiency savings in 2014, 2015, and 2016 and beyond. There needs to be a cultural challenge to enable continuous challenge and improvement.

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11. The approach to improving services is an integral part of business transformation. Whilst a leadership programme should be commissioned to develop and coach senior managers to be able to think laterally and deliver services in a more effective way, there must be a change of culture throughout the States.

## 4. INTRODUCTION

By 2013, it is estimated that the States will be spending £50m per year more than it earns because of a drop in tax receipts and a fall in investment income. As a result, a Comprehensive Spending Review (hereafter known as “CSR”) was initiated in 2010.

We reviewed the first part of the CSR when Departments put forward proposals to save 2% of expenditure which were agreed by the Council of Ministers in May 2010. These proposals were approved and formed part of the 2011 Business Plan which was debated in September 2010.

The CSR is now in its second stage and Departments are working towards delivering 3% savings in 2012 and a further 5% savings in 2013. The 2011 Budget was approved in December 2010, which incorporated spending limits for 2012 and 2013. Proposals will now be subject to further analysis by Departments before forming part of the Business Plans for 2012 and 2013.

A CSR Programme Team is coordinating the drive by Departments to implement the agreed savings. During our first review we were concerned that some Ministers would fail to produce the 2% of savings. We have therefore explored whether clear and thorough delivery and implementation plans have been established if the overall 10% is to be saved by 2013.

### 4.1 *Terms of Reference*

We established the following Terms of Reference for our review:

1. To examine how the CSR proposals will be implemented and assess whether there are rigorous delivery and implementation plans. In particular:
  - Achieving sustainable efficiency savings
  - Business transformation
  - Cultural change in terms of business performance
2. To assess whether the savings will adversely affect the delivery of public services with particular reference to:
  - Identification of core and non-core functions
3. To examine whether there is a long term plan to ensure that spending balances appropriately with taxes on an ongoing basis.
4. To consider whether the stated objectives of the CSR programme have been met.
5. To examine any further issues relating to the topic that may arise in the course of the Scrutiny review that the Panel considers relevant.

### 4.2 *Panel Membership*

The Corporate Services Scrutiny Panel constitutes the following members:

Senator S.C. Ferguson, Chairman;  
Deputy J.A.N. Le Fondré, Vice-Chairman;  
Senator J.L. Perchard;  
Deputy D.J. De Sousa

### **4.3 Expert Advice**

For the purposes of the review, we engaged two advisors:

- Mr Neil McLocklin of Capita Symonds: Director of Business Transformation and Innovation. Qualifications include Masters in Telecommunications Business, University College London and Masters in Business Administration, City University Business School. Mr McLocklin's report can be found in "**Appendix A**".
- Professor Michael J. Oliver: Associate of Lombard Street Research and Professor of Economics at ESC Rennes School of Business in France. Professor Oliver's report can be found in "**Appendix B**".

We also held a Public Hearing with Professor John Seddon, a British occupational psychologist who specialises in service industry reform. He is lead consultant of Vanguard, a consultancy company he formed in 1985.

## 5. BACKGROUND INFORMATION

### 5.1 CSR: Part one

During early 2010, the Council of Ministers started to review spending forecasts and considered how to deal with projected deficits. All Ministers agreed that States spending would need to be controlled to guard against future structural deficits. The CSR provided for 2% of savings for 2011, 3% in 2012 and 5% in 2013, which brings the total to an overall 10% worth of savings.

The CSR was designed to deliver three major challenges, which required:

- a review of those services which are essential or highly desirable
- a determination to deliver services efficiently
- a wider implementation of user pays principles

In 2010, there were four major reviews looking at Terms and Conditions of Employment; Court and Case Costs; Education Sport and Culture; and Home Affairs. States Departments started reviewing their activities and budgets as part of the CSR. The initial savings proposals for the first 2% were submitted in April 2010. Initially, £50m (10% of budget) worth of savings were sought from the 2011-2013 Business Plans, but this has since risen to £65m.

The proposals for £65 million of savings by 2013 are made up as follows<sup>2</sup>:

	<b>£m</b>
2011 Department savings	12.0
2012/13 Department savings	30.4
2011/12/13 User Pays	2.2
2012/13 Corporate Savings	6.5
2012/13 Staff Terms and Conditions	14.0
<b>Total Savings by 2013</b>	<b>65.1</b>

Since the CSR began, it is true that £12 million has been saved in 2011. The remaining £53 million are intended to come out of budgets in 2012 and 2013. However, against this background it should be noted that overall expenditure levels continue to grow in absolute terms

### 5.2 Objectives of the CSR

In summary, the objectives of the CSR have been to:

- control States spending by setting tough but achievable savings targets and realistic growth proposals;
- improve financial management across the States by ensuring incentives are built into the budgeting system to encourage improved decision making;
- extend the States planning horizon so that clear three-year plans are made and adhered to;
- bring greater transparency to financial planning and provide more complete cost information for decision making; and

<sup>2</sup> Budget Statement 2011 and Expenditure Proposals for 2012 and 2013, page 35

- deliver better value for money and good management of assets and investments.<sup>3</sup>

### 5.3 Resources to Support the CSR

The 2011 Business Plan included a Restructuring Provision of £6 million to support the CSR process. This provision aimed to provide funding for “invest to save” initiatives, which included longer term savings (voluntary redundancy) as well as central support to assist Departments in delivering their savings.

A Ministerial Decision was made on the 31st January 2011 by the Minister for Treasury and Resources which approved a budget provision of £2,455,000 to deliver the CSR proposals funded from the Treasury and Resources Restructuring Provision. The £2,455,000 can be broken down as follows<sup>4</sup>:

	£'000
(a) Programme Office	410
(b) Organisational Development / Change Lead	200
(c) Employee Relations Support	100
(d) Procurement Transformation Programme:	
• Ongoing funding of procurement team, systems, training to deliver savings target	1,300
• Invest to save bid to deliver H&SS 2011 procurement savings	365
(e) Actuarial Review of the PECRS Scheme	80
TOTAL	2,455

Since the first part of the CSR, and following the Ministerial Decision outlined above, there have been five developments<sup>5</sup>:

#### Programme Office

*“A central Programme Office has been established to ensure the project is effectively planned, managed and monitored. Regular reports are prepared for the Programme Board<sup>6</sup>, the Political Steering Group<sup>7</sup> and the Council of Ministers. The team comprises the CSR Programme Director, a CSR Project Manager and Programme Office Support, as well as a Communications Manager seconded from the Communications Unit, to co-ordinate all internal and external communications relating to both CSR and the Fiscal Strategy Review (FSR)<sup>8</sup>.”*

#### Organisational Development / Change Lead

*“An interim appointment has been made to assist and support the scale of change necessary within the organisation over 2011, 2012 and 2013. The interim appointment has the current job title 'Director of Human Resources - Strategy and Change'. However, from 3rd October 2011*

<sup>3</sup> Budget Statement 2011 and Expenditure Proposals for 2012 and 2013, page 31

<sup>4</sup> Ministerial Decision, “Comprehensive Spending Review: Allocation of restructuring provision” (MD-TR-2011-0010), 31st January 2011

<sup>5</sup> Ministerial Decision, “Comprehensive Spending Review: Allocation of restructuring provision” (MD-TR-2011-0010), 31st January 2011

<sup>6</sup> Which comprises the Acting Chief Executive, the Treasurer, the Chief Officer of the Economic Development Department, the Director of Human Resources or a representative, the CSR Programme Director and the CSR Communications Manager

<sup>7</sup> Which constitutes the Chief Minister, the Minister for Treasury and Resources and the Assistant Minister for Treasury and Resources, Connétable Refault

<sup>8</sup> Ministerial Decision, “Comprehensive Spending Review: Allocation of restructuring provision” (MD-TR-2011-0010), 31st January 2011

when the newly appointed Director of HR is in post, the job title will change to HR Project Manager<sup>9</sup>.”

### **Employee Relations Support**

“A member of staff (whose job title is Senior Employee Relations Manager) with relevant Employee Relations experience has been seconded from the Health and Social Services Department into Human Resources (cost in 2011 is £100,000). The rationale behind this development is that the CSR proposals indicate that there will be significant impact on staff if the savings are to be achieved. This is unsurprising given the fact that staff make up over half of the States expenditure. In addition to the £14 million target for Terms and Conditions, there are many Departmental proposals which affect staff<sup>10</sup>.”

### **Procurement Transformation Programme**

“The Procurement Strategy to deliver savings of £6.5 million was supported by the States during the debate in July 2010 for funding under Article 11(8) of the Public Finances (Jersey) Law 2005. This effectively brought forward £500,000 of the 2011 estimated cost of £1.8 million into 2010<sup>11</sup>.”

### **Actuarial Review of the PECRS Scheme – Tribal review Terms and Conditions**

“A CSR target of £14 million has been agreed by amending terms and conditions of all States employees following a review undertaken by Tribal. Based on the recommendations from Tribal, who proposed that the employer should carry out its own actuarial review, a Steering Group<sup>12</sup> on Terms and Conditions of employment made a number of recommendations in relation to pensions. The cost of this actuarial review, following a tender exercise, was £80,000 and the States Employment Board agreed that the review was undertaken<sup>13</sup>.”

## **5.4 Past Scrutiny**

During our first review of the CSR we made the following observations:

- The Island was being pushed towards a high tax, high spend government;
- The 2% savings should have been sustainable and an integral part of the overall 10%;
- Due to the tight timeline of the CSR, a strategic approach to achieving savings had not been possible in many cases;
- There was a lack of vision and drive necessary to instigate cultural change from a political level;
- The 2% savings should have been “business as usual”;

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<sup>9</sup> Ministerial Decision, “Comprehensive Spending Review: Allocation of restructuring provision” (MD-TR-2011-0010), 31st January 2011

<sup>10</sup> Ministerial Decision, “Comprehensive Spending Review: Allocation of restructuring provision” (MD-TR-2011-0010), 31st January 2011

<sup>11</sup> Ministerial Decision, “Comprehensive Spending Review: Allocation of restructuring provision” (MD-TR-2011-0010), 31st January 2011

<sup>12</sup> Which constitutes the Acting Chief Executive, Director of Human Resources, Chief Officer of Transport and Technical Services, Chief Officer of Social Security, Chief Officer of Health and Social Services, Chief Officer of Home Affairs, Director of Education, Sport and Culture, and the Assistant Treasurer

<sup>13</sup> Ministerial Decision, “Comprehensive Spending Review: Allocation of restructuring provision” (MD-TR-2011-0010), 31st January 2011

- The failure to match income and expenditure has consequences for the people of Jersey, but the consequences of failure of Ministers to provide the necessary savings was unclear.

We concluded our report by agreeing that making savings across all Departments are never going to be popular, but they are necessary in order to balance out income and expenditure. Despite any criticism as to how the CSR is delivered, Jersey is in a structural deficit and spending needs to be brought back in control.

## 6. What is the vision?

The Panel's previous report questioned what the Minister's vision of the Island was, and in this context what was the role of government and the States. It was our view that the Council of Ministers was not inspired to create a clear vision for Jersey's future, and the main drive was that books should balance. There was little evidence found by the Panel that Ministers were working towards a coherent future.

During this review, we saw little evidence of any change from our previous misgivings about a clear vision and shared understanding of the role of the States in the future. Indeed, this seemed most prevalent during the Hearings with the Chief Minister and the Minister for Treasury and Resources, as both had very different opinions as to what the objectives of the CSR Programme were and whether or not this included defining and shaping the role of government in the future.

The Minister for Treasury and Resources said that the CSR is a never-ending process and one that does not end in 2013. He said *"we are trying to change the culture in the States to one of continual improvement and continued efficiency drives so there will be a C.S.R. 2, 3, 4"<sup>14</sup>.*

However, the Chief Minister said that the performance of the public sector is going to be improved by the long-term business transformation activities rather than the actual CSR process. It was obvious to us that the Chief Minister sees the CSR and transformation separately. He also said that the overall change in the approach is going to be beneficial, but he would not link it purely to the CSR: *"I think this is where we get this danger of trying to think of the C.S.R. as the overall umbrella; to me it is not, it is just one of 2 important areas"<sup>15</sup>.*

Thus there are two very different perceptions of the scope and objectives of the CSR between the Chief Minister and Minister for Treasury and Resources. The Chief Minister also said when asked about the vision for the Island and the role of government *"I do not think at the moment it is sufficiently well articulated. There is a vision but it is still rather cloudy I would say at this stage"<sup>16</sup>.* If there is no coherency, we cannot help but wonder where that leaves other Ministers.

The Panel also questioned all Ministers about the relationship between the Integrated Business Improvement Programme (IBIP) and CSR. Other than the Chief Minister, it appeared that they had not made the connection between the two, or even were aware of the IBIP<sup>17</sup>.

### **KEY FINDING ONE:**

There is no vision between the two key Ministers. There is confusion about the objectives, scope and role of the CSR Programme and what is within the scope of other initiatives. The Treasury and Resources Minister viewed CSR as a programme that was re-defining the shape of the States – what it did and how it did it. It was all encompassing. However, in contrast the Chief Minister saw the CSR essentially focused upon achieving £65 million short-term savings within the 3 year period.

<sup>14</sup> Public Hearing with the Minister for Treasury and Resources, 13th June 2011, page 11

<sup>15</sup> Public Hearing with the Chief Minister, 27th July 2011, page 74

<sup>16</sup> Public Hearing with the Chief Minister, 27th July 2011, page 51

<sup>17</sup> Introduced in January 2010

**RECOMMENDATION ONE:**

*The Panel recommend that the CSR Programme, as a matter of urgency, clarifies the objectives, scope and role of the Programme. It is also recommended that this is within the context of a wider discussion to determine the vision for the Island and the role of government. To this aim the Panel recommend that there should be a public debate, led by Executive politicians about the role of the States.*

In his report, our advisor, Mr Neil McLocklin says: *“The States of Jersey is in a relatively strong financial position compared with public sector agencies in the UK and elsewhere in Europe. There is a desire to address a structural deficit, and balance the books, but not a compelling reason for change. A political drive to be ‘Low Tax, Low Spend’ would not appear to manifest itself into an operational philosophy - for example in the way that London Borough of Barnet’s ‘Easy Council’ (no thrills Easy Jet model) operates, or Essex Works – the Vision for Essex County Council which is to create the best quality of life in England, but on a foundation of developing a purely commissioning based organisation working with private and third sector organisations, and realising £300m of efficiency savings. A commissioning based organisation for Essex County Council will result in the government only having 20-25% of existing staff, with other agencies responsible for delivery.”*

We came to the same conclusion about vision in our August 2010 Report:

*“For the CSR to succeed the Council of Ministers and the Assembly must demonstrate strategic thinking and more imagination. So far, there is little evidence of such lateral thinking. It is essential that we identify the activities where government must be involved, the activities best done by the private sector and those best left to the individual.”*

Our previous review challenged Ministers about what the vision was and nobody was able to articulate it. There was some consensus about what the States wanted to leave behind (silo working, inefficient work practices) but not where it wanted to get to and what the organisation would look like in five years time. Without a vision it is difficult for Ministers and Departments to prioritise options for change and associated expenditure and investment for the CSR and service strategies beyond. Once the vision has been developed, Ministers will know in what direction to take the Departments and can develop a Strategy that will deliver this.

Our advisor, Mr Neil McLocklin said in his report (appendix A): *“given the fact that the States has control of all the levers of government servicing a relatively small community, there is an opportunity to develop a real showcase for government and public service delivery. The States is more akin to the Swiss canton model, where local State government is also responsible for health, education, law enforcement and so on, for areas with populations, in many cases, of similar size to Jersey. Joined up thinking at the local level to deliver the prevention agenda in health, for example, could create a really effective public service that could reinforce the appeal of the Island in attracting business”.*

**RECOMMENDATION TWO:**

*A clear statement must be produced from the Council of Ministers on the direction they intend to take the Island, and a vision for the level of government expenditure and priority areas for that expenditure.*

*This vision may relate to the provision of the most effective public services in Europe as a catalyst to attract further inward investment. Such a vision could clearly be a mechanism to stop the benchmarking of practice in mainland UK (often to find reasons not to change) and make Jersey the ultimate benchmark.*

*It would also reinforce the concept of CSR being with the States for life not just three years.*

## 6.1 Core and Non-Core Services

We asked every Minister whether they had identified their core and non-core services, as it is our view that if a Department knows what their core services are, the non-core services could be outsourced to third parties, or ceased entirely, thereby making savings. This sentiment was also shared by the Minister for Treasury and Resources who said *“...the public sector can be efficient. It can be incredibly efficient and you have got to take services on a case-by-case basis. However, having said all of that, do I think that the Jersey third sector and the Jersey private sector does have in the future a bigger role to play in providing services? Yes, I do<sup>18</sup>.”*

It was interesting that some Departments were able to provide us with their core services, whilst others were not in a position to do so. When asked what the timescale was to identify its core and non-core services, the Chief Officer of Health and Social Services responded by saying:

**Chief Officer of Health and Social Services:**

*“I am almost inclined to say it is an iterative process, I am not sure you get to the end of it because we offer such a wide range of services across all of those areas, and I suspect there is probably bits of the service we offer that until we have had a look at it we did not even know was there, or certainly we were not giving close attention<sup>19</sup>.”*

Whilst accepting that the Department has started analysing its core services, which, according to the Chief Officer, is an ongoing process, we asked whether this should have preceded the CSR:

**The Assistant Minister for Health and Social Services:**

*“That is exactly when it was done. If you look at the results of the Comprehensive Spending Review you will see that very little has been done to social services. That is because they are already doing just the core services, just statutorily what they need to do<sup>20</sup>.”*

The Panel is concerned that it is often too easy for a Department to come to the conclusion that its services are all core. The Panel is conscious of the strong evidence of mission creep within Departments over the years, and the CSR Programme was supposed to address this. For example, in the area of health, nobody would argue that health overall is core but with the service there are obvious areas to question. Is managing nurses' homes core to the health service? The Panel is sure that nursing home provision is necessary but is housing administration a core competence of the Health and Social Services Department? One can extend the challenge to areas closer to the core service such as Diagnostics or Therapeutic Services, where there may be private or third sector organisations who have a strong competence or capability than that of the Health and Social Services Department. This is the type of challenge that the Panel would like to see, and, as the Chief Officer of Health and Social Services stated it must cover all areas individually. It is also important that such matters are subject to rigorous financial approval.

During our Public Hearing with the Minister for Transport and Technical Services he said that identifying the core and non-core services within his Department *“has been very fundamental in the whole review<sup>21</sup>”*. He explained that a day's workshop was organised (attended by himself, his Assistant Minister and senior management) where all the services within his Department were identified and evaluated as: a legal requirement being essential or desirable; who the provision was for; whether the Department's specialists skills were required; whether there was any alternative provisions available within the Island and therefore whether it should be continued, and also whether it should be continued in the current form<sup>22</sup>.

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<sup>18</sup> Public Hearing with the Minister for Treasury and Resources: 13th June 2011, page 66

<sup>19</sup> Public Hearing with the Minister for Health and Social Services: 11<sup>th</sup> May 2011, page 11

<sup>20</sup> Public Hearing with the Minister for Health and Social Services: 11<sup>th</sup> May 2011, page 12

<sup>21</sup> Public Hearing with the Minister for Transport and Technical Services: 25<sup>th</sup> May 2011, page 4

<sup>22</sup> Public Hearing with the Minister for Transport and Technical Services: 25<sup>th</sup> May 2011, page 4

The Planning and Environment Department had a very open approach to nearly all their services which they consider not to be mandatory, but delivered as part of political choice. This created an open approach to questions like should building regulation services be delivered or be reliant on architectural self certification.

We believe that defining core services should have been the starting point in the CSR Review. Not defining core services prevents more radical approaches such as income generation and user pays or outsourcing being considered.

The Panel also heard evidence from Departments that outsourcing in some areas was not an option but noted that these statements were not backed up by evidence. For example, in Education Sport and Culture the Director stated *“the private sector may not be able to deliver the other benefits that, as a Government organisation, we would want to see them deliver because they are not profitable”*<sup>23</sup>. Soft market testing exercises with the private and third sector to determine the appetite to take on services and the commercial benefits of the sourcing route should be performed.

**KEY FINDING TWO:**

*Defining Core Services has only happened in some Departments and not in the context of an overall vision and definition of the role of government in Jersey, despite the initial assurance that it would occur. Even within a “core service” there will be elements of non-core activities which must be identified, costed, and appropriate strategies developed. Soft market testing with private and third sector organisations are an effective way to develop a challenge to the existing services model.*

**RECOMMENDATION THREE:**

*The Panel recommends that it is imperative for all Departments to once again revisit what are the Core Services to their Department - which services are no longer required and which services are mandatory or political necessities. Also if they are required, who is best to deliver them – the Department, another Department, the private sector, or the third sector. There should be no areas that are not open to challenge.*

## 6.2 Communication and Engagement

### Value Jersey

The Minister for Treasury and Resources explained that “Value Jersey” has been introduced as a specific label for efficient delivery of the CSR for the public to understand. Its aim is to keep people up to date on progress with savings, and to encourage people to get involved (via Facebook, Twitter and the gov.je website) in creating better value for Jersey. He said:

**The Minister for Treasury and Resources:**

*“...Jersey politics is a funny place because people get bored with acronyms and they get bored with programmes pretty quickly. So we talk around the table “C.S.R.” If I take a sample of 100 people walking up and down King Street this morning, most of them would not understand what C.S.R. is or was or anything...”*<sup>24</sup>

We would point out that this has only recently been introduced. Whilst this is a welcomed development it should have been more rigorously applied as part of an original communications strategy.

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<sup>23</sup> Public Hearing with the Minister for Education, Sport and Culture, 11th May 2011, page 4

<sup>24</sup> Public Hearing with the Minister for Treasury and Resources, 13th June 2011 page 77



Communications, as we know, is part of the CSR Programme Office. Simple diagrams such as figure two articulate the CSR Programme's methodology to Stakeholders and enable staff, the public and others to quickly understand what is happening and the context. The Panel were provided with lots of information and financial numbers but very little in terms of simple communications, particularly for the public. It is noted, however, that "CSR News" was issued to all staff from January 2011.

The Transformational Capability that is supporting the Programme not only includes communications, but Programme Management, Change Management and a Project Management team to support Departments. There was clearly evidence of an effective measurement and management of CSR initiatives using the "Red-Amber-Green" Reporting, but there was little evidence of Departments as a whole taking advantage of the wider support of project management and change management. The Panel also question whether the right capability is being developed.

The Acting Chief Executive stated that the States were weak in project management and hence the need to develop this capability centrally. However, there does not seem to be a capability around process re-engineering, as recommended by Professor Seddon, being developed internally or sourced externally

**KEY FINDING THREE:**

*The Programme Management Office would appear to be effective in managing the CSR Programme, but the Panel questions the value it is offering in providing capability to help Departments really transform.*

**KEY FINDING FOUR:**

*The lack of congruence between the vision of the Chief Minister and Minister for Treasury and Resources has contributed to the absence of a clear Business Transformation Programme. The qualities required to run the CSR programme are not the same to those required to run a Business Transformation Programme.*

**RECOMMENDATION FOUR:**

*Councils such as Birmingham City Council (appendix C) have properly constituted, high level teams with political ownership and Directors of the main cross cutting services (Human Resources, Information Technology, Property and Procurement).*

*In order to take Business Transformation forward, there needs to be a high level team within the States of Jersey taking ownership with effective political leadership.*

## 7. THE DEPARTMENTS

The Council of Ministers is responsible for leading and directing the CSR process, therefore, all Ministers have ultimate accountability for delivering the CSR programme. Individual Ministers are responsible for bringing forward proposals in their Department to meet Council of Ministers Departmental and corporate CSR targets. Ministers are also responsible for ensuring their Accounting Officer delivers proposals within Cash Limits.

We acknowledge that the CSR is an ongoing process, with methodologies, implementation plans and risk analysis changing and developing all the time. Once we had analysed the information we received in March 2011, further updated information was sent to us in September 2011. We have therefore illustrated our findings from the first set of information, and have also examined, at the end of this section, the most recent information given to us.

Therefore, we set out below a summary of the status of the CSR Review as reported to us in **March 2011**, and then detail out causes for concern as well as recognising the successes that have been achieved. We also highlight exogenous risks and building from our previous report the problems associated with “salami slicing”.

### 7.1 CSR Overview and Reporting Methodology – Red, Amber, Green

A CSR Programme Reporting methodology has been developed by the Programme Office which lists all proposals and identifies various risks on delivery, inter-dependencies (i.e. States approval/law amendments) and resources required. This is then used to assess overall “Proposal Delivery Confidence” in which proposals are rated as Red, Amber or Green depending on the confidence of them being delivered. The CSR Programme Office has defined them as follows:

Key	Proposal Delivery
G	High confidence that savings will be achieved through implementation of proposed initiatives.
A	Medium or mixed level of delivery confidence that savings will be achieved through implementation of proposed initiatives.
R	Low confidence that savings will be achieved through implementation of proposed initiatives.

During the Hearings, it became apparent that each Department had a slightly different interpretation as to the exact meaning of the Red-Amber-Green status definitions.

#### **RECOMMENDATION FIVE:**

*The CSR Programme must ensure that there is complete consistency on the application of Red Amber Green reporting status definitions.*

We questioned all Ministers in order for us to get an overview of how each Department was achieving its savings, and whether their proposals had been risk assessed as Red, Amber or Green. The table (on the next page) summarises the high, medium, low risk assessments for each Department in March 2011:

**Proposal Delivery Confidence (includes Savings and User Pays)**

Departments	2011		2012		2013		TOTAL
Chief Minister	129	G	161	G	280	A	570
Economic Development	346	G	707	G	964	A	2,017
Education, Sport and Culture	2,288	A	3,119	R	5,697	R	11,104
Health and Social Services	3,743	G	2,045	R	2,045	R	7,833
Home Affairs	959	G	1,119	A	1,668	A	3,746
Housing	286	G	592	G	679	A	1,557
Planning and Environment	213	G	306	G	795	A	1,314
Social Security	1,863	G	1,500	A	2,500	R	5,863
Transport and Technical Services	891	G	1,257	A	2,133	A	4,281
Treasury & Resources	918	G	1,287	G	1,955	A	4,160
Non Ministerial States Funded Bodies	427	G	694	G	597	A	1,718
States Assembly and its Services	58	G	176	G	152	G	386
<b>TOTAL</b>	<b>12,121</b>		<b>12,963</b>		<b>19,465</b>		<b>44,549</b>
Terms & Conditions Review	0	-	7,000	R	7,000	R	14,000
Procurement Review	1,000	A	2,000	R	3,500	R	6,500
<b>TOTAL</b>	<b>13,121</b>		<b>21,963</b>		<b>29,965</b>		<b>65,049</b>

## 7.2 Analysis

We have calculated the following percentages in respect of the figures articulated in the table above:

	2011	2012	2013	Total
<b>Red</b>	<b>£0</b> <b>(0%)</b>	<b>£14,164,000</b> <b>(64%)</b>	<b>£20,742,000</b> <b>(69%)</b>	<b>£34,906,000</b> <b>(54%)</b>
<b>Amber</b>	<b>£3,288,000</b> <b>(25%)</b>	<b>£3,876,000</b> <b>(18%)</b>	<b>£9,071,000</b> <b>(30%)</b>	<b>£16,235,000</b> <b>(25%)</b>
<b>Green</b>	<b>£9,833,000</b> <b>(75%)</b>	<b>£3,923,000</b> <b>(18%)</b>	<b>£152,000</b> <b>(1%)</b>	<b>£13,908,000</b> <b>(21%)</b>

Ministers seem to be supporting the CSR, and the leadership in most of the Departments have recognised that there is no option but to achieve the savings. Savings initiatives have been identified, developed and in many cases delivered. Overall, the CSR Programme Management office is co-ordinating reporting and sharing knowledge and best practice. The remit of the CSR Programme Board and support team is to drive the savings, and report back on risk and mitigating actions in delivery of the numerous initiatives to achieve the goal across the States. Reporting on a monthly basis shows these initiatives migrating from red, through amber, to green status as the initiatives are developed and the risk of not achieving the savings is reduced.

We have calculated the savings based on the figures in the Annual Business Plan 2012 (£58,003 million which excludes the unallocated £7 million from the Education, Sport and Culture department). The figures below illustrate each Department's percentage:

Department	Percentage of target for 2011 – 2013 (excluding 7 million from Education, Sport and Culture) <sup>25</sup> as per figure 6.4 in the Annual Business Plan 2012
Chief Minister	1
Economic Development	3.5
Education, Sport and Culture	7
Environment	2.3
Health and Social Services	13.5
Home Affairs	6.5
Housing	2.7
Social Security	10.1
Transport and Technical Services	7.4
Treasury and Resources	7.2
Non-Ministerial States Funded Bodies	3.0
States Assembly and its Services	0.7
Procurement	11.2
Terms and Conditions	24.1

The Red-Amber-Green (RAG) Reporting enabled us to quickly compare and contrast the progress being made by different Departments. We were pleased to see that most Departments have the 2011 savings rated as green or 'banked', and indeed some Departments, noticeably Economic Development and Housing, have rated nearly their entire CSR three year programme as green, which means the initiatives have been defined, there are no external dependencies and the Department is very confident in realisation.

**KEY FINDING FIVE:**

*Some Departments are doing better than others regarding making their savings. Some Departments have rated nearly their entire CSR three year programme as green; therefore, they are confident in achieving their savings targets. However, we also note that in March 2011, 54% of the overall total was defined as red. We would therefore question the likelihood of the CSR achieving its overall target by the end of 2013.*

<sup>25</sup> Please see fee paying schools section on page 27

### 7.3 Departmental Reviews- Causes for Concerns

A massive 70% of States spending comes from just four Departments: Education, Sport and Culture, Home Affairs, Social Security and Health and Social Services, and staff pay accounts for up to 80% of cost in many areas. As part of the CSR Programme, significant reviews that have been completed to date are:

- Tribal, Comprehensive Spending Review: Peer Review report – Education, Sport and Culture (25th August 2010)
- Tribal, Comprehensive Spending Review: Peer Review report – Home Affairs (26th August 2010)
- Tribal, Court and Case Costs and Criminal Justice Review (3rd September 2010)
- Tribal, Terms and Conditions Review (September 2010)

The main area of concern is that staff terms and conditions is the biggest cross cutting area of savings. The States have recognised that change has to incur in this area. The anticipated savings are in the region of £14 million from a £345 million staff cost (4%), although the Tribal Report identified in the longer term the potential for savings could be double this.

#### Average costs of employing staff in the public and private sector, 1998–2009 (per FTE)

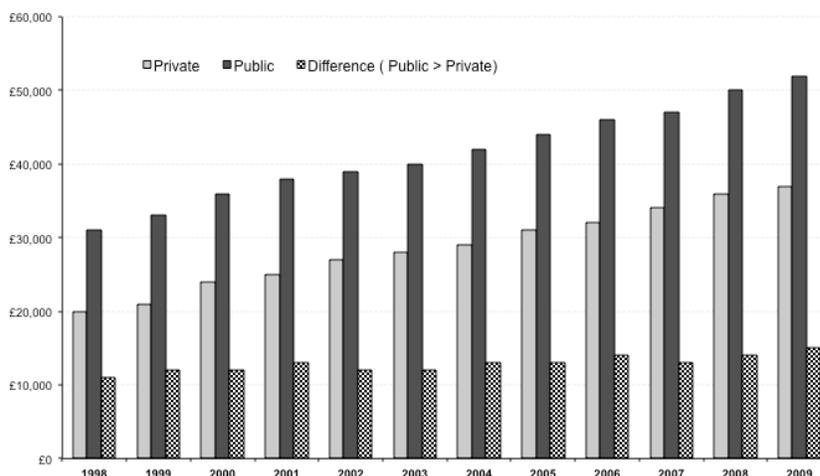


Figure three illustrates total compensation in the public and private sector since 2003, divided by per full time equivalent (FTE) employee. This total includes salaries, wages, pension and social security. The Panel advisor, having undertaken a study per head count as opposed to per FTE, into the difference in pay between the public and private sector from information which is publicly available, noted that there is an increase from £9,230 per head to £14,587 per head by 2009.<sup>26</sup>

Our advisor, Professor Michael Oliver says: *The differential which now exists between the private and public sector seems very difficult to justify, particularly as the growth of labour productivity in the public sector has been very sluggish since 2000. It could in fact be argued that*

<sup>26</sup> Please note that the last sentence of this paragraph, prior to the 15th November 2011, originally read: "The difference in pay between the public and private sector has increased from £9,230 per head in 2003 to £14,587 per head by 2009". This was removed by corrigendum as it does not relate to the graph shown which is per FTE not per head and cannot be attributed to the Statistics Unit.

*the large increase in costs involved in employing staff in the public sector actually worked as a disincentive to productivity enhancements, which reinforces the key findings of Tribal and other studies that show how semi-automatic pay and promotion systems do not reward innovation or ability and that there are difficulties in sacking underperforming workers and rewarding staff who perform exceptionally well.*

The Annual Business Plan 2012 explains the work that is progressing with staff Terms and Conditions including a revised pay structure for manual employees and civil servants<sup>27</sup>. We wish to emphasise the importance of this part of the CSR particularly in the context of figure three and consider that such reforms should continue to be emphasised and implementation should be achieved expeditiously.

**KEY FINDING SIX:**

*The average total compensation package for the public sector now significantly exceeds the equivalent for the private sector.*

**RECOMMENDATION SIX:**

*The easy solution would be to freeze the public sectors wages bill. Evidence has shown that there is an emphasis on “catch up” once the freeze is lifted and the net effect is counter productive.*

*The importance of the terms and conditions revision cannot be stressed too strongly. This is the most difficult area of the CSR to accomplish and it is likely to take some time. It is, however, crucial and it is essential that adequate resources are devoted to this area and that the implementation plan is fast tracked to delivery significant and long-lasting changes to terms and conditions.*

The Panel recognised the Review of Staff Terms and Conditions as critical to the success of the CSR Programme for two reasons:

- a) The size of the potential savings – £14 million of the entire CSR challenge
- b) The sensitivity of achieving these savings. There is a challenge of maintaining morale whilst cutting back on benefits, and at the same time achieving transformational savings. The latter typically needs staff on board. Similar levels of savings in the UK are currently resulting in industrial action.

**KEY FINDING SEVEN:**

*The review of Staff Terms & Conditions is one of the most critical indicators to the CSR Programme’s success and there are significant risks attached to the realisation of this saving.*

**RECOMMENDATION SEVEN:**

*Any failure in the Review of Staff Terms and Conditions has the potential to de-rail the entire CSR Programme. There is significant evidence that this can be the case from the UK Mainland where some authorities have not been managed such reviews effectively resulting in all other initiatives being put on hold for several months. We would recommend that this is considered as one of the main priorities and appropriate resources in terms of engagement as well as programme management is invested into this area.*

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<sup>27</sup> Draft Annual Business Plan 2012, page 39

Despite our earlier key finding where we established that some Departments have rated nearly their entire CSR three year programme as green, we have also noted that there is low confidence of success in achieving the target amongst the three largest Departments:

#### *Education Sport & Culture*

We found evidence of using UK experience to justify why savings could not be achieved in some areas, but not to look for evidence of good practice in other areas<sup>28</sup>.

There would also appear to be a mindset that the private sector could not be engaged in areas such as outsourcing management of leisure facilities<sup>29</sup>, when we are aware that Guernsey are exploring this as an option.

#### *Health*

The red status of the Department's target for 2013 must put significant risk and doubt on the achievement of its overall CSR target. However, it would appear that they are starting a bottom-up lean think programme<sup>30</sup> that is really challenging the way things are done and we would hope this will pay dividends as the programme develops.

#### *Home Affairs*

Home Affairs is only committed to 7.7% saving of their budget which could rise to 7.9% with some user pays initiatives<sup>31</sup>. They still have some way to go to achieve the 7.7% target and really have little in way of plan B savings in their pipeline. However, the programme methodology adopted has resulted in strong evidence of evolution of projects from red to amber and then green status. All the 2011 targets are rated as green but we have significant concerns about the risks associated with achieving later savings and would suggest further opportunities are identified now to ensure fall back initiatives.

#### **KEY FINDING EIGHT:**

*It appears that the biggest spending Departments are unlikely to achieve their targets which will endanger the success of the CSR programme objectives.*

### **7.4 Departmental Reviews- Recognised Success**

The Panel would also like to recognise the success of some of the Departments in achieving savings, with just a sample of examples to demonstrate the way the CSR Programme is addressing the challenges in different ways.

#### *Housing*

The Department has delivered most of its planned savings already largely through initiatives that benefit both residents as well as saving the States money, following engagement with tenants' forums:

- The roll out of user controlled heating and insulation is anticipated to save the residents money, as well as significantly reduce maintenance costs to the States.

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<sup>28</sup> Public Hearing with the Minister for Education, Sport and Culture, 11th May 2011, page 5

<sup>29</sup> Public Hearing with the Minister for Education, Sport and Culture, 11th May 2011, page 17

<sup>30</sup> Public Hearing with the Minister for Health and Social Services, 11th May 2011, page 7

<sup>31</sup> Public Hearing with the Minister for Home Affairs, 20th May 2011, page 10

- Redecoration grants to incoming tenants which reduce voids and give tenants choice and options.

Housing are also fundamentally questioning their role, recognising that the existing model is not an option, and evaluating the best model of managing the portfolio to address the maintenance back log including an Arms Length Management Organisation, a Housing Association, a hybrid trading company and so on. It is important that the options are evaluated with rigour from a financially independent perspective to ensure the result best meets the needs of the entire States organisation rather than that of any one Department.

#### *Social Security*

A focus on removing 'waste' from the back office and moving the freed up capacity to the front office has been supported by staff. The staff involved in this process and related to the reduction in 'waste' is better than a process of finding 'efficiency'. We also understand that an appointment has been made to lead a 'Seddon' type review of the organisation.

#### *Economic Development*

We noted that the Department is working with the third sector, for example RNLI (Royal National Lifeboat Institution), in provision of services at lower cost. This is just one example of an alternative delivery mechanism that could be explored by other Departments.

#### *Planning and Environment*

Shifting the balance of user pays to reflect the cost so that there is a high charge for large planning and building regulation applications. This has less political impact and makes business sense. The Department is also supporting new ways of working to enable staff to be more effective in the field whilst at the same time reducing their requirement for desks.

#### *Transport and Technical Services*

The Department demonstrated examples of staff suggestion schemes which delivered real savings such as their UV bulbs.

#### *Treasury and Resources*

Taking the lead on CSR, the Department does have a perspective that 'we are all in this together' and a role which is to 'support Departments' build capacity and achieve their savings, and ensure they are sustainable not just deferring expenditure. The positives include:

- Migration into a three year budgeting process that allows Departments to have more delegated responsibility.
- Financial modelling capability and knowledge, and a capital planning methodology that have been developed in one Department are being shared across Departments.
- The introduction of accommodation charges for Departments in occupying space from 2012 on wards to ensure Departments have a financial incentive to make the changes anticipated from the Property Transformation.
- Information Communication Technology (ICT) outsourcing data centres to the private sector to reduce cost and enhance resilience.

Whilst we accept the different challenges faced by different Departments, the positives illustrated above would suggest that more can be done elsewhere as well.

**KEY FINDING NINE:**

*We have found examples of Good Practice that should be shared more widely amongst Departments.*

**RECOMMENDATION EIGHT:**

*It is essential that changes in services are monitored to ensure that alternative methods of delivery of services do deliver the savings.*

## **7.5 Exogenous Risks**

There is always risk with a programme like the CSR of activities outside the control of the Programme or the Departments having impact on the programme. This can be a “wild card” like a pandemic impacting health and social security, economic risks associated with Global/European recession, or political risk. An example is in respect to fee paying schools as outlined below. Given these risks it is important that the Programme develops contingencies to ensure at least some of the impacts can be managed and targets maintained.

### **Fee-Paying Schools**

Fee paying primary and secondary schools receive half the funding of educating a child in a States secondary school and a quarter the cost of a States primary. As part of his CSR proposals, the Minister for Education, Sport and Culture, announced plans to reduce the support for secondary schools to the same level provided to primary schools, essentially reducing their subsidy by 50%. This would mean a reduction from £9.8 million to £5.5 million a year, saving the States £4.3 million annually.

Senator Shenton lodged a proposition “Grant Aided Schools: Grants” (P.72/2011) which called for the Minister to maintain the grants at the current levels pending publication of the Education White Paper, and ensuring that there is meaningful consultation through a Green Paper beforehand. This was approved by the States on 14th June 2011.

When we held our Public Hearing with the Minister the debate on Senator Shenton’s proposition had not yet taken place. We questioned him on whether he had identified any alternatives should the reduction of grants not have been acceptable to the States:

**The Minister for Education, Sport and Culture:**

*“No, because there are not any.”*

**Senator J.L. Perchard:**

*“That is a bit of a contradiction: “No, because there are not any”.”*

**The Minister for Education, Sport and Culture:**

*“Well, there are not.”*

**Senator J.L. Perchard:**

*“So there are no alternatives?”*

**The Minister for Education, Sport and Culture:**

*“There are no alternatives as far as I am aware and I believe would be politically acceptable”<sup>32</sup>*

We spoke with the Minister for Treasury and Resources on the 13th June 2011 (a day before Senator Shenton’s proposition was approved) about the grant to fee-paying schools and he said *“We cannot deliver other savings over and above those that we have already asked Departments to do at this stage in the C.S.R. if school fees or other private schools, or other States schools, are insulated from budget cuts. There is no way”<sup>33</sup>.*

Whilst we understand that each Department has a significant task identifying proposals which are manageable, it is clear that the Education Department did not provide for alternatives or “plan B’s”. When this was voiced with the Minister for Treasury and Resources he said that if all school budgets were insulated from the CSR, the CSR would not deliver the £65 million it is aiming for:

**The Minister for Treasury and Resources:**

*“There is not an alternative to deliver the Education savings if you insulate all school budgets, either the private sector budgets or the publicly funded school budgets. Education will not deliver their C.S.R. targets if you are saying that you are going to insulate 80 per cent of their spend. Yes, of course they can do other stuff and they are doing it. We have had difficult and challenging discussions with education and all the others, but if you insulate all school budgets at this stage from the C.S.R. you will not deliver the £65 million. You just cannot do it”<sup>34</sup>.*

The risk of not providing for alternative savings when proposals such as School fees are subject to a States decision is that Ministers are relying heavily on the votes in favour of whatever they are proposing. When speaking with the Minister for Social Security, he had assessed some of his proposals as red, and said: *“I have taken the view that if it needs a States’ decision, I have to put it as red as it is outside of my control. I cannot do anything to mitigate that and, therefore, I put it as red. I am aware that not every Department has quite taken that view”<sup>35</sup>.*

Although there is no dispute that Ministers and their Departments must be confident in the proposals that they are identifying, it is sensible, to assume that proposals needing a States decision should be assessed “red” at high risk of not being achievable.

**RECOMMENDATION NINE:**

*The Panel recommends that each major element of the CSR programme must have a developed contingency plan in the event of non-delivery of their savings target.*

**User Pays**

We noted that some Departments, such as Environment, have introduced user pays. Whilst being an effective mechanism for some services (such as the Department’s planning and building regulation applications), it does not help with making a Department more efficient. We should like to point out that the CSR is about making efficient savings rather than balancing the books.

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<sup>32</sup> Public Hearing with the Minister for Education, Sport and Culture: 11th May 2011, pages 19 and 21

<sup>33</sup> Public Hearing with the Minister for Treasury and Resources: 13th June 2011 pages 15,16 and 17

<sup>34</sup> Public Hearing with the Minister for Treasury and Resources: 13th June 2011 pages 15,16 and 17

<sup>35</sup> Public Hearing with the Minister for Social Security: 20th May 2011, page 23

## 7.6 *Salami Slicing*

One of the findings from our first review was that it was rushed, and Departments had to “salami slice” to make their quota of savings. We would stress that for CSRs 3, 4 and 5, this must not happen again.

The Chief Officer of Health and Social Services said that at the beginning of the CSR process, which slightly pre-dated her arrival on the Island, savings for 2011 had to be made very quickly. She explained: *“I think like most Departments you go and look for the easy things and they tend to be things where you just salami slice a little bit off the budgets and look to just tighten your belt a bit. Most of our 2011 C.S.R. savings are very much those sorts of projects...”*<sup>36</sup>.

The Minister for Home Affairs agreed that the CSR process is essentially a response to a short-term challenge and *“we have to have a culture of constant review and constant change, and I think there are fundamental issues at a wider level than are being met by the C.S.R. as to the way in which we run the public sector in Jersey. But that is not a Home Affairs issue; I think this is a right across the board issue”*<sup>37</sup>.

In order to make sustainable savings of 10%, we believe that fundamental changes within Departments need to be instigated. There is no scope for scrimping which has evidently happened in the past. There is no doubt that Departments have been under pressure to deliver 10% over 3 years, with some finding it more difficult than others. The problem with some Departments focussing on the 3 year period only, leaves the timescale tight to carry out any meaningful structural reform. It is obvious that if too much focus is put onto the 3 years, the easy option would be to “salami slice” budgets to meet the quota.

## 7.7 *Updated Red-Amber-Green Information*

Since March 2011, the CSR Delivery Team has been reviewing the monitoring of the overall Programme to better reflect the actual confidence of Ministers in delivering their savings proposals.

Following the updated RAG tables, which we received under a confidentiality agreement, we have made the following observations:

- The new analysis acknowledges the £7 million unidentified savings proposals which exist following the approval of P.72/2011 (Grant Aided Schools: Grants);
- 14% of the overall target has now been achieved;
- 7% has been designated as “Red” (current forecast over Departments)
- 42% has been designated as “Amber” (current forecast over Departments);
- 26% has been designated as “Green” (current forecast over Departments).

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<sup>36</sup> Public Hearing with the Minister for Health and Social Services: 11th May 2011, page 12

<sup>37</sup> Public Hearing with the Minister for Home Affairs: 20th May 2011, page 38

## 8. Future Working: 2013 and beyond

### 8.1 Medium Term Financial Planning

The Minister for Treasury and Resources lodged “Draft Public Finances (Amendment No.3) (Jersey) Law 201-“(P.97/2011). The Finance Law only requires that one year’s expenditure and taxation be approved by the States Assembly. The purpose of the amendment, as explained in the accompanying report, proposed changes to establish a Medium Term Financial Planning Framework, whereby the overall income targets and spending limits are set for a period of years, equivalent to the term of a Council of Ministers.

As part of our review, we held a separate Hearing with the Minister for Treasury and Resources regarding the amendment. The Minister explained that the amendments to the Public Finances (Jersey) Law 2005 (“the Law”) will be brought forward in two phases. Phase one was amendment No.3, which was approved by the States on the 19th July 2011.

Phase two of the amendments will follow in the months after the elections, which will be designed to deal with the big financial management decision-making process within the States.

Amendment No.3 means a total spending limit for 3 years and Departmental allocation for 3 years. The Minister said that it is the first time a creation of two centrally-held funds within a 3 year period. One is for growth and the other is a contingency amount to deal with political priorities which are not entirely predictable.

The Minister said that he thinks moving toward 3 year budgeting means that there is a more medium-term outlook generally. Ministers and their Departments will have the right to have a medium-term certainty in terms of their budget, and they will need to be responsible to work within it.

The Panel agreed that medium term financial planning will aid the CSR in future years, because there will be greater flexibility for Departments to plan ahead and deliver changes. This new process is referred to in figure four below:

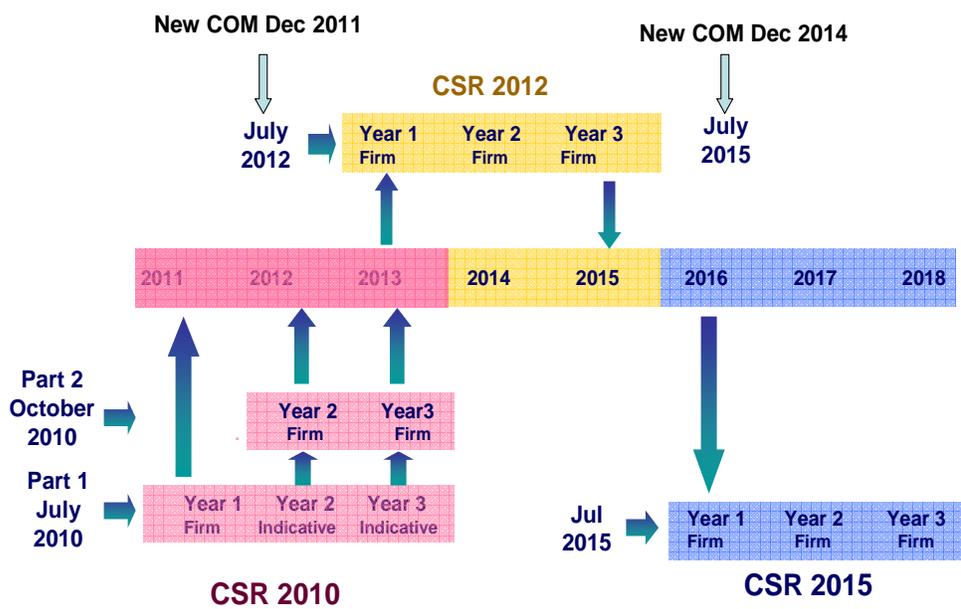


Figure four

Source: CSR PowerPoint Presentation: States of Jersey

## 8.2 2013 and Beyond

It became apparent to us that some Departments are looking beyond 2013 whilst others are concentrating their efforts on 2011, 2012 and 2013 only. The Minister for Social Security said: *“We are very much at this stage trying to concentrate on 2012 because we have to have it ready for the Business Plan process. So that is our priority and that is what we are spending our time doing, as I say. But 2013 will flow through from that and we will be remaining the same, putting in the same bottom line. In all honesty, I cannot say that we have considered extra savings. I say that for 2014, but there is some work within the Social Security Fund, not least supplementation and trying to give that certainty, which will continue to flow through as well<sup>38</sup>.”*

Interestingly, when we spoke with the Minister for Treasury and Resources, he said that the CSR is an ongoing process that does not end in 2013:

**The Minister for Treasury and Resources:**

*“....and it does not end in 2 ways, first of all because the savings ... the money that has been taken out of budget has got to be sustainably removed and it cannot just be holding ... we do not want to be in a position where we are holding back money for 2 years and simply causing a problem that is then going to require a big fix in year 2014, firstly. Secondly, the way in which we are trying to change the culture in the States is one of continual improvement and continued efficiency drives so there will be a C.S.R. 2, 3, 4. This is a never-ending process<sup>39</sup>.”*

Surely Departments should be getting ready now, so that fundamental changes can be made. These sentiments were shared by the Minister for Transport and Technical Services who said on the matter: *“In terms of the C.S.R. process going beyond 2013, I think that is inevitable and I think we should start that now so that the point you have made earlier about the high level strategies and the more business change elements and cultural change elements can be instigated now. But that piece of work, I think, needs to start almost in parallel. So you do the nuts and bolts of delivering C.S.R. but now we instigate a more high level review and start commencing in 2014<sup>40</sup>.”*

The introduction of a Medium Term Financial Plan (MTFP) is precisely the sort of development that several commentators have urged for a number of years. It is to be welcomed as it will impose considerable financial discipline on the States Assembly in the medium-term. It will present Departments with challenges but should encourage Departments to fully embrace the transformational culture which is being developed across the States.

**KEY FINDING TEN:**

*The evolution of the public service is an ongoing process. In some Departments, the priority has been to make savings until 2013, with no vision for 2014 and beyond.*

**RECOMMENDATION TEN:**

*Departments must continue to evolve their services and evolve their thinking in order to make savings in future years and become more efficient. Departments should be planning to make further efficiency savings in 2014, 2015, and 2016 and beyond. There needs to be a cultural challenge to enable continuous challenge and improvement.*

<sup>38</sup> Public Hearing with the Minister for Social Security: 20th May 2011, pages 32

<sup>39</sup> Public Hearing with the Minister for Treasury and Resources: 13th June, pages 11 and 12

<sup>40</sup> Public Hearing with the Minister for Transport and Technical Services: 25th May 2011, page 17

## 9. Business Transformation and Leadership

Services like Education and Health have a direct impact on the wellbeing of the Island today and in the future. There are political, social and economic considerations beyond the CSR that need to be considered such as the Island's economic competitiveness in developing a highly skilled labour force, as well as the ageing population which will inevitably create more dependency on health services. The States have recognised this and reduced the CSR target for Health (from 10% to 4% over the time period). However, the CSR creates a challenge to these areas to consider how things can be delivered in a smarter way which ultimately enables a more effective delivery of services in these areas, and therefore can align to the wider aspirations. If there is no challenge, inefficient processes and practices develop resulting in waste or lost opportunity. The more effective procurement processes in health are just one example of savings that do not impact the front line.

### 9.1 Cross Cutting Issues

Based upon experience elsewhere, there will be significant opportunities for cross cutting savings, and this was highlighted as a recommendation in our August 2010 report:

*“The CSR team must devote a high priority to the cross cutting areas of the organisation”.*

In his report, Mr Neil McLocklin gives examples of cross cutting areas which include:

- Customer Contact - developing integrated customer contact strategies across the multi-channel environment to enable residents to get the same information over the telephone or the web, and to speak to an advisor who can deal with queries related to benefits as well as payments and bin collections, is simply applying the same models of customer service that have applied for many years. The well known examples of multiple points of contact to inform the public sector that somebody has died for example, are not only frustrating for the resident but cost government lots of money in processing basic data - name, address, date of birth etc. The drive should be to integrate as well as to migrate to cheapest and most effective channel, which for the vast majority of information is the web.
- Innovative Procurement - procurement categorisation and purchasing across services for many commodity items such as energy, facilities management, photocopiers, stationery etc which are very fast payback efficiency wins. Procurement can also be used to align and achieve broader aims and benefits for the government. For example, it may not payback to convert all government vehicles to electric at the current time given the cost of conversion. However, if the government made a commitment to purchase a quantity (for example in 2 years) at a price 20% less than the current price, the market will respond and work out a way to achieve the objective. One key part of the CSR Programme must be to ensure Procurement and Services work effectively together and appropriately account for achieved savings. Typically Services can reduce demand by thinking about smarter ways to work and Procurement can reduce price by effective category management.
- Terms & Conditions/Workforce development - clearly pay and conditions review is critical to success of the CSR from cross cutting perspective. But there are significant wider issues in terms of managing and developing the workforce. This means enhancing the effectiveness of services not only through people development but also systems/process development to ensure more accountability and higher performance. Equally important is to develop the culture and competence of the organisation in the future, for example, more commissioned based and less delivery focused, and strong performance management.

- Property Transformation - this would appear to be an initiative that has been on hold and was reported by a number of Departments as being an obstacle in the achievement of their CSR Targets (for example Home Affairs, Economic Development and Planning and Environment). The acquisition of Lime Grove House was designed to be the start of the programme<sup>41</sup>. However, it is important to consider the wider implications of property. “Our Department would be much more productive if we worked together” was a quote from one Hearing. Is the property transformation taking into account these benefits in terms of developing its strategy or is the focus just on the cost of the buildings? From the review the Panel has only seen evidence of the latter to date, although we understand Property Holdings are championing the wider benefits which can be three to four times the accommodation savings.
- ICT infrastructure systems - integrated and high performance infrastructure can be a catalyst for more integrated service delivery, as well as enabling significant efficiencies in these high cost areas. This is critical to other transformation cross cutting areas such as customer contact, workforce development and property transformation. The Planning and Environment Department reported that they are rolling out new ways of working to enable their staff to work in the field more, requiring remote access to systems, but also less accommodation.

It would appear that the States have identified Procurement as a specific cross cutting efficiency saving with associated target, and targeting areas like travel, health and temporary staff/agency category expenditure. There are also plans within services to address building maintenance, and some ICT issues like data centre consolidation and outsourcing. We understand a more integrated approach to how people work and their ICT/workplace needs is being developed but is not yet launched. Equally there would appear to be finance and Human Resources initiatives, and we have been informed about plans of new simplified electronic recruitment process. It is less clear how these initiatives develop into robust cross cutting or enabling programmes. It is likely that environmental initiatives are being looked at in isolation by each Department which, from experience elsewhere, is not the optimal way to address this.

## **9.2 Benefits Realisation**

The financial and potential wider smarter service benefits that are developed out of the programme need to be clearly defined, measured and realised into cashable savings, resulting in budget reductions for individual Departments. The Panel heard evidence and is aware of previous experience of:

- a) Poor incentivisation/recognition to enable benefits realisation. The reorganisation of the maintenance contracts has clearly produced significant savings<sup>42</sup>. These were initiated by JPH with input from the interim procurement manager, it is therefore important that the contribution of each is recognised in order to provide incentives to encourage further business improvements and co-operative working between Departments. A mechanism needs to be put in place for a fair attribution of credit when savings result from the joint work of two or more departments.
- b) A benefit arising in one Department, but resulting in unbudgeted cost implications in another. Benefits must be analysed, managed and realised in an integrated way which reinforces the importance of the Programme Management Office. We have been assured that the programme plan identifies cost or other implications in other Departments.

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<sup>41</sup> The Panel carried out a review into the matter and presented a report “Lime Grove House: Failure to Complete Transaction” (S.R.12/2011). The investigation has been passed onto the Comptroller and Auditor General.

<sup>42</sup> Public Hearing with the Minister for Treasury and Resources, 13th June 2011, page 6

## Case Study: Birmingham

Birmingham City Council (BCC) is continually trying to find the most cost-effective way to deliver services and it is already five years into its ten year Business Transformation programme. It recognises that delivering savings requires a clear strategic approach (a case study can be found in appendix C).

The way in which Birmingham intends to deliver its outcomes and priorities are based on seven principles which in summary are:

1. Transforming efficiency;
2. Preventing problems to avoid big costs later;
3. Reducing dependency and enabling self-sufficiency;
4. Collaborating effectively across services areas and public agencies;
5. Personalising public services;
6. Maximising income streams;
7. Levering in finds from the private sector.

Its proposals appear more radical compared to our CSR. There is a very strong focus on cross cutting initiatives but also a programme support capability that facilitates services transformation. For example, it is redesigning Fleet and Waste Management Services to drive down waste, increase recycling and reduce landfill tax costs. It is also remodelling youth services, education welfare services and family support services. In contrast the small CSR Delivery Team (Programme Office) in Jersey assists and facilitates Departments in developing their proposals and tracks and monitors each of the 300+ proposals. We see the Programme Office as administrative and not necessarily advisory or facilitating.

With the help of our Panel advisor we have applied the structure of the BCC transformation to the CSR Programme for Jersey and set it out in figure five below:

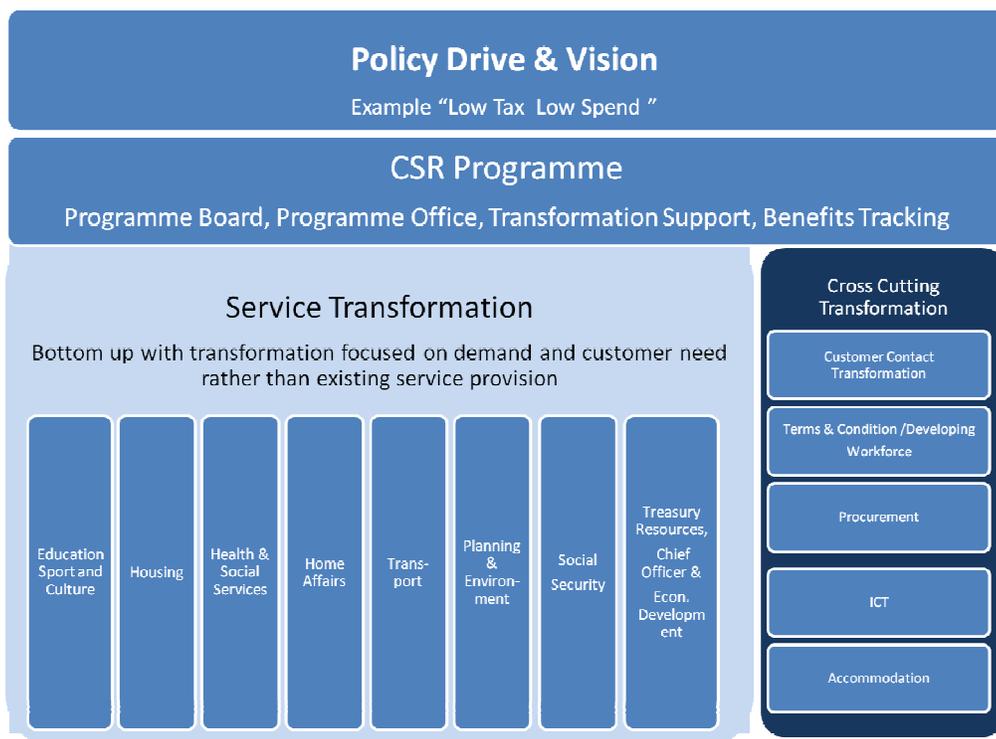


Figure five

Typical Transformational Structure

By way of contract the schematic (figure six) provided in the Annual Business Plan 2012 is illustrated below:

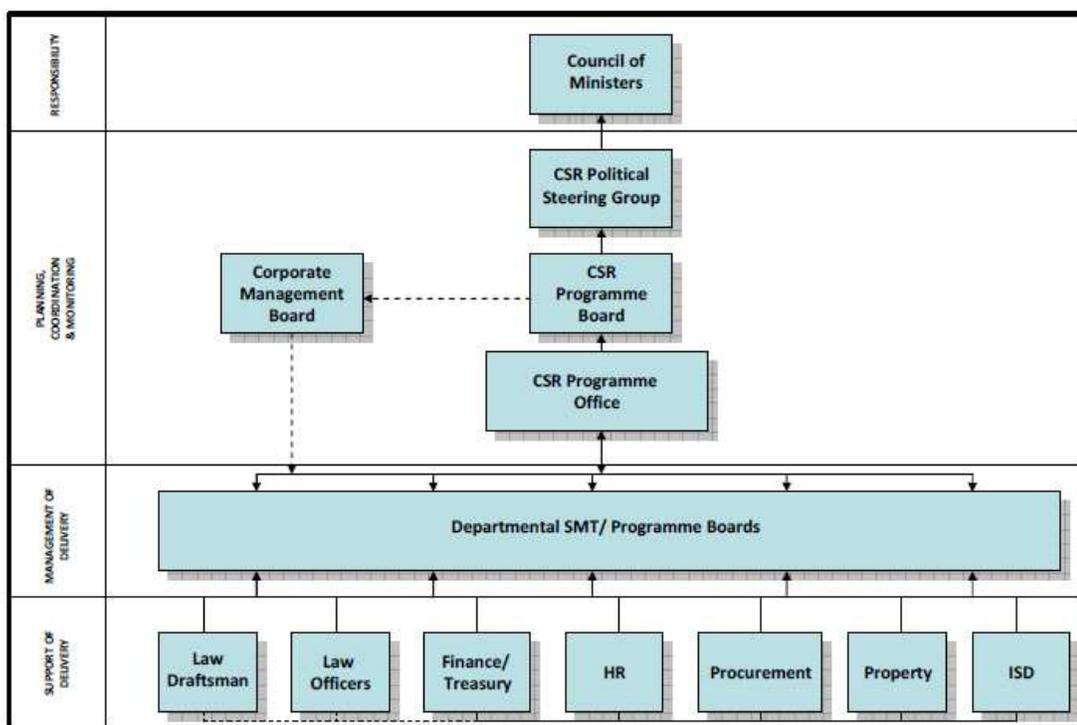


Figure six shows the governance structure for the CSR process. Effectively it is an out dated hierarchical structure which does not properly emphasise the importance of the cross cutting savings that need to be initiated.

**KEY FINDING ELEVEN:**

*Ministers need to acknowledge the importance of Cross Cutting Initiatives. Cross cutting initiatives are fundamental to the CSR process. The Panel believe that there is insufficient evidence of resources being allocated to allow for significant cross cutting savings to be initiated.*

**9.3 “Systems Thinking” - Professor John Seddon**

Professor Seddon gave evidence of how to transform services through understanding the customer and the demand for the service, and redesigning the service from this perspective. This results in a service the customer values, and cuts out all the existing service process that is not adding any value but is incurring cost. This can be applied from a bottom-up perspective within any Department and should be service by service. The outcome would be, according to Mr Seddon, a transformed service that can deliver better value at much less cost. From the evidence we received, some Departments would not appear to be looking to achieve such a transformation, but this is not surprising when the targets are 10% over 3 years.

Professor Seddon explained that elsewhere in the UK, local governments are achieving savings in the order of 20 to 40%, as well as improving quality of service and improving morale. The reasoning behind making savings to such an extent was because the organisations have been completely redesigned and the conventional ideas have been thrown away, with more productive ideas being employed.

Professor Seddon explained that, based on his experience, the biggest reason for business transformation benefits not being realised is because leaders or managers do not understand it. He said that leaders do not think they need to take the time to get out and study their own systems and redesign them.

During our Public Hearing with the Minister for Social Security, the Operations Director acknowledged that it is usually frontline staff that have the best ideas. Within the Social Security Department, as with other Departments, there is the opportunity to make savings suggestions through managers.

Similarly, the Minister for Economic Development said: *“You have to take people with you when you are trying to go on a journey like this because it is obviously a massive cultural change, particularly for this organisation, the States as a whole, and I think that is where we have approached this from, by dealing with the staff upfront.”*<sup>43</sup> Whilst not disputing Departments have to be upfront with their staff regarding the savings, the step before that should be for managers to work with staff, which would effectively tell them all they needed to know:

**Professor J. Seddon:**

*“...it is very simple, when you go out and study something and get knowledge it becomes compelling. The energy is developed. It is quite interesting. When you first start people are quite naturally resistant, especially the leaders because they think there is nothing they need to know, they pretty well know everything, and once they get started it becomes quite compelling. In fact, you have to hold them back because they are dead keen to start doing things immediately, whereas they have not really understood the full picture. The knowledge generates the motivation to make the change, unquestionably.”*<sup>44</sup>

There would appear to be fear about exploring alternative delivery mechanisms within some Departments. This may be due to a desire to maintain the status quo, a fear of the political fall out or difficulty in managing employee relations. We would recommend that the States champions and encourages these types of initiatives for at the very least the alternative approach creates a benchmark and strong external ‘stick’ to encourage service re-design.

A leadership programme should be commissioned to develop and coach senior managers to be able to think and deliver services in a more radical way. In the words of the Minister for Treasury and Resources: *“I think we are looking to embed an attitude in terms of how people look to deliver best value from the resources they have got”*<sup>45</sup>. This will not happen without a proactive approach to change.

**KEY FINDING TWELVE:**

*Although frontline staff are able to suggest savings through their managers, the Panel has found insufficient evidence that Managers are working “with” their staff in order to make significant cultural changes. The command and control philosophy still permeates the States’ system.*

**RECOMMENDATION ELEVEN:**

*The approach to improving services is an integral part of business transformation. Whilst a leadership programme should be commissioned to develop and coach senior managers to be able to think laterally and deliver services in a more effective way, there must be a change of culture throughout the States.*

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<sup>43</sup> Public Hearing with the Minister for Economic Development Minister: 20th May 2011, pages 40 and 41

<sup>44</sup> Public Hearing with Mr John Seddon: 11th April 2011, pages 53 and 54

<sup>45</sup> Public Hearing with the Minister for Treasury and Resources: 13th June 2011, page 9

## 10. CONCLUSION

It is clear that significant progress has been made in developing and defining the CSR Programme since its inception last year. Change and savings are nothing new to any of the Departments which have been evolving for decades. The big difference is the pace and extent of change that is required under the CSR. From the evidence presented to us the Departments fall into two camps:

- Departments recognise that the objective of the CSR is far more about saving 10% and is also about fundamentally questioning what they do and how they do it. These Departments have a long way to go (which they recognise) but they are asking the right questions - what are the core services we need to provide, how best to provide them. There is a recognition that the CSR Programme is for life and not just the three years, and these Departments are keen to challenge the existing status quo and silo thinking - what is managed centrally and what is decentralised, and what is managed in different Departments.
- Departments that acknowledge the financial aims of the CSR but are still in the old model of evolutionary change. This leads them to more of a salami cutting approach to budgets and services, which is not the answer and is unlikely to achieve the financial aims of the CSR, and will certainly not address the more fundamental objectives. These Departments have no clear transformation methodology, use benchmarking to support arguments for no change, challenge the financial target and argue why Jersey is a special case.

Some Departments are genuinely questioning what is core, what does not need to be done, or what could be done by the private or third sector. Others have not used this as the starting point of the CSR initiative, and this has contributed towards under-performance against targets. However the Panel does recognise that significant progress has been made over the past 12 months despite the dilatory progress on cross cutting issues and the need to develop a more bottom up approach to meet the £65 million saving.

The Panel would conclude on its Terms of Reference as follows:

*To examine how the CSR proposals will be implemented and assess whether there are rigorous delivery and implementation plans. In particular:*

- *Achieving sustainable efficiency savings*
- *Business transformation*
- *Cultural change in terms of business performance*

The Panel concludes the CSR Programme has been established and significant progress has been made over the last 12 months but we still believe that it is unlikely the £65 million savings will be met due to:

- The larger Departments being either behind on their plans or not brought into the CSR objectives
- Significant risk or lack of progress on cross cutting initiatives in particular Terms and Conditions
- In many areas the CSR is not fundamentally questioning the role of government, defining core services and how things should be improved from the customer perspective by engaging staff on the front line.

*To assess whether the savings will adversely affect the delivery of public services with particular reference to:*

- *Identification of core and non-core functions*

We have heard evidence from Professor John Seddon, and indeed been excited by some initiatives within the States, of how the CSR is a good opportunity to improve public services. The challenge is to stop doing things that are not valued by the public and focus on those that are needed.

*To examine whether there is a long term plan to ensure that spending balances appropriately with taxes on an ongoing basis.*

The reason the States has the CSR is to address this point, however, until the larger Departmental CSR plans and cross cutting initiatives are reporting with more confidence against the target, it is difficult to see how the long term balance will be achieved.

*To consider whether the stated objectives of the CSR programme have been met.*

The Panel was delighted to see some Departments rise to the challenge and address all of the above elements of the CSR Programme. However, across the entire States the Panel can only report mixed and patchy progress against these objectives as detailed within the report.

*To examine any further issues relating to the topic that may arise in the course of the Scrutiny review that the Panel considers relevant.*

The importance of aligning Ministers behind a vision and the objectives of the CSR Programme cannot be over emphasised.

## 11. METHODOLOGY AND EVIDENCE CONSIDERED

The following documents are available to read on the Scrutiny website ([www.scrutiny.gov.ie](http://www.scrutiny.gov.ie)). Those received under a confidential agreement will not be uploaded.

### 11.1 Documents

Budget Statement 2011 and Expenditure Proposals for 2012 and 2013

Ministerial Decision, "Comprehensive Spending Review: Allocation of restructuring provision" (MD-TR-2011-0010, 31st January 2011)

Draft Annual Business Plan 2012

Annex to Draft Business Plan 2012

Comprehensive Spending Review: Delivery Plan

Tribal, Comprehensive Spending Review: Peer Review report – Education, Sport and Culture (25th August 2010)

Tribal, Comprehensive Spending Review: Peer Review report – Home Affairs (26th August 2010)

Tribal, Court and Case Costs and Criminal Justice Review (3rd September 2010)

Tribal, Terms and Conditions Review (September 2010)

### 11.2 Websites

- [www.gov.ie](http://www.gov.ie)
- [www.statesassembly.gov.ie](http://www.statesassembly.gov.ie)

### 11.3 Public Hearings

#### Monday 11<sup>th</sup> April 2011

- Professor John Seddon

#### Wednesday 11<sup>th</sup> May 2011

##### **Session one:**

- Deputy A.E. Pryke: The Minister for Health and Social Services
- Deputy E.J. Noel: The Assistant Minister for Health and Social Services
- Managing Director of the Hospital
- Chief Officer of Health and Social Services
- Deputy Chief Officer of Health and Social Services
- Director of Finance and Information

**Session two:**

- Deputy A.K.F. Green: The Minister for Housing
- Chief Officer of Housing
- Finance Director of Housing

**Session three:**

- Deputy J.G. Reed: The Minister for Education, Sport and Culture
- Deputy A.T. Dupre: The Assistant Minister for Education, Sport and Culture
- Director of Education, Sport and Culture
- Finance Director, Education, Sport and Culture
- Business Change Manager, Education, Sport and Culture

**Friday 20<sup>th</sup> May 2011**

**Session one:**

- Deputy I.J. Gorst: The Minister for Social Security
- Deputy A.E. Jeune: The Assistant Minister for Social Security
- Chief Officer of Social Security
- Operation Director of Social Security

**Session two:**

- Senator A.J.H. Maclean: The Minister for Economic Development
- Chief Executive Officer of Economic Development

**Session three:**

- Senator B.I. Le Marquand: The Minister for Home Affairs
- Chief Officer of Home Affairs

**Session four:**

- Senator F.E. Cohen: The Minister for Planning and Environment
- Deputy C.H. Egré: The Assistant Minister for Planning and Environment
- Deputy R.C. Duhamel: The Assistant Minister for Planning and Environment
- Chief Officer of Planning and Environment

**Wednesday 25<sup>th</sup> May 2011**

- Connétable M.K. Jackson: The Minister for Transport and Technical Services
- Deputy K.C. Lewis: The Assistant Minister for Transport and Technical Services
- Chief Officer of Transport and Technical Services
- Interim Audit Manager of Transport and Technical Services

**Monday 13<sup>th</sup> June 2011**

- Senator P.F.C. Ozouf: The Minister for Treasury and Resources
- Connétable J.M. Refault: The Assistant Minister for Treasury and Resources
- Treasurer of the States of Jersey
- Deputy Chief Executive and Chief Officer of Resources
- Comprehensive Spending Review Team Leader

**12. APPENDIX A: REPORT BY MR NEIL MCLOCKLIN**

**Corporate Services  
Scrutiny Panel  
Comprehensive Spending  
Review - 2011-14  
Business Transformation & Culture  
Change**

## Executive Summary

- 1.1 The Comprehensive Spending Review (CSR) for the States of Jersey has a target of 2%, 3% and 5% revenue budget savings for 2011, 2012, and 2013 respectively to address its structural deficit and achieve a savings target of £65m pa. The Corporate Services Scrutiny Panel (CSSP) evaluated the proposed savings and presented these to the States in its Report on the 31<sup>st</sup> August 2010. This Report follows the CSSP review into the progress on realisation of these savings and specifically addresses the issues of business transformation and cultural change.
- 1.2 Corporate Services has a pivotal role in the States achieving the CSR targets. This is due to the interrelationship of Corporate Services and the different Departments on a day to day basis, the impact of Corporate Services cross cutting initiatives on Service Transformation, and because the CSR Programme is managed by Corporate Services. Therefore the CSSP has reviewed the finances and initiatives of every Department in the States, as well as more in-depth review of Corporate Services, to develop a comprehensive understanding of the CSR programme from all perspectives.
- 1.3 This Report focuses upon the Business Transformation and Cultural Change progress, documented by the Panel's Independent Advisor, Neil McLocklin. The panel also received advice from Professor John Seddon, a well known Business Transformation authority.
- 1.4 The evidence from Professor Seddon demonstrated evidence of savings within the public sector elsewhere of between 20-40%, based on transformation methodologies that engaged with staff from a bottom-up perspective and focused upon delivery of what the customer actually wanted, cutting out the unnecessary work that surrounded this. Accountability and responsibility is transferred to the front line to enable them to make decisions that satisfy customer need. This provided the Panel with the confidence that the States was not being overambitious in its own CSR targets. It also helped the panel to challenge the approach and methodologies being adopted by each Department and CSR wide - is the CSR a financially driven process or operationally driven? If the latter, is it top-down or bottom-up, and what methodologies are being used to stimulate new ideas and re-shape the service? Neil McLocklin had advised the panel that the main reason transformational programmes fail to achieve their targets is due to leadership and poor methodology and change management, rather than unrealistic targets.
- 1.5 The CSR Programme has developed significantly since the August 2010 Scrutiny Panel. Recommendations from that Report have been put in place in many areas. The Programme Structure and Reporting process is in place and savings are being tracked, and there is some evidence of best practice being shared. Some Departments have either realised, or have robust plans put in place to realise, the savings. However, some Departments are not so advanced and the Panel is not confident in their ability to achieve the necessary savings.
- 1.6 If the CSR Programme is more than just about achieving a 10% saving, but developing capability and competence to manage and deliver services in a different way beyond a three year time horizon, the States would appear to have a long way to go. A more challenging and open minded culture, with strong leadership, and more commissioning related rather delivery focused competences needs to be developed. This will require investment in education and training and, in some areas, new management. The States has seen some new recruitment at a senior level, which has resulted in new thinking,

and this was evident within the scrutiny review. However, both in terms of the political and operational mindset this is likely to take two to three years to begin to change.

- 1.7 Given the fact that the States has control of all the levers of government servicing a relatively small community, there is an opportunity to develop a real showcase for government and public service delivery. The States is more akin to the Swiss canton model, where local State government is also responsible for health, education, law enforcement etc for areas with populations, in many cases, of similar size to Jersey. Joined up thinking at the local level to deliver the prevention agenda in health, for example, could create a really effective public service that could reinforce the appeal of the Island in attracting business.

## Key Findings

### Key Finding 1: The Need for Change

The States of Jersey is in a relatively strong financial position compared with public sector agencies in the UK and elsewhere in Europe. There is a desire to address a structural deficit, and balance the books, but not a compelling reason for change. A political drive to be 'Low Tax, Low Spend' would not appear to manifest itself into an operational philosophy - for example in the way that London Borough of Barnet's 'Easy Council' (no thrills Easy Jet model) operates, or Essex Works – the Vision for Essex County Council which is to create the best quality of life in England, but on a foundation of developing a purely commissioning based organisation working with private and third sector organisations, and realising £300m of efficiency savings.

The CSSP came to the same conclusion about Vision in its August 2010 Report.

*“For the CSR to succeed the Council of Ministers and the Assembly must demonstrate strategic thinking and more imagination. So far, there is little evidence of such lateral thinking. It is essential that we identify the activities where government must be involved, the activities best done by the private sector and those best left to the individual.”*

The Scrutiny Review challenged Ministers about what the vision was and nobody was able to articulate it. There was some consensus about what the States wanted to leave behind – silo working, inefficient work practices – but not where it wanted to get to and what the organisation would look like in say five years. Without a Vision it is difficult for Ministers and Departments to prioritise option for change and associated expenditure and investment for the CSR and service strategies beyond. Once the Vision has been developed, the Ministers will know in what direction to take the Departments and can develop a Strategy that will deliver this.

### Key Finding 2: Ministerial and Chief Office Recognition of Need for Change

Despite Finding No 1, Ministers are supporting the CSR, and the leadership of most of the Departments have recognised that there is a no option but to achieve the savings. Savings initiatives have been identified, developed and in many cases delivered. The programme covers initiatives for 2011, 2012, and 2013 to achieve the £50m saving or 10% of expenditure. Overall the Corporate Services CSR Programme Management office is co-ordinating reporting and sharing knowledge and best practice. The remit of the CSR Programme Board and support team is to drive the savings, and report back on risk and mitigating actions in delivery of the numerous initiatives to achieve the goal across the States. Reporting on a monthly basis

shows these initiatives migrating from red, through amber, to green status as the initiatives are developed and the risk of not achieving the savings is reduced.

### **Key Finding 3: Confusion on CSR Programme Scope**

There is confusion about what is in the CSR Programme and what is within the scope of other initiatives. The Treasury and Resources Minister viewed CSR as Programme that was re-defining the shape of the States – what it did and how it did it. It was all encompassing. This was reinforced by others who saw the CSR as ‘a programme for life not just the 3 years’. However, in contrast the Chief Minister saw the CSR essentially focused upon the £65 m and the 3 years. The office accommodation strategy was an example of something outside the CSR because it would deliver the bulk of its savings beyond this timescale.

### **Key Finding 4: Importance of Effective Programme Management and supporting project, change and process management capability**

Based upon our experience, the main reason that public sector transformation programmes fail to realise anticipated benefits is the lack of leadership, and the programme of change not being managed effectively.

The Red-Amber-Green (RAG) Reporting adopted by the different Departments enabled the CSSP to quickly compare and contrast the progress being made by different Departments. It was pleased to see that most Departments have the 2011 savings rated as green or ‘banked’, and indeed some Departments, noticeably Economic Development and Housing, have rated nearly their entire CSR three year programme as green - which means the initiatives have been defined, there are no external dependencies and the Department is very confident in realisation.

The CSSP also heard evidence that the States had a lack of capability in project, change and process management areas. This had been addressed in part through a team of project managers and business analysts in the IT area, but the Acting Chief Executive admitted that this was still a significant constraint on pace and scope of transformation. The panel were also concerned that this resource may be a little ICT focused and disconnected from key transformation areas such as customer service.

### **Key Finding 5: Review of Staff Terms & Conditions critical to CSR success**

Based on the hearings held by the Panel, the main area of concern is that staff terms and conditions is the biggest cross cutting area of savings, especially as staff costs represent in some Departments 80% of the cost.

Staff costs represent the largest single cost category and the States have recognised that change has to incur in this area. The anticipated savings are in the region of £14 million from a £345 million staff cost (4%). There is a challenge of maintaining morale whilst cutting back on benefits, and at the same time achieving transformational savings. The latter typically needs staff on board. Similar levels of savings in the UK are currently resulting in industrial action.

Hypothetically a service may be faced with the option of reducing benefits across the board by 10% or reducing staff by 10% - and this is where strong leadership is required to position the merits of either course of action to deliver the right approach. However, given the diversity of the services within the States it is unlikely that there is a ‘one size fits all’ solution. Local Authorities on the mainland have in recent years been caught out by across the board Pay

and Grading Reviews having such a negative impact that all Transformation initiatives are put on hold. The 'journey management' of the Programmes is critical in this respect.

### **Key Finding 6: Importance of Cross Cutting Initiatives**

Based upon experience elsewhere, there will be significant opportunities for cross cutting savings, and this was highlighted as a recommendation in the CSSP Report of August 2010 - Recommendation 3:

*"The CSR team must devote a high priority to the cross cutting areas of the organisation".*

From experience elsewhere cross cutting areas would include areas such as:

- Customer Contact - developing integrated customer contact strategies across the multi-channel environment to enable residents to get the same information over the telephone or the web, and to speak to an advisor who can deal with queries related to benefits as well as payments and bin collections, is simply applying the same models of customer service that have applied for many years. The well known examples of multiple points of contact to inform the public sector that somebody has died for example, are not only frustrating for the resident but cost government lots of money in processing basic data - name, address, date of birth etc. The drive should be to integrate as well as to migrate to cheapest and most effective channel, which for the vast majority of information is the web.
- Innovative Procurement - procurement categorisation and purchasing across services for many commodity items such as energy, facilities management, photo-copiers, stationery etc are very fast payback efficiency wins. Procurement can also be used to align and achieve broader aims and benefits for the government. For example, it may not payback to convert all government vehicles to electric at the current time given the cost of conversion. However, if the government made a commitment to purchase a quantity (for example in 2 years) at a price 20% less than the current price, the market will respond and work out a way to achieve the objective. One key part of the CSR Programme must be to ensure Procurement and Services work effectively together and appropriately account for achieved savings. Typically Services can reduce demand by thinking about smarter ways to work and Procurement can reduce price by effective category management.
- Terms & Conditions/Workforce development - clearly pay and conditions review is critical to success of the CSR from cross cutting perspective. But there are significant wider issues in terms of managing and developing the workforce. This means enhancing the effectiveness of services not only through people development but also systems/process development to ensure more accountability and higher performance. Equally important is to develop the culture and competence of the organisation in the future, for example, more commissioned based and less delivery focused, and strong performance management.
- Property Transformation - this would appear to be an initiative that has been on hold and was reported by a number of Departments as being an obstacle in the achievement of their CSR Targets (for example Home Affairs, Economic Development and Planning and Environmental Services). The acquisition of Lime Grove House was designed to be the start of the programme. However, it is

important to consider the wider implications of property. “Our Department would be much more productive if we worked together” was a quote from one Hearing. Is the property transformation taking into account these benefits in terms of developing its strategy or is the focus just on the cost of the buildings? From the review the Panel has only seen evidence of the latter to date, although we understand Property Holdings are championing the wider benefits which can be three to four times the accommodation savings.

- ICT infrastructure systems - integrated and high performance infrastructure can be a catalyst for more integrated service delivery, as well as enabling significant efficiencies in these high cost areas. This is critical to other transformation cross cutting areas such as customer contact, workforce development and property transformation. The Planning and Environment Department reported that they are rolling out new ways of working to enable their staff to work in the field more, requiring remote access to systems, but also less accommodation.

It would appear that the States have identified Procurement as a specific cross cutting efficiency saving with associated target, and targeting areas like travel, health and temporary staff/agency category expenditure. There are also plans within services to address building maintenance, and some ICT issues like data centre consolidation and outsourcing. We understand a more integrated approach to how people work and their ICT/workplace needs is being developed but is not yet launched. Equally there would appear to be finance and HR initiatives, and we have been informed about plans of new simplified electronic recruitment process. It is less clear how these initiatives develop into robust cross cutting or enabling programmes. It is likely that environmental initiatives are being looked at in isolation by each Department which from experience is not the optimal way to address this.

*The CSSP note that £20.5m of the planned £65m savings are cross cutting (procurement and staff terms and conditions) and as at July 29<sup>th</sup> non of these initiatives are rated green, and the vast majority indeed are red.*

### **Key Finding 7: One Approach/Target is not appropriate for all – a diversity of services and cultures**

In a broad sense there are three types of services that are being scrutinised by the Panel:

- Commissioning Services - the Department's function is primarily one of Commissioning Services from Professionals, or Third Party Suppliers. Examples include Health, Education, Transport and Home Affairs. The service commissioned by the Department may be influenced through commissioning objectives, policy and budgeting, but less directly in the day to day practice which will be determined by the third party's operations, or the professional procedures and processes of doctors, teachers, police officers etc. Typically in these areas the Department has direct influence over the cost of the Commissioning Service, and indirect influence over the commissioned service, which is where the majority of the cost (90% plus) will be.
- Direct Service Delivery - where the Department is delivering the service directly in areas such as Planning and the Environment, Economic Development, Treasury and Resources. In these areas, the Department has far greater direct influence over the cost and operation of the entire service.
- A payment or funding service such as social security or in some respects economic development where the vast majority of the cost of the service is the grant or payment rather than the cost of administering the grant or service. Efficiencies in the

latter should not be ignored and these can be achieved by reducing the amount of customer contact and ensuring the States gets thing right first time every time. However, real savings can only be achieved by reducing the amount of grant or payments by getting people back to work more effectively or the entitlement to benefits or payments.

Services like Education and Health have a direct impact on the wellbeing of the Island today and in the future. There are political, social and economic considerations beyond the CSR that need to be considered such as the Island's economic competitiveness in developing a highly skilled labour force, as well as the aging population which will inevitable create more dependency on health services. The States have recognised this and reduced the CSR target for Health (from 10% to 4% over the time period). However, the CSR creates a challenge to these areas to consider how things can be delivered in a smarter way which ultimately enables a more effective delivery of services in these areas, and therefore can align to the wider aspirations. If there is no challenge, inefficient processes and practices develop resulting in waste or lost opportunity. The more effective procurement processes in health are just one example of savings that do not impact the front line.

It is also important to recognise the diversity of cultures within different Departments. The CSSP could only pick up snippets of evidence in this respect but it is clear that, for example, Home Affairs was more hierarchical and had more command and control than, for example, Economic Development. There is very good operational reason for this - Health would typically be described as similar to Home Affairs, but there was evidence of some change in this respect, with the Change Champions being identified within the hospital as part of the Lean Thinking initiatives.

Culture does not change over night. A significant shift in culture may occur over the 3 year CSR programme, but this would require significant investment in developing the leadership and staff. A true transformation of culture will take significantly longer and is a process of continuous evolution - Transport and Technical Services provided evidence of how they had been struggling to change their culture for ten years.

### **Key Finding 8: Readiness for Change**

It is clear that significant progress has been made in developing and defining the CSR Programme since its inception last year. Change and savings are nothing new to any of the Departments which have been evolving for decades. The big difference is the pace and extent of change that is required under the CSR. From the evidence presented to the CSSP the Departments fall into two camps:

- Departments that recognise the objective of the CSR are far more than about saving 10% but about fundamentally questioning what they do and how they do it. These Departments have a long way to go (which they recognise) but they are asking the right questions - what are the core services we need to provide, how best to provide them. There is a recognition that the CSR Programme is for life and not just the three years, and these Departments are keen to challenge the existing status quo and silo thinking - what is managed centrally and what is decentralised, and what is managed in different Departments.
- Departments that acknowledge the financial aims of the CSR but are still in the old model of evolution change. This leads them to more of a salami cutting approach to budgets and services, which is not the answer and is unlikely to achieve the financial aims of the CSR, and will certainly not address the more fundamental objectives. These Departments have no clear transformation methodology, use benchmarking to

support arguments for no change, challenge the financial target and argue why Jersey is a special case.

### **Key Finding 9: Defining Core Services has only happened in some Departments**

There is strong evidence of mission creep within Departments over the years, and so the CSR Programme was supposed to address this. Some Departments have defined and addressed what their core services are and others have not. Others have defined them in part. So it is difficult to argue that provision of nurses' accommodation or gardening is a core service of the Health and Social Services Department and perhaps would be more effectively managed by Housing/Transport and Technical Services and/or the private sector.

Planning and Environmental Services had a very open approach to nearly all their services which they consider not to be mandatory, but delivered as part of political choice. This created an open approach to questions like should building regulation services be delivered or be reliant on architectural self certification.

The panel believes that defining core service should be the starting point in the CSR Review. Not defining core services prevents more radical approaches such as income generation/user pays or outsourcing being considered.

### **Key Finding 10: Savings Plans need to develop contingencies**

It is better to promote a stretch target rather than the real target, or contingencies to take account of additional expenditure in other areas that has not been forecast due to unforeseen reasons. If this happens in 2 or 3 areas then the target will not be achieved. Setting say an internal challenge to achieve the saving plus 15% across the board is more likely to realise the anticipated benefits. The CSR has recognised this and suggested that Departments build up contingencies, as well as an overall contingency being created to enable some flexibility. There is evidence of some contingency planning and also as initial initiatives/ideas are evaluated, and do not prove feasible, new ideas being developed to replace them.

### **Key Finding 11: Transformational Methodologies and Customer Centricity**

John Seddon gave evidence of how to transform service through understanding the customer and the demand for the service, redesigning the service from this perspective. He recommends a focus on demand flow rather than the existing service process. This results in a service the customer values, and cuts out the existing service process that is not adding any value but is incurring cost. The Ministers have been circulated with a copy of his transcript.

There are many different means of achieving this end-game but they are typically applied from a bottom up perspective within any Department and should be service by service. This should always be within the framework of an overall Programme as it is important to take an entire customer journey perspective and not just to transfer cost to other functions. The outcome is a truly transformed service that can deliver better value at much less cost.

The Prevention Agenda is often linked to this approach, as if one takes a customer perspective, need can often be related back to failure somewhere else in the system. Obvious examples are in the areas of Prevention in Health and Social Services. Reducing the need for acute or high dependency need obviously will save the States significant cost, but the diagnostics of the reason for the need for high cost services from a customer perspective of often the failure of the service provision elsewhere. Therefore the best way to reduce the cost of these services is to re-engineer the process where the initial failure points occur. In this

respect the Integrated Business Improvement Programme structure is important. Bringing together Wellbeing Services - Education, Sport and Health - to raise awareness of the need for healthier lifestyles to reduce obesity or drive smoking cessation are examples of this. The size/uniqueness of the Island is an advantage because the States control all the levers. There is an opportunity to provide services for patients which are totally bespoke to them and which are wrapped around them is much greater on this island than anywhere else have ever been, working in entirely new ways from the UK mainland.

In developing customer centric transformation it is critical to understand how the customer (today and tomorrow) wants to engage with the States. The expectation for many will be to deal with the States via iPhone applications (or the equivalent) in the future, not by paper based correspondence. Migrating more information and processes online also saves significant cost and time for the States staff. The Panel heard evidence from the Departments that the States were significant behind many UK benchmark authorities in this respect, and the majority of processes were not only paper based, but significant money was spent storing and retrieving boxes of files. At least this is recognised and some steps are being made to migrate activity online in areas such as Planning and Environmental Services. However, it is also important to recognise that some residents will always want to engage in the traditional ways.

### **Key Finding 12: Some Departments are unlikely to achieve their target**

It is noted by the CSSP that there is low confidence of success in achieving the target amongst the three largest Departments.

#### *Education Sport & Culture*

We found evidence of using 'selective' comparison with mainland UK, i.e. using UK experience to justify why savings could not be achieved in some areas, but not to look for evidence of good practice in other areas.

There would also appear to be a mindset that private sector could not be engaged in areas such as outsourcing management of leisure facilities, when we are aware that Guernsey are exploring this as an option. Just because some activity is 'uncommercial' does not mean that the private sector can not be engaged to manage it more effectively and reduce a state subsidy.

#### *Health*

The red status of their CSR target must put significant risk and doubt on the achievement of even the 4%. However it would appear that they are starting a bottom-up lean think programme that is really challenging the way things are done and hopefully this will pay dividends as the programme develops.

#### *Home Affairs*

Home Affairs is only committed to 7.7% saving which could rise to 7.9% with some user pays initiatives. They still have some way to go to achieve the 7.7% target and really have little in way of plan B savings in their pipeline. However, the programme methodology adopted has resulted in strong evidence of evolution of projects from red to amber and the green status. All the 2011 target is rated as green but the CSSP have significant concerns about the risks associated with achieving later savings and would suggest further opportunities are identified now to ensure fall back initiatives.

### **Key Finding 13: Examples of Good Practice that could be shared more widely amongst Departments**

The CSR leads are now meeting to share good practice and ideas, to explore possible areas where further savings could be made in the future between Departments and ensure consistency in communications and key messages.

#### *Education Sport & Culture*

Having a non Departmental officer on their CSR Programme Board as an external challenge.

Thinking beyond the three year target framework.

The experience of delegated financial accountability and responsibility for budgets to head teachers has actually resulted in more prudent management of expenditure. They also have the flexibility to carry forward budget under spends into the following year which enables more effective planning and management of resources to the need rather than the financial calendar - creating a culture of spending budgets 'wisely'.

#### *Housing*

Have delivered most of their planned savings already largely through initiatives that benefit both residents as well as saving the States money, following engagement with tenants' forums – the ideal win-win:

- The roll out of user controlled heating and insulation is anticipated to save the residents money, as well as significant reduce maintenance costs to the states.
- Redecoration grants to incoming tenants which reduce voids and give tenants choice and options.

Housing are also fundamentally questioning their role , recognising that the existing model is not an option, and evaluating the best model of managing the portfolio to address the maintenance back log including an Arms Length Management Organisation, a Housing Association, a hybrid trading company etc. It is important that the options are evaluated with rigour from a financially independent perspective.

#### *Health*

The Lean Process Methodology being applied within Health that engages with front line staff as well as learns from UK mainland experience.

In the words of the Hospital Managing Director:

*“The first (phase) is to **create the right climate**. You have to ensure that staff are ready for that challenge, they understand that they are going to be leading it, because it has to be a bottom-up process, and that process is very much around establishing who your change champions are going to be but within a clearly defined structure where there is clinical leadership at all levels. So if the staff do not feel that they are leading the services and that they are accountable for the services and the spending then they do not engage with the process of making those services more efficient... We then needed to **create the culture**, and this is an ongoing process, whereby people felt that they were able to engage with managers, clinical leaders, change champions, whoever it might be, and have their voice heard. There was a significant degree of scepticism and cynicism in parts of the organisation about what*

*C.S.R. was all about and we have been trying to build confidence that this is about doing the right thing in terms of using public funds as effectively as possible to ensure the best patient care results. So I think we are well on the pathway there. We are now in the process of establishing who our change champions are going to be. We have had a number of volunteers from different staff members, and we are looking at how we will be skilling them to ensure that they can lead that change process from the ground level... That is the way the change embeds in the organisation and the savings are sustained going forward."*

Health have also rolled out unit based and activity type costing so that budgets can be better aligned to services and there is an understanding of costs per unit or service rather than just the cost of, say, medical wards, supplies or doctors as line items in the budget. The plan and intention is to develop this further to patient based costing and empowering staff to have more accountability and responsibility for this cost. This will enable front line staff to consider "Well, if I did that differently then I would be able to redeploy that money in a different way, I would give a better service to my patients and I would be being more efficient".

#### *Social Security*

A focus on removing 'waste' from the back office and moving the freed up capacity to the front office has been supported by staff. The staff involved in this process and related to the reduction in 'waste' better than a process of finding 'efficiency'. We also understand that an appointment has been made to lead a 'Seddon' type review of the organisation.

#### *Home Affairs*

Created a 'stretch' target of 5% and 7% (rather than 3% and 5%) across the Departmental services to enable a prioritisation of savings to be determined across the board i.e. it may be decided to reduce savings in one area by taking a full 5% or 7% in another area.

Home Affairs also demonstrated their programme and project methodologies for achieving the savings, creating a Project Initiation Document for each saving, which would identify the saving, the process to achieve it, key milestones, resource requirements, risks, dependencies etc.

Home Affairs have also projects to create shared/integrated services between Ambulance and Fire and Rescue, outsourcing prisoner transportation and some shared police training initiatives with Guernsey - evidence of really challenging core services.

#### *Economic Development*

Working with the third sector, for example RNLI, in provision of services at lower cost. This is just one example of an alternative delivery mechanism that could be explored by other Departments.

#### *Planning and Environment*

Shifting the balance of user pays to reflect the cost so that there is a high charge for large planning/building regulation applications. This has less political impact and makes business sense.

The Department is supporting new ways of working to enable staff to be more effective in the field whilst at the same time reducing their requirement for desks.

### *Transport and Technical Services*

Demonstrated examples of staff suggestion schemes delivering real savings with their UV bulbs.

### *Treasury and Resources*

Specialist knowledge transfer into the Department from external consultants to procure maintenance contracts which resulted in a 20% saving.

Taking the lead on CSR, the Department does have a perspective that 'we are all in this together' and a role which is to 'support Departments' build capacity and achieve their savings, and ensure they are sustainable not just deferring expenditure.

Migration into a three year budgeting process that allows Departments to have more delegated responsibility.

Financial modelling capability and knowledge, and a capital planning methodology that have been developed in one Department are being shared across Departments.

The introduction of accommodation charges for Departments in occupying space from 2012 on wards to ensure Departments have a financial incentive to make the changes anticipated from the Property Transformation.

ICT outsourcing data centres to the private sector to reduce cost and enhance resilience.

### **Key Finding 14: There are opportunities to do more**

The CSSP was pleased to note that Economic Development anticipate achieving a 12% rather than 10% savings, and Environmental and Planning also aim to exceed their target. Whilst the panel accepts the different challenges faced by different Departments, this would suggest that more can be done elsewhere as well.

The CSSP also recognised that more could be done across Departments. For example Housing recognise that they were, in the words of their Chief Officer:

*"the landlord of last resort for a sizable minority, but a group of people in this Island who are seriously disadvantaged and all sorts of issues that come with them. I do not mean just necessarily financial, but medical and behavioural, there are all sorts of areas that we are involved in that the public, and dare I say States Members, are not aware of".*

Is there an opportunity to formalise this role to perhaps provide more intelligence for Benefits or in respect to prevention in social or health services?

### **Key Finding 15: Fear to explore alternative delivery models**

There would appear to be fear about exploring alternative delivery mechanisms within some Departments. This may be due to a desire to maintain the status quo, a fear of the political fall out or difficulty in managing employee relations.

## **Key Finding 16: Will the stated objectives of the CSR be achieved?**

From the CSSP Review it is anticipated that the CSR Programme will only partially achieve its objectives. The stated objectives of the CSR are:

### *Achieving sustainable efficiency savings*

Sustainable savings will be achieved, but in totality there is a high risk that the overall target will not be achieved because of a couple of Departments.

### *Business transformation*

Some Departments are questioning and challenging what they do, and adopting transformational methodologies to do so. Others are still seeing this mainly as a finance and budgeting exercise.

### *Cultural change in terms of business performance*

This will take significantly longer to achieve and we are recommending that this is a key focus of the Programme going forward. The Programme needs to recognise that the CSR is 'for life' not just three years, and a significant change in culture and management style is required, which requires investment.

### *Identification of core and non-core functions*

Some Departments are genuinely questioning what is core, what does not need to be done, or what could be done by the private or third sector. Others have not used this as the starting point of the CSR initiative, and this has contributed towards under-performance against targets.

However, the CSSP does recognise that significant progress has been made over the past 12 months, and if the momentum continues it could be pleasantly surprised.

## **Summary of Transformation Recommendations**

### **RECOMMENDATION 1**

A clear statement is needed from the Council of Ministers on the direction they intend to take the Island, and a vision for the level of government expenditure and priority areas for expenditure.

This Vision could relate to the provision of the most effective public services in Europe as a catalyst to attract further inward investment. Such a Vision would clearly be a mechanism to stop the benchmarking of practice in mainland UK (often to find reasons not to change) and make Jersey the ultimate benchmark.

It would also reinforce the concept of CSR being with the States for life not just three years.

### **RECOMMENDATION 2**

Clarify the scope and objectives of the CSR Programme relative to other programmes. Based upon experience elsewhere, it is recommended that key initiatives are consolidated into a

single programme, but that it is called something that has more meaning to staff and other stakeholders, and so can be communicated more effectively, and aligns to the Vision. Examples from elsewhere would be London Borough of Sutton's Programme which is called Smarter Services Sutton. Its overarching aim is to reduce revenue cost by 20% over 3 years, but it also aims to enhance customer service, is a pathfinder for the 'Big Society Agenda' and is recognised as the leading unitary authority in sustainability with an aim of being carbon neutral by 2017. So under the umbrella programme there are sub-programmes such as Smarter Working Sutton which is the new ways of working, ICT and property programme.

The recommendation would be for the States to have a Programme that reflected the Vision and had perhaps a five year time horizon, but a phase 1 which essentially delivered the CSR target. This would then provide support for phase 1 and longer term phase 2 thinking and initiatives.

### **RECOMMENDATION 3**

Once the Vision has been established we would recommend that all Departments once again revisit what are Core Services to their Department - what services are no longer required and what services are mandatory or political necessities, and if they are required who is best to deliver them – the Department, another Department, the private sector, or the third sector.

### **RECOMMENDATION 4**

The CSR team must devote a high priority to the cross-cutting initiatives within the programme because these will deliver significant savings in their own right and are also inhibiting the savings being achieved by the Departments. These cross cutting initiatives must be focused on supporting the entire CSR Programme not just the particular focus of the Treasury and Resources Department, so for example, the property strategy must consider the productivity benefits achieved in bring staff together, not just the cost of the bricks and mortar. In areas such as Customer Service, ICT and HR it may require investment by Treasury and Resources to develop new ways of working that deliver benefits elsewhere.

### **RECOMMENDATION 5**

The CSR Programme needs to ensure that there is complete consistency on the Red Amber Green reporting status definitions.

### **RECOMMENDATION 6**

The States would appear to be along way behind in terms of channel shift and migration of services and information on line. Experience elsewhere suggests that this needs to be a cross-cutting centrally led approach, but in partnership with the services. The central approach ensures the integration of processes, optimisation of ICT platform and a consistent way to manage customers across services, but the benefits and savings are only derived through service process re-engineering. The CSR Programme should develop a Customer Service Programme.

### **RECOMMENDATION 7**

The CSR programme needs to leverage the new thinking and enthusiasm of the Departments that have brought into the wider objectives of the CSR Programme, to inspire the Departments that are still considering the programme as merely a financial savings exercise. This includes

challenging what is done centrally and what is delegated to services. It is critical to embed a culture of continuous challenge and improvement amongst all Departments.

### **RECOMMENDATION 8**

There would appear to be fear about exploring alternative delivery mechanisms within some Departments. This may be due to a desire to maintain the status quo, a fear of the political fall out or difficulty in managing employee relations. We would recommend that the States champions and encourages these types of initiatives for at the very least the alternative approach creates a benchmark and strong external 'stick' to encourage service re-design.

### **RECOMMENDATION 9**

A leadership programme should be commissioned to develop and coach senior managers to be able to think and deliver services in a more radical way. In the words of the Minister for Treasury and Resources:

*"I think we are looking to embed an attitude in terms of how people look to deliver best value from the resources they have got".*

This will not happen without a proactive approach to change.

### **RECOMMENDATION 10**

The Review of Staff Terms and Conditions has the potential to de-rail the entire CSR Programme. There is significant evidence that this can be the case from the UK Mainland where some authorities have not been managed such reviews effectively resulting in all other initiatives being put on hold for several months. We would recommend that this is considered the number one priority and appropriate resource in terms of engagement as well as programme management is invested into this area.

### **RECOMMENDATION 11**

CSSP suggest a process that facilitates initiatives that are cross Department - i.e. may require investment in one Department but will save money in another. There is little incentive to make this happen at the moment. Perhaps a Dragons Den style initiative scheme backed with some additional invest to save. This may encourage more 'out of the box' thinking to determine what Housing or Education could do, for example, to support the prevention agenda in Health.

### **RECOMMENDATION 12**

There is strong evidence throughout the Review of a desire for Departments to have more control and delegate more decision making to the front line in resourcing and operational matters - e.g. staff terms and conditions, relationships with unions etc. The benefits would be the services could be far more responsive to staff needs, as well as aligning resourcing to operational need resulting in efficiencies, as well as enabling performance related pay.

This is something that would also require managerial development and a stronger focus on performance management. It is also something that would have to evolve, perhaps Department by Department, rather than a big bang approach. Transport and Technical Services would be a willing pilot area to explore this.

## RECOMMENDATION 13

The States should review its transformation supporting capability to enable savings to be delivered faster. The limitation of the existing project and process change resource in ICT would appear to be a constraint, and perhaps should be supplemented with external or internal customer service, lean systems, change and project management resource.

### Independent Expert Advice

2.1 The Panel engaged the following advisor to assist with the business transformation and cultural aspects of the review:

Neil McLocklin, BSc, MSc, MBA Director of Business Transformation Consultancy at Capita Symonds.

2.2 The Panel also heard evidence from Professor John Seddon, Managing Director of Vanguard Consulting, a business transformation consultancy working in the public sector across the world.

### Terms of Reference

3.1 The Corporate Services Scrutiny Panel approved the following Terms of Reference for the Advisor Report:

- Advisor's opinion on evidence gathered –
  - What was the impression of readiness to transform and change?
  - From advisor's experience - Will Departments be successful in what they are trying to achieve?
- Was there any evidence of rigorous delivery plans for achieving targets?
- Which Departments are at the forefront and who are lagging behind?
- To include anything else that may be relevant to the Panel's terms of reference:
  1. To examine how the CSR proposals will be implemented and assess whether there are rigorous delivery and implementation plans. In particular:
    - Achieving sustainable efficiency savings
    - Business transformation
    - Cultural change in terms of business performance
  2. To assess whether the savings will adversely affect the delivery of public services with particular reference to:
    - Identification of core and non-core functions
  3. To examine whether there is a long term plan to ensure that spending balances appropriately with taxes on an ongoing basis.
  4. To consider whether the stated objectives of the CSR programme have been met.
  5. To examine any further issues relating to the topic that may arise in the course of the Scrutiny review that the Panel considers relevant.

## **13. APPENDIX B: REPORT BY PROFESSOR MICHAEL OLIVER**

### **Jersey's Comprehensive Spending Review: An update**

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**Professor Michael J. Oliver**

**August 2011**

## 1. INTRODUCTION

- 1.1 The impact of the first wave of the financial crisis between 2008 and 2009 should have dispelled any myth that even a well run offshore financial centre like Jersey can avoid the impact of a global financial crisis. As the sovereign debt crises has continued to spread in recent months, it might well have been tempting to think that with £600m in the Strategic Reserve and with a low tax environment, Jersey could not suffer the same fate as other countries. Jersey is not the United States of America so it cannot lose what it does not have (a reserve currency or a credit rating), but it can always lose what it has long had, namely fiscal credibility.
- 1.2 Over the last decade, Jersey has fought hard to keep its fiscal credibility but it has been a battle which at times it has seemed in danger of losing. States expenditure has grown rapidly and a spending review in the mid-2000s did little to reign in spending. Tax increases were required after outside pressure from the OECD and the EU forced Jersey to change its corporate tax structure. The recent financial crises has led to a contraction in Jersey's biggest industry and the future path of finance is more uncertain than it was following the end of recession in 2004. The large budget surpluses of the late-2000s are unlikely to return anytime soon and it will take time to build up a healthy balance in the Stabilisation Fund. Moreover, there are also large spending pressures in the medium to long-term which have not been adequately addressed. There is a total unfunded pension liability of between £750m and £1b. There is an enormous backlog of States' maintenance and new investment is needed in social overhead capital and health care for the aging population.
- 1.3 Since the first report by the Corporate Services Scrutiny Panel (CSSP) on the three year Comprehensive Spending Review (CSR), further plans have been published by the Council of Ministers to save an on-going £65m per year to deal with projected deficits. Progress has been made on a number of fronts including more detailed work on the next stage of expenditure reductions which is intended to deliver financial management improvements and organisational changes. Concomitantly, a new fiscal strategy was accepted by the States of Jersey in December 2010 and a Medium Term Financial Plan was approved by the States Assembly in July 2011. In sum, if successfully implemented in full there will be a financial management framework with proper contingencies and rules which should simultaneously improve the quality and effectiveness of the public sector.

- 1.4 Policymakers have undertaken a great deal of work since August 2010 in trying to bolster the delivery of the CSR. However, the first part of the CSR was the easy part; during 2011 it has become clear that there are a number of obstacles which threaten the savings target of £65m in the three-year timescale. This report discusses these obstacles and suggests that there are few grounds to be complacent. Fiscal prudence has yet to be won.

## **2. THE STATE OF THE PUBLIC FINANCES – SUMMER 2011**

- 2.1 Despite optimistic forecasts made in the 2009 Budget that revenue and expenditure would broadly balance from 2010 onwards, the 2010 Budget (announced in December 2009) suggested that the States of Jersey would probably run a series of budget deficits. These were forecast to be £64m in 2010, £72m in 2011 and £53m in 2012. The 2011 Budget (as amended) suggested that in the absence of any proposals being adopted in the CSR or the Fiscal Strategy Review (FSR), the deficit would probably be £101m in 2010 and was forecast to be £89m in 2011, £107m in 2012 and £112m in 2013.
- 2.2 The actual deficit in 2010 was £85m, due to an additional £15m in income tax revenue and net revenue expenditure being £2m lower than projected in the 2011 Budget. Despite the addition of around £15–20m per year in expenditure since the 2011 Budget, the Treasury now forecasts higher income tax receipts and additional Budget measures which together will improve the income side of the balance sheet by £10m in 2012 and 2013 (States of Jersey 2011). After taking into account the CSR and the FSR, the 2012 Business Plan now estimates that deficits in 2011 (£66m) and 2012 (£19m) will be followed by surpluses of £6m in 2013 and £9m in 2014.
- 2.3 Although some of the deficit which opened up in 2009 was caused by cyclical factors, it was suggested in 2010 that between £50m and £60m is structural (States of Jersey 2010, p. 6). The structural deficit has been aggravated during the current crisis by a permanent loss of tax revenues which accompanies a permanent loss of output. In other words, assuming unchanged policies, it will not disappear once temporary stimulus measures are withdrawn and economic growth returns to its long-run trend. In addition, allowing for investment in services, maintenance in infrastructure and establishing a central reserve for exceptional unforeseen expenditure, there is a £100m shortfall. Further, extra health and pension expenditure increases will add to the structural deficit.
- 2.4 The forecast of surpluses in the States accounts from 2013 are to be welcomed, but need to be accompanied by a high degree of caution for the following reasons:

- If the financial crises continues, it is unclear whether income revenues will be as buoyant as forecast. Given the continuing weakness of the world economy, it is likely that UK interest rates will remain unchanged into 2012. Although Jersey's Financial Institutions Survey revealed that financial services business were optimistic about profits in 2011, as the Fiscal Policy Panel pointed out this needs to be treated with caution as the profit expectations for 2010 in a previous survey were a poor guide to the outturn (FPP 2011, p. 11).
- The Fiscal Policy Panel also note that there are threats to the zero-ten corporate tax regime and changes to the international tax and regulatory environments which pose challenges to Jersey's business models and are altering the relationships between Jersey banks and their parents.
- When there have been periods of fast economic growth over the past two decades, General Revenue Income forecasts tend to be under estimated when compared to actual. Conversely, during periods of slow or declining economic growth, officials have over estimated the levels of expected General Revenue Income. If economic growth continues to be sluggish, the income forecasts might be on the optimistic side.
- If CSR 2 cannot be delivered, then the expenditure side of the balance sheet will deteriorate. If, as seems likely, further fiscal tightening is required, then it will be necessary to either revisit the decision not to increase employees' social security contributions, or to have another fiscal strategy review.

2.5 The introduction of a Medium Term Financial Plan (MTFP) as part of the amendment to the Public Finance Law is precisely the sort of development that several commentators have urged for a number of years. It is to be welcomed as it will impose considerable financial discipline on the States Assembly in the medium-term. It will present Departments with challenges but should encourage them to fully embrace the transformational culture which is being developed across the States.

2.6 At the end of 2011, the Stabilisation Fund will have a balance of £11m. The intention has always been to top-up the Stabilisation Fund again when the economy recovers in time for a future economic downturn. It is essential that this objective is built into the new financial framework and the mind-set of the new Council of Ministers after the elections in October 2011. However, with an uncertain economic outlook, topping up the Stabilisation Fund could take longer to achieve than policymakers had originally hoped.

### 3. OBSERVATIONS ON THE EMERGING ECONOMIC ISSUES FROM JERSEY'S CSR PROCESS

- 3.1 One of the first areas that the CSSP explored with each Department was whether they had considered their core and non-core services. The logic behind this was to understand whether Departments had explored if they could make significant savings by reducing non-core services without affecting the core, whilst simultaneously considering whether they needed to make any changes to their core services. What can often prevent government Departments from having to think along these lines in order to reduce expenditure is that they can turn to central government and beg for more money; in turn, central governments know that there is always the soft option of raising additional money from the taxpayer. As an ex-chief economist of the IMF notes:

'Inefficiency arising from poor incentives within the organization is compounded by the fact that the government is a monopoly and has little fear of running out of resource so long as the taxpayer can be squeezed. The combination of poor incentives and little competition typically results in poor outcomes when governments undertake activities that should belong to the private domain.'

(Rajan 2010, p. 54)

During the public hearings with Ministers in May and June 2011, there was evidence that some Departments were beginning to adopt a new culture and several Ministers expressed a 'just do it' attitude to expenditure cuts which appeared absent in 2010. However, some of the wider questions about what core services should be provided have not been explored outside Departments (i.e. in the political arena).

***Recommendation: There needs to be a public debate, led by senior politicians, about the role of the state in Jersey.***

- 3.2 Two of the biggest spending Departments have had an internal review and external review during the last year and there has been a review by Tribal of terms and conditions. Insofar as these relate to the CSR and on-going cost savings, observations need to be made under separate points.

### 3.3 Health and Social Services:

3.3.1 In September 2010, the Health and Social Services (H&SS) CSR Steering Group met to consider their response to making an additional 8 per cent of savings during 2012 and 2013. They concluded that it would be simply impossible to deliver the cuts required, and argued that a public debate was necessary to establish where the balance lies between 'pure efficiency' savings and what was essential (or 'core') for health and social care provision on the Island. As has been remarked in 3.1, whilst it is true that a public debate has not been had, it is worrying that the admission was made that it was simply not possible to provide a firm savings figure 'due to the issue of lack of information, availability, time and dedicated project management resource' and instead 'a range is the most appropriate way of presenting these options at this time'. During the review of CSR 1 in the summer of 2010, CSSP understood that it was simply impossible for H&SS to identify savings because of the problems which the Steering Group mentioned, but this seemed not to be accepted by the Department at the time.

3.3.2 In May 2011, H&SS published an external review written by KPMG. This produced an enormous amount of technical information which was not otherwise in the public domain (KPMG 2010). The KPMG review provided the basis for the Green Paper on the future of healthcare in Jersey (Health and Social Services 2011). The Green Paper discusses three options for the provision of future health care for the Island. Option 1 is to keep services as they are now; option 2 is to restrict or minimise services to reduce costs; and option 3 is to provide a new model of healthcare in the Island. Of the three options, scenario 2 would result in the biggest savings for H&SS by 2040 (in 2010 prices, the total spend by the H&SS Department at that date would be £177m) and Social Security. However, this scenario suggests that contributions from other parties, user pays, third sector and private insurance schemes would increase seven-fold by 2040. Scenario 3 – which is heavily emphasised in the KPMG review – projects savings for H&SS of £30m by 2040, the same spend by Social Security (again, in 2010 prices) and a reduction of £7m in contributions from other parties. Although it is very difficult to fully calculate the full extent of savings which can come from scenario 3, evidence from the UK suggests that by providing more support for people in their own homes and mixing care in the community with social care

and specialist doctors and nurses coupled to new health technologies could result in significant savings in health budgets. However, to the extent that these savings can be fully realised, it is necessary to have strong political leadership and robust methodology and change management in place. Given that there is an enormous amount of work to be undertaken in the Department, the financial gains from scenario 3 will have long and variable gestations lags and in the interim, a lot more investment will need to be undertaken in H&SS.

### 3.4 Education, Sport and Culture:

3.4.1 In his evidence to the CSSP in June 2010, the Minister for Education, Sport and Culture (ESC) said that a number of educational reviews would be completed by September 2010 and at that point his Department would go out to consultation with the public before decisions were made on broader expenditure reductions.<sup>46</sup> The CSSP's report on CSR 1 recognised that there were clearly timescale problems associated with ESC delivering its full savings but noted that the Minister publicly stated that he had every intention of delivering on the savings identified over the three-year period.

3.4.2 The peer review by Tribal into the Department's CSR published at the end of August 2010 noted that of the £8.3m of savings which had been identified, ESC were 'well positioned' to deliver £6.3m of savings but there was a risk attached to securing the remaining £2m (Tribal 2010a, p.3). The £2m comprised the delivery of a more efficient model of secondary education (£1m) and the exploration of different models of collaboration within the tertiary sector (£1m). Both of these were pushed back by ESC to be delivered in the period 2014/16. Tribal also identified an additional £1.05m of savings which they believed were achievable by 2013; however, even with these new savings identified, ESC faced a short-fall of £3m of their 10% CSR target by 2013. The deathblow for ESC's CSR targets occurred in June 2011 when the States Assembly voted to approve P72/2011 which deferred over £7m of savings. The cumulative savings for ESC between 2011 and 2013 now stand

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<sup>46</sup> The Department's consultation paper (Education, Sport and Culture 2011) launched in July 2011 does not identify any cost savings. Depending on the outcome of the review, ESC might require future increases in their budgets.

at a little over £4m, which is only 36% of the savings which it needs to find by 2013.

3.4.3 As Tribal's report summarises, 80% of ESC's budget goes towards staff costs and any savings on these await the full implementation of terms and conditions. Another significant cross cutting saving could be made with money spent on premises, but this awaits the publication of the property strategy.

***Recommendation: For CSR 3 and 4, it is essential that differentiated targets are sought for different Departments; however, additional investment for some Departments cannot be ruled out.***

### 3.5 Terms and Conditions

3.5.1 One of the biggest opportunities which the CSR affords the States of Jersey is to review the terms of conditions of public sector workers.<sup>47</sup> The costs of employing workers in the public sector in 2010 was £326m (or 54% of Net Revenue Expenditure). Senior civil servants and Ministers have expressed the view that significant savings can be found by cutting the paybill in the public sector. If there is a desire to cut the paybill by, say, 20%, this can either be done by cutting the cost per worker by 20% (whilst leaving the workforce levels the same) or by cutting the number of jobs in the public sector by 20% (while leaving the cost per worker the same), or a combination of the two.

3.5.2 There have been several studies commissioned by the States of Jersey in the past to examine how pay locally compares to the UK in both the public and private sectors (e.g. Hassel Blampied 2009; Comptroller and Auditor General 2008, 2011). The latest study by Tribal (2010b, p. 4) was undertaken ‘to review the effectiveness of existing pay and conditions of service packages across the public service with a view to ensuring that these give good value for money to the island of Jersey, are affordable, and are “fit for purpose” in terms of recruitment, retention and motivation of staff in the various pay groups’. It noted that ‘there is little consistency in the employment terms and conditions of the SoJ [States of Jersey] employees providing significant scope for simplification, opportunities for some harmonisation and modernisation’ (Tribal 2010b, p. 4). Its main findings included:

- Grading structures have been in place for some time and do not appear to have been subject to continuous review and updating to achieve flexibility, link to performance and reflect changes to the business of the States;
- Over 40 per cent of the States workforce does not have any job evaluation schemes;
- States of Jersey salaries do benchmark favourably to similar jobs in the UK but some posts are below the benchmark data;

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<sup>47</sup> By terms and conditions, this is taken to mean pay and grading, overtime, allowances, sick pay and pensions. Aside from these quantitative measures, qualitative measures would also encompass employee benefits.

- Some allowances are out of date and could be consolidated into relevant jobs;
- Overtime spend should be tightly managed;
- Public sector sick pay is more generous than private sector allowances.

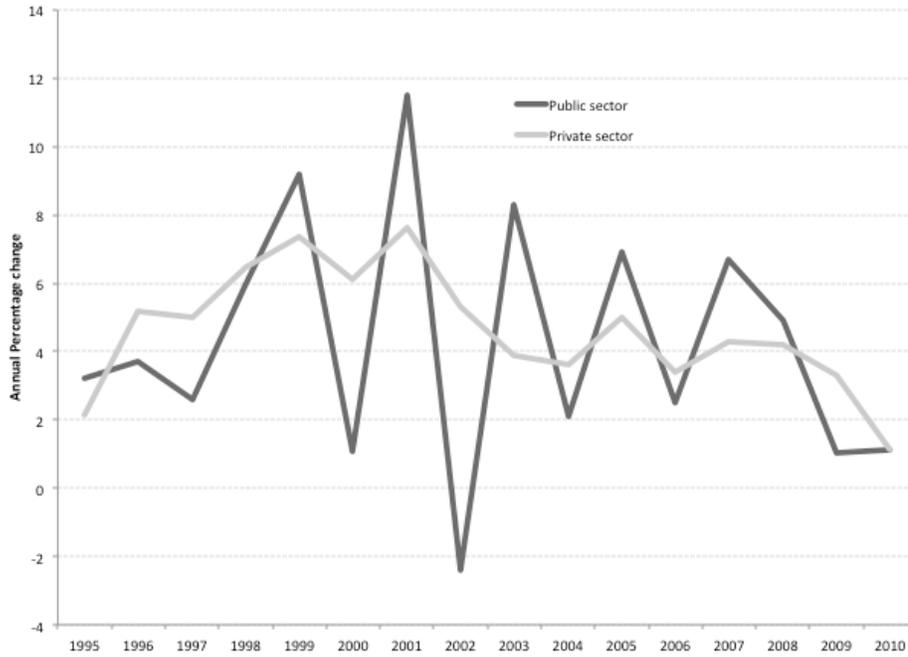
3.5.3 Tribal benchmarked a cross section of posts in the States of Jersey to posts in the public sector in Inner London. The sample showed that some States of Jersey salaries were above the Inner London rates (teachers, police and prison staff) and others were below (e.g. Senior Management Accountant, Band 12 and nurses). Tribal's conclusion was that the States of Jersey 'has too many salary grades and most of the salary grades in place have too many increments that employees progress through automatically over many years. The top increment of many grades/pay scales enables employees to achieve above market salaries' (Tribal 2010b, p. 14). This conclusion is not at odds with studies which have shown that the States pay well in relation to the private sector at the lower ends of the pay scales and not as well at the higher end of the pay scale in comparison to the public sector in England (Comptroller and Auditor General 2011, p. 21; Hassell Blampied Associates 2009, p. 9).

3.5.4 The studies are cross-sectional, however, and what they do not emphasize is the overall trend in public and private compensation over time. Although there is not comparable data prior to 1995, Figure 1 plots the growth in average earnings in the private sector and public sector from this date. The growth of average earnings were below those in the private sector until 1998 and although there are two downward spikes in the earnings of the public sector in the early part of the 2000s, since then, the rate of growth in earnings in the public sector has been higher than that of the private sector.

Figure 1 only measures the *rate of change* in earnings and says nothing about the *mean level* of earnings. Figure 2 illustrates total compensation in the public and private sector since 1998, divided by per full time equivalent (FTE) employee. This total includes salaries, wages, pension and social security. In short:

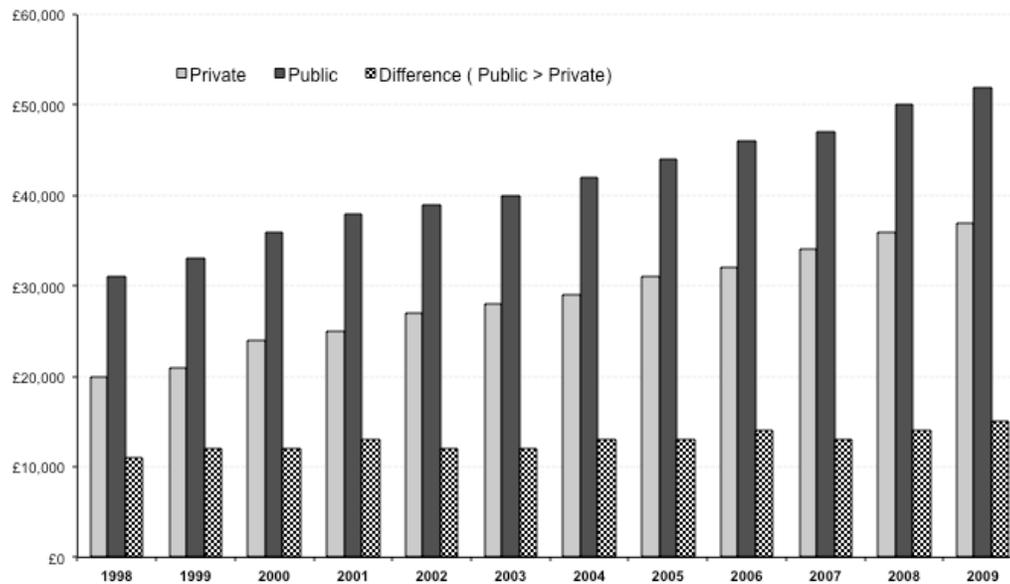
- By 2009, the average compensation per employee in the public sector stood at almost £52,000 compared to £37,000 in the private sector. Data for 2010 is not shown in Figure 2 because the data is not available for the private sector, but by this date the average compensation per employee in the public sector was £54,000.
- The difference in compensation between the public and private sector has increased from £11,000 per head in 1998 to £15,000 per head by 2009 with the biggest increases occurring since 2003.
- Between 2003 and 2009, much of the additional increases in compensation in the public sector have arisen because of increasing costs rather than increasing headcounts.

**Figure 1.** Annual percentage change in average earnings in the public and private sector, 1995-2010



Source: States of Jersey Statistics Unit

**Figure 2.** Average costs of employing staff in the public and private sector, 1998–2009 (per FTE)



Source: States of Jersey Statistics Unit

3.5.5 The differential which now exists between the private and public sector seems very difficult to justify, particularly as the growth of labour productivity in the public sector has been very sluggish since 2000. It could in fact be argued that the large increase in costs involved in employing staff in the public sector actually worked as a disincentive to productivity enhancements, which reinforces the key findings of Tribal and other studies that show how semi-automatic pay and promotion systems do not reward innovation or ability and that there are difficulties in sacking underperforming workers and rewarding staff who perform exceptionally well.

3.5.6 Unfortunately, until terms and conditions are reformed, it seems that it is wishful thinking that they can be serious inroads to achieving the £65m savings target. As Tribal (2010b, p. 21) notes, 'Jersey does not have the same framework of employment legislation [as the UK] and therefore has not experienced the same external impact on its employment practice over years'. Moreover, policymakers need to remember that Jersey's industrial relations structure is more akin to the UK in the 1970s (and there it took twenty years to introduce a series of trades union legislation). The report in the JEP on the 1 August ('Union anger as talks fail to materialise') is precisely the scenario which officials should be trying to avoid if they are serious about engaging the workforce in a genuine dialogue to address the extensive changes which need to take place.

***Recommendation: fast track an implementation plan to deliver significant and long-lasting changes to terms and conditions.***

### 3.6 Social Security

At the time of the CSSP hearings in May 2011, the Social Security Department was undertaking an internal review which was examining which areas of income support needed to be amended. The Minister indicated to the CSSP that this would not be completed before October 2011. Aside from removing any inefficiencies in the day-to-day operation of the Department, the more serious reductions in costs can only come from changes to the level of benefits paid, the type of benefit paid and cutting back on fraud. Although the Department is putting more resources into eliminating fraud, the Royal Court has recently suggested that the Department needs to give

more priority to dealing with fraudulent claims. It is unclear how much fraud is costing the Island but there does appear to be a focus on dealing with this.

### 3.7 Invest to Save

It is surprising that a year on from their introduction, there were not more invest to save proposals in CSR 2. The UK introduced a similar scheme back in 1998 during its first Comprehensive Spending Review and it was designed to encourage partnership working across central and local government, enabling innovation and delivering long-term efficiencies in public service delivery. In the UK invest to save has also encouraged new ways of working and delivering public services, funding projects which were unlikely to have received funding from mainstream Departmental budgets but which then result in shared IT systems/processes, good practice on joining up services and increasing the effectiveness of service delivery. In short, invest to save can be instrumental in addressing the cross cutting issues of a CSR.

Policymakers need to be aware that the slow take up in Jersey of invest to save could reflect deeper problems:

- Inadequate communication with the frontline service around the purpose of the service;
- Inadequate understanding/engagement of existing service provision within a community;
- Risk aversion of Departments;
- Lack of consensus on the direction the service.
- Lack of commitment at a senior or Departmental level;
- Lack of commitment on frontline;
- Fear of negative press and public reaction to new ideas.

Although there are probably few quick wins, invest to save should be playing an important role in the CSR. Given the Treasury Minister's recent announcements about extending the role of the third sector in Jersey, it might be a timely opportunity to reassess the role of invest to save.

***Recommendation: strengthen invest to save so it is an effective mechanism to support innovation, risk taking and joint working across the public sector.***

### 3.8 User Pays

There has been an additional £800m of 'user pays' proposals in CSR 2. As the Treasury Minister remarked in the hearings, he was surprised that there were not more initiatives. Given what has been said in the Panel's first report into the CSR this is in fact unsurprising. User pays are the responsibility of Departments who are not always best placed to think commercially. Whilst there should be positive spillover effects from user pays coupled to a drive for value for money through ICT investments, business process re-engineering, market-type mechanisms and shared services, many would recognize that most government Departments can find it challenging to bring about innovative changes. This is particularly so for Jersey.

### 3.9 'Value Jersey'

The CSR Team clearly see their work as much a 'social project' as an economic project and one which requires significant cultural change with stakeholders. The re-launch of the States of Jersey CSR website as 'Value Jersey' is a positive attempt at engaging the public with success stories about where expenditure cuts have been made and encouraging ideas and suggestions from members of the public on where the States can save money. However, perhaps more can be done to communicate developments across Departments.

***Recommendation: As well as continuing to disseminate the news of the CSR process through the 'Value Jersey' website, officials also need to share the results of good practice through cross-Departmental workshops.***

### 3.10 Future CSRs

Discussions about CSR 3, 4 and 5 are premature until CSR 2 (i.e. precisely £65m of permanent savings) is achieved. Officials need to be aware that the public are likely to begin to wear of incessant talk about expenditure cuts and that 'CSR fatigue' will need to be vigorously countered. A Harris/Financial Times poll conducted in June 2011 showed that over a twelve-month period, public support for expenditure cuts in the UK had fallen sharply ('Support for UK cuts plummets – FT poll', *Financial Times*, 11 July 2011). Whilst the poll showed that it was still high in five leading European economics and the US, it will inevitably be a matter of time before there is growing

public dissent about the scale of the expenditure cuts which will be required for European countries to redress their fiscal imbalances.

***Recommendation: Until the £65m of savings have been independently confirmed by the Comptroller and Auditor General as genuine saving, Ministers should focus on the full delivery of CSR 2.***

#### **4. SUMMARY OF RECOMMENDATIONS**

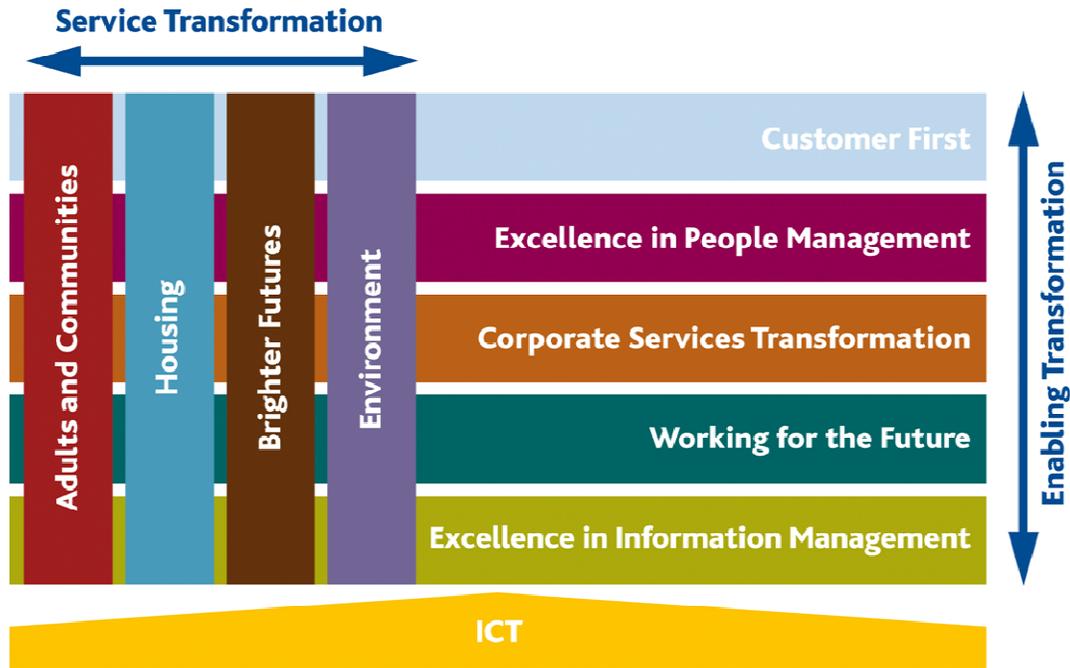
- 4.1 There needs to be a public debate, led by senior politicians, about the role of the state in Jersey.
- 4.2 For CSR 3 and 4, it is essential that differentiated targets are sought for different Departments; however, additional investment for some Departments cannot be ruled out.
- 4.3 Fast track an implementation plan to deliver significant and long-lasting changes to terms and conditions.
- 4.4 Strengthen invest to save so it is an effective mechanism to support innovation, risk taking and joint working across the public sector.
- 4.5 As well as continuing to disseminate the news of the CSR process through the 'Value Jersey' website, officials also need to share the results of good practice through cross-Departmental workshops.
- 4.6 Until the £65m of savings have been independently confirmed by the Comptroller and Auditor General as genuine saving, Ministers should focus on the full delivery of CSR 2.

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## 14. APPENDIX C: BIRMINGHAM CITY COUNCIL<sup>48</sup>: CASE STUDY

BCC is the largest local authority in Europe with 56,000 staff. It is also undertaking the largest transformation of its services aiming to save £1.5b over 10 years. The Transformation Programme is made up of nine sub programmes – comprising cross cutting or enabling programmes as well as service specific initiatives as highlighted below:



Overview of Programme

Key elements of the Programme are:

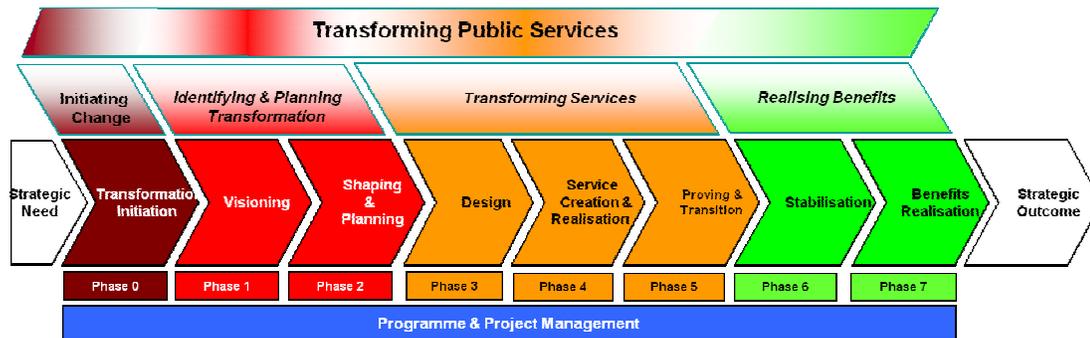
### a) *Vision & Objectives*

- Vision
  - i. Customer comes first
  - ii. Managers & staff serve Birmingham people wherever needed
  - iii. We solve people's problems
  - iv. Collaboration and decision making as near front line as possible
  - v. We have excellent, cost effective services
  - vi. We have high levels of job satisfaction
- Transformational Outcomes
  - i. 15% Productivity Improvement
  - ii. Top quartile performance

### b) *Methodology*

A transformational methodology called CHAMPS 2 has been developed by the Council in collaboration with its Transformation Private Sector Partners which is outlined below:

<sup>48</sup> [www.birmingham.gov.uk/](http://www.birmingham.gov.uk/)



### Champs 2 Methodology

#### c) Governance

Governance was critical to the success of the programme with strong Member involvement at all stages, and representation on the overall Programme Board as well as a lead member for each sub programme.

#### d) Information

Making the council's transformation possible is a root and branch revamp of its underlying IT systems - linking scores of legacy systems into an Enterprise system, which will provide one view of the customer as well as tracking all costs and expenses.

The single view of the customer enables the Customer First Programme to provide residents with the ability to log onto the city council website and see a summary of all their dealings with the authority - allowing residents to do anything from checking when the council will recover a dumped car they reported to booking an appointment to see a benefits officer.

#### e) Capacity and Skills

The Council has partnered with private sector companies to create a Joint Venture transformation capability called Service Birmingham. This is resources 50% by Council staff and 50% by private sector staff, to ensure the Council maximises the knowledge transfer into the Council. The joint teams support each of the programmes with the right skills and competences to make the transformation

In addition Excellence in People Management is developing the wider Council skill base to develop their own skills in customer service, change management and performance management amongst other things.