

BSA Policy Manifesto 2010

This paper sets out the three policy priorities for the business and outsourced services industry in the run up to the General Election. This industry makes up one of the largest sectors in the UK economy and operates across the public and private sectors. Whichever party makes the next government, some tough decisions will have to be made on the economy and the future of public services.

Outsourcing can be a catalyst for change and outsourced service providers are experts at change management. BSA members have a long history of operating in the public sector and can demonstrate partnership and a public sector ethos. We have evidence to show the industry has added value in terms of investment in skills, raising productivity and promoting sustainability. However, there is much more the industry can and should be doing.

To really maximise the potential of the industry we urge the government to take action in the following areas:

- Productivity
- Procurement
- Fair competition.

1. Productivity

In the 10 years from 1997, public sector productivity shrank by 3.4% while in the private sector it grew by 30%. What has caused this difference is not entirely clear but we believe there are three main factors:

- Innovation

Competition and the profit motive spur innovation and this is key to increasing productivity. Now more than ever innovation must become central to the delivery of public services. It can lead to both radical changes and a culture of continuous improvement. However, there is evidence to suggest that competitive pressure for innovation has been decreasing in recent years. The government is less demanding and more likely to specify inputs and increasing pressure on price and volume rather than service quality.

The government should follow the lead of some of the most successfully innovative organisations which do not focus on innovation as such - instead they focus on clear outcomes, supported by the right organisational cultures, rewards and methods that ensure innovations in pervasive.

There is a willingness in the industry to match fees to outcomes, for example to match the management fee to educational attainment in schools. However this is not happening because the people who own the contract don't have the ability or intention to challenge the process - their interest is to maintain the status quo rather than to innovate. Another problem is that often the public sector wants something easy to measure and that is usually the cost. The government can challenge this culture through increasing competition and outsourcing.

- Motivated workforce

A motivated and well-managed workforce is crucial for productivity growth. Good employment standards are central to the delivery of good services. The transfer of staff between sectors has proved successful for staff and service users alike and opposition to it should never be a barrier to reform. There is evidence to show that if given the choice, the majority of staff transferred to the private sector would not return to the public sector as they are thriving under private sector management techniques.

A well-proven method of motivating staff is through performance management. However, the industry is restricted in its ability to do this because of the rigid terms and conditions adopted from the public sector.

For example, the biggest barrier to reform and innovation in the provision of NHS services is Agenda for Change. A 2009 NAO report concurred, stating that although A4C has reduced pay administration in the NHS, it has failed to make a significant impact on savings or raise productivity¹. It is difficult to make productivity increases in the NHS when staff's terms and conditions are set so rigidly and we would like to see this legislation revisited.

- Investment in skills

The outsourcing industry employs a substantial number of people and jobs range from low to high skilled. If those people are not motivated and skilled, the business will not survive in such a competitive market. To help industry continue to improve its relationship with its staff we recommend the following:

- i) Greater emphasis on employability skills in schools and colleges. BSA members are increasingly concerned about the level of basic skills in new recruits. Broader employability skills are often also lacking, such as the motivation to do a good job, enthusiasm, time management and organisational skills. It is crucial that schools and higher and further education institutions effectively teach these transferable employability skills.
- ii) Continued government support for in-work training. Employers outspend the government on training by four to one (£38bn to £10bn per year²) so it is in the government's interest to encourage employers to make this kind of investment. It makes sense to attribute skills attained in the workplace to an accredited qualification. A work based skills programme can motivate and inspire people to continue training and gaining new skills. Apprenticeships provide a useful transition for young people from school to employment and can also help adults who have previously missed out on training. However, the apprenticeship system is bureaucratic and costly. Streamlining it will enable more employers to take the initiative and establish their own schemes.
- iii) A skills system that is simple for employers to navigate. The government has created a large and complex web of agencies at the national, regional and local levels, reflecting a belief that poor overall performance can be rectified by the constant creation of new initiatives and programmes. At present the education system is overseen by four government departments, 29 quangos, and a multitude of individual programmes. It is far too complex to navigate, both for employers and potential trainees. Employers would like to take more responsibility for increasing workers' skills but they are put off

¹ NAO 2009 NHS Pay Modernisation in England: Agenda for Change

² Reform 2008 The mobile economy

by the complex funding arrangements and the tick box mentality of many public sector officials.

2. Procurement

Public procurement has evolved over the last decade. There are now senior staff in place, along with effective models and processes. However, to really ensure the government is getting the maximum value for money through its outsourcing decisions, procurement must be made quicker, easier and cheaper than it currently is. The costs of bad procurement have to be picked up somewhere and this is often reflected in the bid price. Competition of the market is also damaged if companies are forced to exit the bidding process because of the time and cost burden. We need intelligent public sector clients and they need the right tools at their disposal to do their job. We recommend the following:

- Simplify processes

There is a lack of consistency and coherence in procurement processes and in the use of procurement models. Rules and procedures can be interpreted in different ways by different people. This creates confusion and adds to costs and time involved. There are many areas that could benefit from standardisation.

- Avoid over-specification

Overly-specified, input-based contracts do not allow industry partners room to innovate. Specifications are often too prescriptive, too detailed and difficult to interpret, with insufficient management of 'scope creep' and shifts in requirements. Suppliers have observed that while there is stated encouragement to develop innovative solutions they are often not pursued when offered.

- Improve commercial skills

The government should focus on improving the skills of procuring staff in departments. They should look at how they can use the commercial skill that exists in the private sector, for example, through secondments and commissioning frameworks.

It is not just procurement that suffers, poor management of contracts is often down to a lack of commercial experience. This leads procurement officials to fall back on a rulebook mentality which in turn leads to inflexible and bureaucratic procurement processes. Rigid management of contracts restricts the private sector's ability to innovate and utilises unnecessary public sector management resources.

3. Fair competition

The BSA is committed to fair and open markets in the public as well as the private sector. Competition, when distorted, does not provide value for money. This is what happens when the true cost of providing a service, whether that is in-house or outsourced, is not recognised.

Not only do mechanisms exist that give one provider an advantage over another, such as pension provision, VAT rates and access to information, but also the government and opposition have recently made explicit reference to one type of provider over another. For example, the announcement by the Secretary of State for Health in September 2009 that the NHS is the preferred provider for delivering services sends a damaging message to the private sector that competition is biased.



The transfer of public sector pensions is the single biggest barrier to public sector reform through outsourcing. The BSA has identified two distinct areas where the Fair Deal policy may be having an adverse impact on the outsourcing market and is providing less than value for money for government: i) past service liabilities transferring to contractors; and ii) deficit valuation liabilities on the termination of a contract. The BSA has made pragmatic recommendations to resolve this issue including the removal of the obligation for contractors to offer past service pensions transfer and easing the technical conditions for securing pension benefits on contract termination.