

010
Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Facsimile 01-240 1578

Director-General
Sir Terence Beckett CBE

Secretary
Denis Jackson



CONFIDENTIAL

Mr Andrew Turnbull
The Private Secretary
10 Downing Street
London
SW1

14 June 1984

Dear Andrew,

I thought that you might like to see an early draft of what our Working Party on Public Expenditure was planning to say in its report on Public Service Sector Efficiency and therefore enclose one.

We are planning to go to press on 2 July so any comments that you have before 20 June would be very gratefully received by Douglas McWilliams who is looking after the drafting of the report. Any earlier comments would be even more welcome!

Clearly at this stage the report still needs a lot of editing and checking. Nevertheless, we would be very grateful if you would draw our attention to anything which looks odd, or any points which you think we have missed.

J T Caff

J T Caff
Director
Economic Directorate

→ SS.
(Is this to report you discussed with me earlier?)

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15/6

enc.

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Stiles
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'Efficiency in the Public Services'

Report of the CBI Working Party on Government Expenditure.

3rd Complete Draft
14 June 1984

CHAPTER I

SUMMARY AND CONCLUSIONS

Introduction

- 1 Improved efficiency is essential for higher living standards and secure jobs. In recent years, business has undergone a revolutionary change in attitudes towards efficiency and this is now beginning to show its effects in better economic performance.
- 2 The need for efficiency is not confined to the business sector. It is just as important in the public services.
- 3 This report is about the management structure, incentives and techniques necessary to improve the efficiency of the public service sector and to make it more responsive to the needs of a changing economy.

Recommendations

- 4 Good management in the public service sector requires:
 - identifiable responsibility for costs, devolved as far as possible;
 - clear performance objectives;
 - systematically prepared management information on costs in a form that can be related to performance and that is as comparable as possible;
 - regular and systematic scrutiny of cost-effectiveness; and
 - incentives to improve cost-effectiveness.
- 5 For Central Government we recommend that the principles of the Financial Management Initiative (FMI) are supported by a published time-table for implementation, a system of public scrutiny, cost comparison and incentives for cost-effectiveness. These might range from making promotions and honours dependent on performance, to merit pay, or schemes for giving back a proportion of savings achieved at local levels in discretionary expenditure. We envisage that the system should be in full operation by 1988/89. The drive towards efficiency should be buttressed by tight cash limits and a contingency reserve that is used only for genuine contingencies.
- 6 Local authorities should also adopt management structures and systems which achieve the objectives set out above. The Department of Environment should issue a circular to this effect. In addition targets for local authority expenditure should be set so as to keep pressure on the authorities to improve their efficiency. Local authority accounting practices should be standardised so as to facilitate comparisons between authorities. Particular attention should be paid to the work of the Audit Commission in identifying ways of improving the efficiency with which the local authorities carry out their services.

- 7 For the National Health Service, we support the Government's acceptance of the Griffiths Report recommendation that clearer systems for cost responsibility should be set in place. An early time-table for the Report's implementation should be set out and adhered to. A major weakness in the efficient control of resources within the NHS is the lack of appropriate cost information. We make various recommendations to improve this situation.
- 8 For all parts of the public sector we recommend a major extension of contracting out and competitive tendering. For local authorities, we recommend that this be supported by legislation along the lines of that currently in operation for direct labour organisations (DLOs) which requires competitive tendering for a specified list of services. The evidence available so far suggests that this would enable major savings to be made.
- 9 We also recommend a substantial extension of charging for public sector services, both to make consumers more aware of the costs and availability of services and to relate the output of services to demand.
- 10 Public sector remuneration should take full account of all non wage benefits. In the case of pensions, as a first step, we recommend that those in the public sector paying less than the notional eight per cent deducted from civil service salaries should have their contributions raised. Public sector pay should be related to merit, the efficiency with which resources are used and to the state of the labour market. At present, seniority is given excessive weight.

Savings

- 11 Much of the relevant cost information for the public sector is not available. However, using that information which does exist we have estimated that these recommendations should lead to annual savings of at least £6 billion (at today's prices) by 1988/89. We believe that these savings can be made without cutting the level of public services but if they are not made then there will have to be cuts in programmes.

CHAPTER II

Recent Developments

Introduction

- 1 We now review recent developments in public expenditure and the progress since the 1981 CBI Working Party reported.

Public Expenditure Levels

- 2 Public expenditure has virtually doubled in real terms over the past 20 years. Despite economic growth and rising North Sea Oil revenues, this has led to a substantial rise in the burden of non-North Sea taxation from 29% of GDP in 1963/4 to an estimated 38½% in 1983/84¹
- 3 Since the mid-1970s, the upward trend in public expenditure has been less rapid, but the measures taken to reduce the growth in public spending have contributed to an imbalance within the total. Items such as capital expenditure, that are relatively easy to cut at short notice, have suffered.
- 4 The most recent Public Expenditure White Paper², suggests that expenditure will remain approximately constant in real terms for the next three years. However, as Graph 1 shows, public expenditure plans have consistently been revised upwards. The real level of spending in 1983/84 was £11 billion higher than envisaged in the 1980 White Paper. Only a third of this can be directly accounted for by changed economic assumptions.

1. "The Next Ten Years: Public Expenditure and Taxation into the 1990's". Cmnd 9189, Table 4.

2. "The Governments' Expenditure Plans 1984-85 to 1986-87", Cmnd 9142.

Recommendations of the 1981 Report

- 5 The 1981 CBI Working Party was set up to examine the scope for achieving economies in central Government, local authority and National Health Service current expenditure. The Working Party did not recommend cuts in specific programmes but concentrated on examining the costs of service provision and identifying possible areas of inefficiency. For local authorities and the NHS, this took the form of inter-authority comparisons of manning levels.
- 6 They itemised savings in current spending, building up to £4-5 bn annually (1981/82 prices) by 1984/85. However the Report only recommended savings of approximately £3 bn, since the Working Party considered that the greater savings of £4-5 bn may not have been possible because of unforeseen difficulties.
- 7 The savings arose in three main areas: employment, pay and pensions (Table 1). It was recommended that the savings be used to finance tax cuts and increased capital expenditure and the calculations were therefore made on demand-neutral assumptions.

TABLE 1

Summary of Manpower Economies

£ Billion 1981/82 Prices

	Government Planned Savings 1980/81 to 1983/84*	Scope for Extra Savings 1980/81 to 1984/85
Employment	1½	2
Pay	¾-1½	1½-2¼
Pensions	-	¾
<hr/>		
TOTAL MANPOWER ECONOMIES	2¼-3	4¼-5
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* CBI Estimates

Source: 1981 CBI Working Party on Government Spending

- 8 The Report recommended several methods which the Government, Local Authorities and the NHS could use to achieve economies. These were:
- Immediate recruitment restriction on non-front line areas to 1 in every 2 leaving.
 - Extension of cash limits to total pay bills.
 - Wider use of contracting-out
 - Ceiling on business rates
 - Provision of cost information to all areas of management.
 - Value for money auditing
 - Increased use of commercial charging
 - Business expertise to be used in the scrutiny of expenditure.

Progress Since the 1981 Report

- 9 This section summarises the progress since the 1981 report was prepared. Fuller details are set out in Annex 2.
- 10 Progress in achieving the economies recommended in employment has been mixed. The Civil Service is on course to achieving 95% of the recommended reductions without the need for compulsory redundancies. For Local Authorities, the CBI Working Party recommended savings of 12 per cent between 1980/81 and 1983/4 but by September 1983 manpower levels were only 2½ per cent lower, and it appears that local authority employment may have started to rise again recently. In the NHS, the Working Party's recommendations would have involved manpower levels remaining roughly constant from 1979/80 to 1983/4 with a change in the mixture between "front line staff [such as doctors and nurses] and "back-up" staff. There has been a [10] per cent increase in "front-line" staff while the number of "back-up" staff has remained approximately constant.
- 11 The 1981 Report identified an excessive level of public service sector pay, relative to the private sector. Since then there has been progress, at about the speed recommended in the Report, towards removing this differential. Little has been done, however, to make public service sector pay dependent on market criteria, merit, or success in efficiently using resources.
- 12 The Working Party thought increased pension contributions would be appropriate for many public sector groups. However, only the police and firemen have had their contributions increased since 1981.

- 13 A number of studies and programmes to improve the cost effectiveness of the public service sector have been announced. Our recommendations (in Chapter III) involve building on two of the most promising of these initiatives, the Financial Management Initiative for the Civil Service and the recommendations of the Griffiths Report for the NHS.

Conclusions

- 14 There has been significant progress in making the economies recommended in the 1981 Report in some parts of the public sector (particularly the Civil Service). However, there still seems to be little progress in setting up an appropriate system of public service sector management to create a permanent climate for the efficient use of resources.

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CHAPTER 3

MAIN RECOMMENDATIONS

Introduction

1 The recommendations in this report are aimed at improving efficiency in the public service sector over the longer term, removing the built-in institutional pressures for higher expenditure and replacing them with systems that will encourage cost efficiency. Chapter 4 gives some illustrative figuring on the scale of savings that might be achieved through the implementation of our recommendations.

Public sector management

2 In compiling this report we have found an immense difference between the structures and techniques of management in the private sector and those practised in many parts of the public sector.

3 There is particular scope for improvement in the management of the public service sector in the following areas:

- setting up structures where those using resources have identifiable financial responsibility for them, devolved as far as possible;
- clear performance objectives of a kind that can be related to cost information;
- systematically prepared management information on cost, available for comparison between sections and in relation to performance; and
- systems of incentives to improve cost-effectiveness.

4 Because the public service sector is not subject to the normal disciplines of the market, good management is vital to ensure efficient use of resources. At present, for far too large a proportion of government expenditure, there is no one who is responsible for using the resources nor any information by which his performance can be measured. An example of this is given in the Griffiths Report on the NHS which points out ...(insert quotation).

5 It is essential to provide incentives to use resources efficiently. At present, employees in the public service sector have few incentives to minimise their use of resources to set against the temptations of empire building. Private sector experience indicates clear financial responsibility, and information on comparative performance must be combined with adequate structure of incentives.

6 The management weaknesses which we have identified do not imply that those in the public service sector are lazy or inherently self-serving. It is clear that many of those in the public sector are dedicated and hard working, even if this hard work is not always directed towards the best possible use. The task is to channel this dedication into producing public services in the most cost-effective way.

The recommendations in detail

- 7 The recommendations are divided into four categories:
- setting financial targets and cash limits at levels to encourage efficiency;
 - improved management techniques and structures;
 - increased exposure to market forces through charging market prices, competitive tendering and contracting out; and
 - improved control over manpower costs.

Financial targets and cash limits

- 8 Strict financial targets for public expenditure are a necessary support to the measures to improve management which we recommend. We therefore urge the Government to continue to set strict cash limits to keep public spending under control. Use of supplementary cash limits or of extra funds from the contingency reserve should be confined to genuine contingencies, not to alleviate the apparent strictness of the initial targets. For local authorities, the Government should use the enhanced powers for which it is fought so hard, to prevent the over-spending that has occurred in recent years.

Improved management

- 9 Many of the principles for improved management are embodied in the Government's Financial Management Initiative (FMI) for the Civil Service. This initiative sets out a framework for performance objectives, cost information and clear financial responsibility. This initiative should be built upon and extended. We recommend:
- that the Government publishes a programme for implementation of the FMI throughout the Civil Service;
 - that the programme ensures that responsibility for cost is devolved to the lowest feasible level;
 - when the system is fully in operation, performance indicators and cost targets should be published and performance in relation to these targets should be available for public scrutiny, at least on an annual basis;
 - a systematic programme of incentives for cost effectiveness should be introduced. This could range from making promotions and honours as dependent on cost effectiveness as on success in policy areas, to merit pay or methods for giving back a proportion of saving made at local levels through efficient discretionary expenditure.
- 10 Although we do not propose a detailed timetable here, we believe that the system should be in full operation and generating a high proportion of the ultimate savings by 1988/89. We envisage that initial implementation of this improved management system will involve extra resources for management, software and hardware. £35 million has already been set aside for this. We recommend that extra resources are made available which will be paid for from the savings generated.

- 11 We recommend that local authorities and the NHS develop similar management systems. For local authorities spending targets should be set at levels to encourage cost effectiveness. The Department of Environment should circularise local authorities on the principles of good management in the public service sector. Assistance could be given to local authorities improving their own management systems, by making available through seminars and courses etc the lessons drawn from the experience in implementing the Financial Management Initiative. Audit Commission and LAMSAC studies should point out scope for cost savings. Accounting systems should be adopted which facilitate comparisons of expenditure between authorities.
- 12 For the National Health Service complicated issues of clinical freedom exist, but, in a resource constrained world, decisions on the allocation of resources are being made all the time either explicitly or implicitly. We believe that such decisions can be better made if adequate information and lines of responsibility exist. We therefore support the recommendations of the Griffiths Report that clear systems of responsibility and appropriate cost information are made available. Its implementation should be carefully monitored to ensure its effectiveness.
- 13 For appropriate management information, standardised performance and productivity measures should be prepared and these should be published at both authority and individual hospital levels. In addition, there should be separate accounting not only at overall hospital level but also for individual units within hospitals and at individual practice levels. This necessitates the immediate introduction of clinical budgeting.
- 14 When asked by the PAC why it had taken so long to prepare a set of indicators by which the work of the DHSS could be measured, it was admitted that:

'What was lacking was a standard national set and for a while it was the policy not in fact to attempt to reduce these nationally. In fact it was about 1981 that extra priority was given to this work.'

This belated change of mind within the DHSS is welcomed but, given the late start, the need for improved management information with which to assess and improve effectiveness is even greater.
- 15 Although clinicians effectively control the allocation of most of the 60 per cent of hospital expenditure covering direct patient services and supplies, they do not generally have budgets nor do they see themselves as accountable to unit budget holders. They have no built-in incentives to use resources economically or effectively beyond their responsibility to the particular patients within their care. Some very important experiments with clinical budgeting, in one form or another, are being undertaken, but the progress is slow and relatively few resources are being devoted to it. Unless a considerable effort is put into developing systems which will sensibly involve clinicians in a rationally allocated budget for the patient services they are providing, the fundamental issue of efficient use of resources will never be tackled.

- 16 At the moment, it is only possible in a small number of hospitals to cost post hoc different specialities, patient groups, or even wards. Thus clinicians have no cost basis against which to set their activities and the alternative strategies open to them.
- 17 Indeed, there is almost as little firm clinical evidence available to them of the relative effectiveness of alternative therapies to set alongside any cost information available. For example, there is only a small amount of evidence of the health impact of varying lengths of stay. It is very noticeable that the Government requires much more stringent testing of new drugs than of new surgical procedures. Many long established therapies have never been subjected to any formal scrutiny.
- 18 Another area of concern is the unnecessary holding of land and property. We welcome the Davies enquiry into the management of the NHS estate which focussed on the many problems of incorporating appropriate incentives to efficient use of land and property. We note that many of its recommendations were followed through in a DHSS Department Circular² which required Districts to carry out condition surveys, review the utilisation of their capital stock, value it, and to set up a system of notional rents, so that their performance in terms of the use of capital stock could be considered with the Regional Review System [see Section VII below].

Increased exposure to market forces

- 19 Where possible the public sector should be exposed to the discipline of market forces. The Government should encourage competitive tendering and contracting out of goods and services and increase the use of commercial charging throughout the public service sector.

(i) Competitive Tendering and Contracting Out

- 20 The Government should report to Parliament annually on the progress made towards contracting out within central government. We welcome the moves within the Ministry of Defence to save money and manpower by contracting out work such as vehicle maintenance, and the pilot schemes to put the refit of two ships out to competitive tender with commercial shipyards. We also welcome the private servicing of the RAF's Nimrod and Hawk aircraft and the movement of the army's freight to commercial tender. But these should not be seen as tokens. An initial report on the success of these schemes should be presented to Parliament within two years and used as a basis for further extension of tendering and contracting.

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1. DHSS, Underused and Surplus Property in the NHS: Report of the Enquiry (Chairman: Ceri Davies), HMSO, 1983.
 2. HC(83)22 Estate Management: Underused and Surplus Property in the NHS, November, 1983.

- 21 For local authorities, we welcome the progress made so far. The most popular candidate for contracting out is refuse collection. However, by March 1984 only 23 local authorities had contracted out this service. We recommend legislation requiring local authorities to write competitive tenders for a high proportion of their work. Details of this are given in Annex 1. We also include in Annex 1 a further list of services, for which we do not recommend legislation, but where we urge local authorities to seek tenders for the service in order to improve efficiency.
- 22 The Government has recommended increased contracting out of support services in the National Health Service in the Health Circular HC(83)18, published in September 1983, which asked:
- "...health authorities to test the cost of their support services in order to discover whether savings can be made and resources released for improved patient services."
- It required all districts to put forward to their Region by February 1984 a timetable for testing the cost-effectiveness of their domestic, catering and laundry services by putting them out to tender (including in-house tenders) and requiring the contract be given to the lowest tenderer "unless there are compelling reasons endorsed at district authority level" for not doing so.
- 23 Evidence provided by the DHSS earlier last year to the Social Services Committee¹ showed that the value of services contracted out to non-NHS contractors had increased overall by some 18% in cash terms between 1980-81 and 1981-82. Despite this, the percentage of total hospital expenditure accounted for by contracting services was still less than 0.5%.
- 24 Table 3.1 shows that in 1981-82 within the overall national (England) position, there were considerable differences between the various NHS support services, and between the Regions.

TABLE 4.3

CONTRACTING OUT IN THE HEALTH SERVICES

(Total Proportion of expenditure in particular services accounted for by Non NHS contractors by region.)

	<u>National Average</u>	<u>Regional Figure</u>	<u>Regional Figure</u>
Catering	0.2%	0.1%	0.3%
Laundry	11.7%	0.6%	20.9%
Domestic and cleaning	2.1%	0.7%	6.4%
Engineering maintenance	32.2%	24.1%	38.3%
Building maintenance	39.0%	31.6%	45.7%
Gardening and farming	14.4%	4.6%	26.8%

[SOURCE: As in footnote one.]

1. DHSS, Written Evidence to the Social Services Committee, Session 1982-1983, Public Expenditure on the Social Services, HC 321 - (i) and (ii).

- 25 These figures suggest that if the NHS as a whole were to contract out support services even to the still limited extent of the "highest region" the value of such contracts would be increased by some 30%.

(ii) Charging

- 26 We recommend increased use of commercial charging throughout the public service sector as a way of contributing to improved resource use.
- 27 If charges are related to the cost of resources used in providing a good or service, output will be related to demand rather than there being arbitrary underprovision, overprovision or rationing as is often the case currently. In addition, consumers are likely to be far more aware of the costs, quality and delivery of a good or service which is charged for and the probability that will bring pressure to bear on producers to improve performance is increased.
- 28 There are clearly many areas where charges would not be appropriate because individuals would suffer through their inability to pay. But these areas are probably considerably less than is often supposed and there is certainly nothing contentious in appropriate charging for services such as waste disposal, provision of allotments, pest control, sports centres, swimming pools and other recreational facilities. Consultants who carried out a report on many of these services for the Department of the Environment, recommended increased use of charging. There is little evidence that these recommendations have been put into practice.

Manpower costs

- 29 In the last Working Party report a substantial proportion of the total savings were expected to come from bringing public sector pay relativities back into line with their historic level. A large proportion of these savings have now been achieved. For this reason, although we urge continued firm control over public sector pay, we have not taken credit in our costings for any further savings from this source.
- 30 However, we do believe that within the total a reformed pay structure is essential so that pay levels in all the public services are based more on market conditions and performance, particularly with respect to cost efficiency, and less on age and years of service. We recognise that for some this will mean higher, and for others lower, relative pay.
- 31 The Working Party recommends that pressures for raising public sector pay relative to private sector pay should be resisted since those aggregate differentials that exist take account of productivity differences and other factors such as different degrees of job security.
- 32 The CBI in its submission (give reference) has argued that fully indexed pensions imply a commitment on resources which the economy cannot necessarily afford. The CBI has therefore proposed capping of the degree of inflation protection for such pensions.
- 33 If this is not done, the Working Party recommends that at least the contributions which are paid in respect of such indexed pensions should be more closely related to the in market cost. Public service employees contributions for indexed pensions should be raised to at least the notional 8 per cent assumed in Civil Service pay calculations.

CHAPTER IV

THE SAVINGS FROM OUR PROPOSALS

Introduction

- 1 This Chapter gives illustrative figuring showing the savings which we estimate will result from the implementation of our recommendations.
- 2 We believe that our proposals will result in savings in the cost of providing public services building up to at least £6 billion a year (at 1984/5 prices) by 1988/9. This would represent a saving of 5 per cent of total public expenditure. (Our calculations, in fact, give a higher figure £8 billion but we have deliberately scaled this down to take account of any unforeseen circumstances.) How calculated?
- 3 The main areas where we see scope for cost savings while maintaining levels of public service are in manpower numbers, manpower costs, procurement and charging. Costings are at 1984/5 prices unless otherwise indicated.
- 4 Where savings result from contracting out particular services we have costed only the net savings and included them as manpower savings. In practice, the manpower savings from contracting out would be greater but offset by corresponding increases in other payments.
- 5 Our estimates are derived from breaking down the Government plans for total expenditure into the individual components. Where possible, we have used comparisons with the costs of similar functions performed elsewhere in the public sector. In other instances, we have been able to use comparisons with the costs of providing similar services in the private sector.
- 6 All the estimated savings are in comparison with the present costs of providing these services. In some instances, the Government's current plans envisage making certain of these cost savings. However, as is indicated in Chapter 2, Government plans have been consistently over optimistic about the scale of economies that can be achieved and it is therefore more realistic to compare savings with current levels of expenditure than with such hypothetical plans.

Manpower

- 7 We have looked carefully at the main categories of public service employment. We estimate that our recommendations would reduce total public service manpower by about 10% by 1988/89.
- 8 For illustration we have shown how this could be achieved without changing planned manpower numbers for the armed forces, police, fire services or reducing manpower levels in health and social services and teacher : pupil ratios below their levels in the early 1980s.
- 9 The reduction would be achieved mainly by reductions in numbers of civil servants and by reductions in supporting staff in the NHS, education and other local authority areas.

10 Our estimated savings seem realistic given:

- the increases in productivity that have occurred during the past five years by many businesses in the market sector;
- the large increases that have occurred in the recent past in public service manpower without comparable increases in public services;
- examples of savings of about a third on average that have been achieved by 'contracting out', or by the pressure of competitive tendering;
- the striking variation between the levels of efficiency in different local authorities and the large regional disparities in the efficiency of the NHS where these can be measured; and
- the large savings that have been achieved in all the local authority services that the Local Authorities' Management Service Advisory Council (LAMSAC) has so far been allowed to study.

11 Table 4.1 sets out the proposed savings in manpower. In aggregate these savings amount to 10% from current levels by 1988/89. Such savings are very small in comparison with the 6% increases in productivity per annum that have occurred since 1981 in manufacturing industry.

TABLE 4.1:

WORKING PARTY PROPOSALS FOR MANPOWER

	<u>1983</u>	<u>THOUSANDS</u>	
		<u>1988/9</u> <u>CBI PLANNED LEVEL</u>	<u>REDUCTION</u>
Armed Forces	330	330	-
Civil Service	649	562	87
Local Authorities			
Teaching	597	545	52
Educational Support	418	314	104
Protective and Social Services	497	497	-
Other	745	620	125
NHS			
Front Line Staff	637	606	31
Support Staff	367	306	61
	<u>4240</u>	<u>3780</u>	<u>460</u>

Manpower costs

- 12 This section quantifies the cost savings from the manpower reductions set out above and the other savings in manpower costs which the report recommends. The pay bill for the public services as a whole represents on some 60% of current spending on providing goods and services, although there are considerable variations between programmes. In addition, pay levels vary considerably between different groups of employees. We have attempted to allow for these variations in calculating the savings.
- 13 An allowance has also been made for certain associated costs such as personnel overheads and accommodation costs.
- 14 Table 4.2 shows that the illustrative projections for manpower would save a total building up to £4½ billion in 1988/89.

Other manpower costs

- 15 As well as looking at manpower numbers, we have also looked at the potential savings from reducing other manpower costs. These costs fall into three categories; pay, other employers contributions, and other associated costs.
- 16 In the last Working Party report, a substantial proportion of the total savings were expected to emerge from bringing down the level of public sector pay in relation to that in the private sector. As the calculations set out in Chapter 3 indicate, a large proportion of this recommended adjustment has taken place.
- 17 The Working Party still believe that further reductions in relative pay in parts of the public service sector would be highly desirable. Nevertheless, in quantifying our savings we have not taken credit for further savings in this area.
- 18 This does not mean that the Working Party thinks that further control of public sector pay is unnecessary. Such control remains crucial - every one per cent reduction in average pay in the public services saves about £350 million, the equivalent of 40,000 jobs.
- 19 In the area of employers contributions, this report reiterates the recommendation of the 1981 report that public service sector employees should pay a contribution to the cost of their pensions on a more comparable basis with private sector employees.
- 20 In most private sector organisations in recent years, employers have exerted substantial pressure to reduce associated employment costs. There is no reason to believe that similar savings cannot be made in the public service sector with improved financial management. We have therefore estimated savings building up to 5 per cent from present levels by 1988/89 in this area. To avoid double counting, we have included them either as part of the overall reduction in manpower numbers or as part of the savings in procurement which are discussed below. .

Procurement

- 21 The 1981 report concentrated on manpower savings as the area allowing the greatest scope for early economies. In this Report, which concentrates on improved management, it is reasonable to suppose that the recommended measures will produce savings from more efficient resource management not only in the area of manpower but also that of procurement. Table 4.3 shows the importance of procurement for the public sector as a whole.
- 22 Public service procurement comes in two forms:
- i) for many services, including those for which we have recommended competitive tendering and contracting out, contracts are typically awarded after competitive tendering on a fixed price basis. In these cases, although competition will already be helping efficient resource allocation and thus reducing the scope for further cost savings, increased experience with this method of procurement and improved management methods should still be able to generate savings; and
- ii) those goods and services which are typically purchased on cost plus basis, with margins included on a standardised basis. In areas such as this, where all costs can be passed on, the scope for savings through efficient management are likely to be correspondingly larger. This is supported by studies on cost overruns by the Public Accounts Committee (check references).
- 23 In making our estimates for procurement savings from improved management we have distinguished those two types of procurement. In those areas where cost plus contracts predominate we have assumed that improved management methods would lead to savings on the same scale as the savings in manpower through improved efficiency. This would generate savings of 10 per cent over the four years to 1988/89. These savings seem realistic in the light of the Government's own analysis of the savings following the introduction of competition.
- 24 In those areas which are not dominated by cost plus contracts, we have assumed savings on a rather smaller scale, building up to 5 per cent over the four years. These savings again seem realistic given the normal scope for improving productivity and the likely learning curve effects as the public sector gains more experience in contracting out.
- 25 The total savings from improved management methods for procurement are set out in table 4.4.

Overall savings

- 26 Table 4.5 shows the overall savings which we estimate would result from the recommendations made in this report. These savings exceed £8 billion. Nevertheless, one of our main criticisms of public service sector management is that there is insufficient cost information and we are therefore well aware that such costings must be rough and ready. To take account of this, although our aggregate calculations have identified potential savings of the order of £8 billion and some members of the working party suspect that savings could be substantially larger, we have scaled down our estimate of the potential savings by a quarter to £6 billion.