When ‘more for less’ becomes ‘less for less’: the implications of central decision-making for the delivery of frontline services

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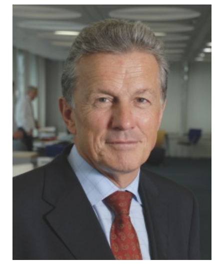
With his unique perspective on the public sector, the Comptroller and Auditor General, ***Sir Amyas Morse****, explains some of the elements of financial management and planning that determine success in major reform programmes. He uses examples from local government, adult social care, and NHS reforms to conclude that, too often, ‘efficiency’ improvements have shaded over into unplanned grass roots service reductions, as a result of central austerity measures.*



The Comptroller and Auditor General in the UK and England is an old post that came into being in 1866. Now as the 17th occupant of the office, my role is to head the National Audit Office (NAO) and to support Parliament in holding government to account for how departments and agencies spend public money. To give a sense of scale, each year some 750 NAO auditors check and I certify around 370 spending accounts, including all central government departments. This represents over £1.6 trillion in expenditure and £1.7 trillion in assets. NAO also publishes around 65 major ‘value for money’ (VFM) audits looking at everything from international development to rail infrastructure, and from prisons to social care.

Via VFM audits, NAO directly supports around 50 evidence sessions of the House of Commons’ Public Accounts Committee every year. Our perspective – looking across the whole of the public sector – is unique. And in addition, I am completely independent from government – so that NAO can choose autonomously which areas of government spending to examine; and shed light on poor value for money by using the bright light of Parliamentary and public scrutiny.

The topic – major change in complex, connected systems

I want to explore some of the elements of strategic financial management and planning that determine success in major reform programmes in connected systems, and how flexibly and effectively those elements need to be brought to bear.

My specific context is how central government introduces reforms to locally delivered services so as to achieve its policy objectives, and the effect of its approach on funding, budgeting and efficiency. There is a strong case for considering this area in the light of recent practical experience, alongside the problems created by a lack of joined-up thinking.

I am not going to say anything particularly surprising, or anything that any of the senior figures involved would argue with, though they might not like my conclusion. I am not going to challenge any policy objectives – that is not my job – nor am I challenging the principle of seeking to use public resources as efficiently as possible and make economies where possible. I am talking about the ‘*how*’, not the ‘*what*’ – in short: intelligent implementation and its context of budgeting and funding.

The issue – a lack of joined-up thinking

Let me set out the issue. The examples of connected systems that I am going to use are local government, adult social care (delivered by local government) and the National Health Service in England. The policy background is that since 2010 Whitehall has been progressively ‘freeing’ local government from central government by first the push for localism and culminating in financial self-sufficiency; then English devolution plans to transfer more services to local government, including health, along the lines of the 'Greater Manchester model'; and there has been a desire to drive up quality and manage the health needs of an aging population.

Underlying everything is the Government's austerity agenda. Joined-up decision-making and funding arrangements between connected systems – central government and local bodies for instance – are often missing, leading to deleterious consequences. Within these connected systems, this gives rise to:

- unforeseen conflicting objectives for local bodies;
- cost shunting between parts of connected systems; and ultimately
- risks of financial, or service, failure locally.

Central government has been slow to adjust – often acting only when serious failure occurs.

Out of sight, out of mind

Part of the reason for this is an 'out of sight, out of mind' culture. It is relatively easy to for central decision-makers to allocate savings to be made by those operating outside a department's boundary or with a different mandate, without necessarily understanding their effect. In my view, when public sector decision-makers are making big decisions and cost reductions, they need to be able to validate those decisions very well.

Decision-makers have an obligation to have good evidence, to have explored the secondary effects of their potential decision, and to have explored the downsides. They need to take a 'one government' approach – including local government – to managing the overall government finances for the best overall outcomes. Without this, the consequences of hasty decision-making come home to roost, sometimes quite quickly.

Local government

Let's look at some examples. Since 2010 central government has progressively cut support to local government, meanwhile giving it new powers including a general power of competence under the Localism Act. More recently, DCLG took the first steps towards local government retaining 100 per cent of business rates by the end of this Parliament, making local government 'financially self-sufficient'. Local authority spending power – covering the day-to-day costs of running services – fell by around 25 per cent in real terms from 2010 to 2016, with another 6 per cent cut in spending power planned up to 2020.

The inference was that there is waste in local government so more can be delivered for less, and local government will be able to generate its own income through fees, charges and commercialisation schemes. At the beginning, local government responded with new, more efficient ways to deliver services. However, over time this has shifted from 'more for less' to 'less for less'.

This is because, during this progressive reduction in funding, I have not seen any evidence-based effort to reconcile funding to local needs. In my view, the policy objectives for local government and the local government statutory duties have not been properly weighted against potential efficiency savings. The 2015 Spending Review made some headway here but it was not a comprehensive approach. Accordingly, what we see are what I call 'deficit behaviours' such as:

- the invisible rationing of services; and
- quiet drops in service quality.

Users are now coming into the system later with greater needs. These are local councils' only real options to square the circle as they are prevented by law from going into financial deficit or to borrow to fund revenue spending. This has obvious direct effects on service users, but also reduces local government resilience, and its ability to contribute discretionary resources to central initiatives, however attractive. But those 'deficit behaviours' do not easily become known, as there are few local government sector-wide leading indicator statistics to give a clear indication that the system is in distress and where the gaps in services are occurring.

NAO reports into this area tell us that there have been large, real-terms, planned reductions in spending between 2010 and 2015, for instance reductions of:

- 36 per cent for cultural services;
- 47 per cent for housing services; and
- 53 per cent for planning and development.

Once funding passed directly to schools is removed, it becomes clear, however, that local authority expenditure is dominated by social care for both children and adults. Local authorities have also sought to protect spending on social care because of the high number of statutory responsibilities that they have.

Nevertheless, there has been an overall 7 per cent real-terms reduction in spending on adult social care by local authorities between 2010 and 2015. And areas with the greatest needs lost the most. Besides the direct effect on care service users, this reduction has a deleterious effect on the NHS, which is, in part, highly connected to the social care system. Costs are effectively being shunted from one part of the connected system to another. For instance, hospitals' ability to discharge patients with care needs on time is affected when patients who are not supported to live independently tumble into A&E and acute health provision – a leading indicator of primary care and social care shortfalls.

The health care system

That is not the whole story for the health care system however. Since the introduction of the Health and Social Care Act 2012 – the Lansley reforms – there have been significant changes to the NHS. These were, and are, aimed at improving patient care at a time of rising demand.

Again, in addition to the reforms themselves, this was at a time when there was, as with local government, an agenda of increased financial pressures arising from austerity. And again, the implication – that there was slack in system and more efficiencies were possible.

For the NHS, this came in the form of the 'Nicholson challenge', named after the former NHS chief, Sir David Nicholson. I should say that with the subsequent efficiency initiatives, no one else has chosen to put their name to them – I wonder why? The parameters of the 'Nicholson challenge' collectively added up to a demand for the NHS to find £20 billion in efficiency savings by 2015 to close the gap between need and available funding.

The latest iteration of which is the Five Year Forward View, which assumes that the NHS will deliver a further £22 billion of efficiency savings out of a flat real budget. Initially the Government had an efficiency target of 4 per cent but this was reduced to 2 per cent in 2016-17 – which was deemed a more reasonable requirement. Nevertheless, over the entire period, the financial position of NHS bodies has continued to decline.

The number of trusts in deficit has steadily risen. In my latest report, I noted that 66 per cent of NHS trusts and NHS foundation trusts are now in deficit. Ironically, these trusts were selected a few years ago for foundation status because NHS England assessed them as independently financially viable. Where deficits become the norm, trust managers no longer feel 'singled out' and they probably worry more about the hard-nosed judgements delivered on health care standards by Care Quality Commission.

The Care Quality Commission has led a drive to name hospitals that were not operating to the right standards. In these circumstances, unreconciled pressures face hospital chief executives, many of who are highly experienced, highly skilled managers. The implementation approach for both efficiencies and reforms did not take a full and realistic account of the context within which the healthcare system was operating. The implementation approach also failed to consider the result of other policies being put into effect simultaneously.

How do we know that is the case? As early as 2014 there were a number of 'leading indicator' statistics – including cancer referral to treatment times and ambulance response times falling below national standards – showing the system is quite clearly struggling to cope. In short, service standards are under strain, as is the financial sustainability of our health care system.

Rather than heed the early warning signs, however, ministers appeared largely to plough forward with their efficiency regime. The government introduced a range of further initiatives that it wants the NHS system to take on-board, including the seven-day service and new strategies for cancer and mental health. All of these may be, no doubt, good ideas and desirable developments. But they represent signals to build demand in a system already under severe resource pressure.

Again, I have seen no real dialogue between central government and healthcare bodies regarding the mix between rationing, efficiencies and services provided. The health service has, in fairness, attempted to do this with Sustainability and Transformation Plans for 2017-18, and this is accompanied by a front end boost in spending. We wait to see whether this has the effect of stabilising NHS England. But the Plans, or Proposals as they are now called, are built around a forcing strategy rather than consensus. If they do not meet NHS England's requirements in terms of matching demand with resource the trusts will lose money.

The assumption remains that there is excess capacity that can be taken out of the system – or that demand can be made to fit the resources available. Perhaps such a position was true at a certain point, but when did it change? When was the clear point at which the number of trust in deficit became untenable and the system moved into a state of distress? I have met with major hospital trust leaders who have a deficit for the first time in their working lives, and, believe me, they are distressed and it is thoroughly hard for them.

Of course, the centre of government cannot avoid making informed assumptions about efficiencies that may be available. However, they *can* do much more to understand how these assumptions are likely to affect government's objectives, and to promptly manage major risks. That is why many of my recent reports highlighted the need to identify critical assumptions, work through their implications and monitor them closely. That is also why, since 2014, I have undertaken a series of reviews of the financial sustainability of local services, including reports on local authorities, police forces, fire and rescue services and the health service. My aim is both to help central government understand how changes in responsibilities and funding are affecting local services and to help identify and share good practice.

As an aside, I suspect that the education system may be the next to experience these pressures. Schools have to make £3 billion in efficiency savings by 2020 against a background of growing pupil numbers and a real-terms reduction in funding per pupil. I hope that this will be much more closely monitored and managed.

Brexit

I guess that these days every speech has to reference Brexit! However, I gave a speech six months ago at the Institute for Government that discussed Brexit, so, forgive me but here I will just make a couple of small points. First, local bodies could be put under further resource pressure by the loss of EU funding streams to local areas with no specific plan so far to replace them.

Second, Brexit is highly likely to divert senior talent time and attention in quite a number of departments, never mind the diversion of talent into the main Brexit department and multiple trade deal negotiations of the future. In all likelihood, this means less senior talent time for resolving funding and reform challenges for local bodies. Finally – and this hardly needs saying – local services are, to a significant degree, depending on workers from EU countries. Without EU doctors and care workers there could be further strain on the system unless alternative arrangements are in place.

Conclusion

So, in conclusion, am I arguing for a counsel of perfection, where every inter-dependency between major systems, and all potential collateral damage, should all somehow be known in advance, and where we only get efficiency savings if they are offered up voluntarily by smiling budget holders?

Unsurprisingly the answer is no. But those in the centre can be a lot more agile about getting out of their silos and understanding the complex interlocking reform environment, recognising negative trends, and shifting their position quickly to limit damage.

In the examples I have talked about the reaction that there has been, has been slow, perhaps because of silo problems between spending departments and the Treasury, and there has been little real change of direction. Did the centre know, do they know now, when the boundary between mainly efficiencies, more for less, was crossed and we started into the territory of less for less? Not that I can detect.

Central savings may have been secured, but significant damage has been done. As a person who has sat in the centre managing budgets in a large, commercial organisation, I can tell you that the behaviour of managers who are budget holders is generally a response to the way that they feel that they are being treated. If they see that the budget process is a 'cram down' – meaning cram down the throat – then you cannot expect their reaction to be constructive engagement. If they feel that they are being set up to take the blame for complex problems, they cannot solve alone, and that the centre is relatively impervious to the pressures they face, then their priority will be survival, and achieving the 'least bad' result for their institution, or their local authority.

I urge central government to work with local bodies on funding and decision-making arrangements that drive not only economy and efficiency but also effectiveness at their heart. This is more difficult and more skilful than the crude top down route, but if an improvement cycle is to be launched, there is, as someone once said, 'no alternative'.

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Note: This is a slightly edited version of a speech given by Sir Amyas Morse to The Strand Group at King's College London on 7 February 2017.

About the Author

Sir Amyas Morse is the current Comptroller and Auditor General of the National Audit Office.