

Review of States Activities- Stop, Reduce, Outsource by Kevin Keen

Final report- October 2nd 2015

Executive summary

- *The States of Jersey (SOJ) has identified what it believes to be a structural deficit in its finances equating to approximately £145 million per year. This is because whilst income is expected to continue increasing this increase will not be sufficient to cover growing spending demands. SOJ is planning to deal with the expected deficit by introducing an annual health charge of £35 million, delivering recurring non-staff cost savings and user pays charges of £40 million per year and reducing existing staff costs by £70 million per year by 2019.*
- *A key stream of work that has been established to contribute to addressing the annual deficits is known as Stop, Reduce Out-source (SRO). **Stopping** an activity altogether, finding ways to **reduce** the cost without discontinuing it (by doing less) or **outsourcing** to a provider that can provide the service more cheaply.*
- *Generally the departments are considering their own SRO initiatives as part of their own efforts to produce savings and Mike King is leading a project aimed at coordinating the initiative. This report is being produced alongside that work. It is intended to be concluded more quickly though, and so is produced at a high level. This report is also deliberately intended to stimulate debate so assumes all options are 'one the table' at this stage. The support and advice given by departments to my enquiries has been appreciated.*
- *It is contended that the States could save money by focussing on what they **really need** to do and stopping, reducing or outsourcing the rest. To the extent that the States cannot stop, reduce or outsource these activities embracing the lessons that the lean programme has taught should at least allow departments to simplify what they do achieving the vision of the Jersey public sector from some time ago of better, simpler, cheaper.*
- *Departments appear to have interpreted the timetable for the second stage of the MTFP differently. A commitment has been made in the Medium Term Financial Plan (MTFP) to publish the detailed plans for 2017-19 by June 2016. This means actual decisions need to be made very early in 2016, providing real urgency to conclude the review/ strategy formulation process and move to implementation as soon as possible.*
- *A suitably resourced and led project management office (PMO) will be crucial to managing the process. The leadership of the PMO will need the "teeth" to ensure departments cooperate and deliver, especially given the apparent preference of many departments to 'do their own thing' when it comes to managing budgets.*
- *The culture in the States is conservative and seems unaccustomed to major change especially when it comes to job losses. When this is combined with a complex structure of accountability to the States Chief Executive and Chief Minister, a lack of clarity can emerge about which initiatives might be 'off the table' for political reasons. This lack of clarity could lead to incorrect assumptions being made (for example that a strategy maybe too radical) before the potential of such a strategy has been fully considered. It is important the departments and politicians are completely clear that **all** opportunities to improve value for the taxpayer and address the deficit will at least be considered.*
- *SOJ is a diverse organisation with complicated governance structures not ideally suited to service delivery in a period of rapid change. Although attempts have been made to deliver cost reduction through centralised procurement, shared services and standardisation there often seems to be resistance to such effort by operating departments. To some extent this is understandable, for example the needs of educationalists will be different to medical staff. In the business world the benefits of focus usually outweigh perceived benefits of centralisation because, centralisation creates unwieldy conglomerate like organisations. Previous initiatives by SOJ such as the*

incorporation of ports & housing seem to confirm the experience of business that focus on a core mission can deliver more efficient services and flexibility. It is recommended that consideration should therefore be given to further decentralisation (using organisational models suitable for the activity concerned) as has recently happened for ports, tourism and housing.

- Generally the governance models that exist to ensure departments deliver on all their objectives (beyond sticking to budget) seem lacking. If the decision is made not to further decentralise then governance models should be improved to include comprehensive service level agreements and ministerial boards of non-executive directors (with the appropriate specialist knowledge) who could provide advice directly to the minister and assist in holding officers (and departments) to account.
- **To the extent that current organisational models are maintained any silo thinking or “empire” protection will be a major risk to delivering the planned savings when they need to be delivered. There does seem to be a preference for departments to have the minimum of interference from the centre (which to an extent is understandable) but they must accept their accountability to the Chief Executive & Council of Ministers for performance and efficiency.**
- The accounting systems and policies of the public sector do not lend themselves to good decision-making. This because the costs of one activity can often be charged to a number of different department’s budgets. To an extent this appears to have evolved as a way of ensuring a particular activity takes place, for example the maintenance of property. Where all the costs of a particular service or activity are not readily and regularly identifiable it will be very difficult to make good decisions on controlling total costs.
- The States should operate a system of market rents for public property occupied by States departments (with budget assumptions where required). Such a policy would put departments using freehold property on a comparable footing with those occupying leasehold premises, encourage a more efficient use of capital and a greater recognition of the full cost of services.
- There are many benefits to outsourcing non-core activities but there also risks especially around the procurement phase. The States will need to be very clear when specifying its requirement, as seeking variances to a contract for services can be expensive after the contract has been awarded.
- The States should also act strategically in their procurement, recognising that other benefits can come from local procurement in terms of employment and tax take, which SOJ as a whole will benefit from.
- Consultation with the staff and public has not formally taken place in relation to the SRO work stream, such a consultation could generate new ideas for change, identify challenges and help build acceptance of proposed solutions.
- **Dealing with the people issues which arise from change will be key to its success, especially so in the States of Jersey where staff relations seem strained. It is crucial that issues such as pension scheme deficits and policies on transfer of employees to new organisations are resolved as a matter of urgency, especially if outsourcing is seriously being considered. This important need was drawn to the attention of States HR on 6th August.**
- The success of this and other change programmes in the States will very much depend on the quality of leadership. Chief Officers (and politicians) will need to be aware that it is not just what they say that is important, equally or potentially more important is what they actually do. The 8 stage model recommended by John Kotter <http://www.kotterinternational.com/the-8-step-process-for-leading-change/> could assist with the public sector reform programme. Constant & open communication is a key element of that process.
- The public sector’s biggest cost is staffing and therefore quite obviously any savings programme must focus on this. It should be noted though that manual worker’s pay only totals £30m accounting for just 9% of the pay-bill who are directly involved in front line service delivery.

Therefore staff reductions will also need to focus on civil service grades, which account for 36% of the pay-bill, this could in part be achieved by reducing the number of layers of management. Existing organisation structures should therefore be challenged.

- **There must be opportunities to work with Guernsey to reduce the cost of public services to the populations in both Islands. Guernsey already seems to have been quite successful, achieving annual costs of some £5,907 per citizen compared to £9,326 in Jersey. This difference equates to some £340m of extra costs per year for Jersey. What can Guernsey teach us? How can Islands help each other save money? In spite of the political challenges SOJ should at least try and explore the benefits of more working together with their counterparts in Guernsey.**
- The major differences on expenditure between the islands is Social Security (£93m) TTS (£19m) and Health (£26m). These differences, which are adjusted for the higher population of Jersey, should be carefully investigated to understand the reasons for the higher costs in Jersey, as they could generate ideas for savings even if more cooperation with Guernsey is prevented by political challenges.
- TTS (& associated trading funds for fleet management and car parks) is the department which most resembles a business in SOJ, but even its activities are diverse and its unrecovered costs apparently much more substantial than the Guernsey equivalent. It is also capital intensive. TTS is carrying out a number of reviews, which stretches out to 2017, the conclusions of those reviews are likely to be predictable, it will be cheaper to outsource. It is recommended that a strategic decision be made that TTS will exit service delivery and begin to outsource all of its activities as soon as possible.
- Social Security costs in Jersey have more than doubled over the last 10 years and now represent getting on for 30% of income compared to 17% in 2005. They also appear to be double that of Guernsey on a pro-rata basis. Recommendations have been made to benchmark benefits and also to substantially reduce the amount spent on employment services now the economy is growing.
- Although it is hard to be precise (due to the accounting policies of SOJ) there seems little doubt that the sports centres are heavily loss making, even though they make charges for their services. When these activities are passed from ESC to EDD the CEO of EDD is intending a review. EDD's review should include potential outsourcing options and initiatives to encourage healthy living using private sector facilities, but with tax incentives for those that need them. A heavily loss making operation subsidised from general tax revenues will discourage private entrants to this market and therefore competition.
- It is probably a statement of the obvious, but given its importance worth repeating that there is a need to carefully consider the basis of any new users pays charges. This is because it will be difficult to increase them materially after they have been fixed for the first time. For example the £10m charge for waste water although high in comparison to Guernsey looks low when compared to the UK, which indicates that the new charge should probably be similar to the treated water charges in Jersey, which were £15m in 2014. Any unintended consequences where businesses or consumers respond to the charges also need to be understood & mitigated, such as the potential for fly tipping of waste.
- The various States departments carry out a wide range of regulatory activities these should be combined in one department with the relevant staff being transferred, following that a full rationalisation can take place.
- SOJ operates a number of laboratories discussions should be initiated regarding the possibility of setting up an independent organisation, which could also provide services to companies like Jersey Dairy and Jersey Water. These discussions would need to be independently facilitated by someone with appropriate expertise.