Reimagine Local Government

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External Audit

KPMG

Reimagine Local Government

Council cash crunch: New approach needed to find fresh income

Council cash crunch: New approach needed to find fresh income

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- By 2020, councils must generate all revenue locally
- More and more are looking towards diversifying income streams as an integral part of this
- Councils have significant advantages in becoming a trusted, independent supplier
- To succeed, they must invest in developing commercial capability and capacity

When Richmond Council decided to step up opposition to Heathrow expansion, staff were keen to get expert support in running their campaign. They turned to a company called Westco. Based a stone's throw from the Houses of Parliament, the firm employs a number of experts in local government communications. That its chairperson is a councillor is no coincidence: Westco is a wholly owned company of Westminster City Council.

Westco is one example of local authorities' increasing desire to diversify their income streams. With central government phased out funding before councils have to fund their entire budget by 2020, the focus on income is intense.

The hunt for new income

Some will come from business rates, which local government will retain in its entirety by the end of the decade. Council tax will continue to be a key source of funding. But in both instances, there will be winners and losers. Councils with the right business and residential mix will be in clover, while more disadvantaged areas can expect a funding black hole. In all cases, the hunt will be on for new income sources, and in some instances the stakes are high.

"For many councils, if they continue on a straight path without doing something different on revenue, they will literally run out of money," warns Adrian Fieldhouse, Director at KPMG. "By that I don't mean they might have to close a couple of leisure centres. They will not have enough money to deliver their statutory services."

Facing that prospect, it is little wonder Fieldhouse says almost every council he visits wants to talk about income diversification with many focusing on generating additional revenue from businesses and other areas of the public sector rather than residents.

Westminster may have been one of the first to set up a separate trading arm – Westco was established 13 years ago – but it is far from an isolated example, and new plans are cropping up regularly. In early 2016, for instance, Wolverhampton City Council announced proposals to create its own housing company.

A trusted partner… but there's a caveat

Adrian Fieldhouse believes there is no shortage of options – not least as schools become academies – and he believes councils are well placed to operate in many of the spheres they are considering. "If you wanted to set up a business to serve the public sector and schools and so on, you'd do worse than start with all the attributes that local and regional government have got – they're trusted, they've got the relationship, they understand the environment, they've got the land, they've got people, they've got experience," he says.

Yet there is a caveat. "What Councils don't traditionally have", he says, "is the culture needed to seek out these new sources

of income and to maximize their return. That is not a criticism, culture is defined by the systems, processes, behavioral norms, performance measures and collective goals of the organisation and for most Local Authorities, these things have been pointed towards supporting children, caring for vulnerable people and providing high quality public services at volume not at competing for and generating income".

As such, he argues that if Local Authorities want to secure a significant and sustainable diversified income stream then the things that underpin culture have to be reassessed, changes made and care given to separating them from the statutory services such that they can flourish without creating risk elsewhere. He says " To enable diversified income streams to flourish you're going to have to have the right culture and approach. You want it to be entrepreneurial, you want it to be agile, you want it to be responsive. You want the council to be commercially minded – with a social conscience – but commercially minded. If that new business venture remains a unit within the council, how does it sit alongside adult social care, or children's services? They have totally different cultures and process needs."

Resolving the culture clash

The solution, he suggests, is to explore alternative delivery models such as joint ventures or local authority trading companies. "These essentially enable you to set up a separate organisation that is wholly or partially owned by the council but which can create its own processes, cultures; it can be as agile as it needs to be, responding to the market, attracting and retaining the right staff and incentivizing them in the right way."

There are still complications, not least governance, and not just how you govern a venture to make it effective. "What does it mean for the roles and responsibilities of council members or officers who might now be on the board of this company? And also making sure this company doesn't go off and do something that is completely contrary to what you want to be known for as an authority."

Fieldhouse is keen to stress to councils that the issue of income diversification is perhaps not as simple as they might think. "From this apparently very simple question … there are a whole series of interlinked decisions around helping to maximise those revenues.

"Making the decision to diversify income really is just the tip of the iceberg."

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English devolution: Chancellor aims for faster and more radical change

English devolution: Chancellor aims for faster and more radical change

- Experience of Greater Manchester has shown importance of strong leadership
- Devolution in areas like criminal justice will help address complex social problems
- Making councils responsible for raising budgets locally shows radical nature of changes
- Cuts to business rates will stiffen the funding challenge, even for most dynamic councils

With so much coverage of the Budget focusing on proposed cuts to disability benefits, George Osborne's changes to devolution and business rates rather flew under the radar. They should not have done more attention. These reforms are likely to have lasting and dramatic impact on public services.

Osborne announced three new devolution deals – for East Anglia, Greater Lincolnshire and the West of England. He also brought forward local control of business rates in London, Liverpool and Greater Manchester. So this seems like a good time to ask whether the devolution initiative can deliver all it promises – whether, in the words of Andrew Walker of the LGIU think tank, this is "a radical change for the better or just tinkering around the edges".

One way to judge is to look at the experience of Greater Manchester, the first area to sign a devolution deal. What are the lessons for the new combined authorities? This is also a good time to reflect on an aspect of the government's strategy that has attracted relatively little attention – the financial implications for local government, particularly the consequences of likely changes in the distribution of resources around the country.

A new set of skills

It is clear that devolution, at least on paper, is now a national rather than a northern initiative: five of the 10 deals agreed so far are with local authorities in the southern half of the country. Councils that have not yet signed up must be feeling pressure to join the club, not least in Yorkshire, where so far only Sheffield has done a deal with the government.

This is impressive progress for an initiative proceeding without a top-down legislative reorganisation and instead depends on painstaking council-by-council negotiations. However, as all the combined authorities are acutely aware, the benefits of devolution will not be realised unless they act swiftly and decisively to turn words on paper into reality on the ground.

Implementation has traditionally been a strength in local government. But until now implementation of new policies has typically taken place within the boundaries of individual local authorities. These devolution deals require a new set of skills – the ability to work across boundaries with neighbouring authorities and with other public bodies. They need to foster co-operative relationships across a geographical area, use influence and persuasion to drive change when 'command and control' is not an option, and they need to fundamentally re-think how they deliver public services.

These skills can and should be developed in-house, but some may need to be brought in from outside, whether through recruitment or engagement with external advisers.

Fast and flexible leaders

Strong leadership has been vital to Greater Manchester. In the absence of a single statutory authority, leadership has to be provided at multiple levels – most notably by the leaders and chief executives of the ten participating councils and of the authorities responsible for services such as fire, police and healthcare – not to mention representatives of the private and voluntary sectors.

It is not easy to create a flexible, fast-moving leadership team, empowered to take decisions, when multiple interests have to be accommodated. A venture with multiple parties like this simply cannot work without the drive and commitment of the two key leaders, the mayor and the head of the paid service. A great deal will depend, in all areas where a devolution deal has been signed, on the personalities of these two key figures. Do they have the authority, determination and charisma to challenge vested interests? Can they build support for changes that cut across organisational boundaries?

In Greater Manchester there is no doubt that Sir Howard Bernstein's contribution has been immense. As head of the paid service for the combined authority, he has worked tirelessly with his fellow chief executives to create the momentum for change, supporting the vision of the interim mayor and council leaders.

Completing the jigsaw

One of the most interesting Budget measures was the government's extension of new powers over criminal justice to Greater Manchester, including significant involvement in the commissioning of prison and probation services. This is important because it adds one more piece to the jigsaw of devolved powers, meaning that levers of change – previously split between multiple bodies at local and central government level – are starting to coalesce in the hands of the combined authority.

We can only tackle complex social problems effectively through co-ordinated action on many fronts. Reducing offending is not simply a matter of improving the way in which offenders are managed within the criminal justice system. It requires action in many other areas, including family and children's services, education, employment and skills, healthcare (both physical and mental) and housing.

Devolution has the potential – and it is still potential rather than reality at this stage – to enable the combined authority to take action across all these fronts at once. So far, much of the progress in Greater Manchester has taken place behind the scenes, gradually building the informal coalitions that are necessary to effect change in this challenging environment.

Plans have been developed, for example, to transform the way services are delivered to vulnerable children, regardless of where they live and where they access services in the Greater Manchester area. The proof of the pudding will come in the next stage, when the combined authority implements its plans.

"Raised locally, spent locally"

One of the most important sentences in the budget speech was this: "By the end of this parliament, 100% of local government resources will come from local government – raised locally, spent locally, invested locally." This should silence those who say the devolution agenda as insufficiently radical.

For decades the majority of local authorities have been reliant on grants from central government and on the redistributed proceeds of the business rate. Less prosperous areas have been protected by equalisation mechanisms designed to take account of differences in both resources and needs. By the same token, councils that have encouraged economic growth could only watch as the extra revenue they generated in non-domestic rates and council tax was recycled to less successful areas. Although well-intentioned, the pursuit of equalisation

has resulted in an ever more complex system, which is only a handful of academics and financial experts fully understand. That satisfies no-one.

The localisation of business rates means there will be winners and losers. Local authorities that are successful in developing their local economies will be able to keep the additional revenue they generate. Those that are unable to do so, will no longer be protected.

Rates challenge looms

It is clear, however, that the Chancellor is currently unwilling to allow even the most successful local authority more than a measure of control over its own financial destiny. The freedom to generate and keep revenue from business rates will be granted within a tight national framework, with central government retaining control of the extent to which council tax and business rates may be increased.

The Chancellor may have decided to speed up the devolution of business rates in three of our largest conurbations (London, Manchester and Liverpool), but the budget also delivered a £7 billion cut in the rates paid by small businesses. While this is good news for entrepreneurs, it means that when local authorities eventually get to keep 100% of business rates, they will find the pot is smaller than they had expected.

What is more, the complete withdrawal of central government grant will have an impact across the board. Even some of the more dynamic authorities may find it difficult to drive growth at a scale and pace sufficient to make up for the loss of central support. That would change, however, if the government were willing to devolve wider fiscal powers and to fund national infrastructure on a more equitable regional basis.

The Chancellor talked in his Budget of "the most radical devolution of power in modern British history". It is the financial aspects that may prove in the end to be the most radical, and most controversial. The combined authorities will gain new powers and will be able to retain the benefits of improving their local economies. But the withdrawal of government grant support and the curtailing of equalisation will have harsh consequences, particularly for less successful authorities.

Both winners and losers will find that they are operating within a tight fiscal framework, where their room for manoeuvre is limited – unless and until the Treasury is willing to loosen the purse strings.

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Reimagine Local Government

Senior public sector pensions hit: how to manage the fallout

Senior public sector pensions hit: how to manage the fallout

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"I think there's power in education, communication and good understanding of the whole issue."

- Recent changes to pensions taxation have particularly affected the public sector
- Fears senior staff may quit as pension allowances bite
- 'Analyse, control, engage' is the bedrock of an effective strategy

When George Osborne dropped plans to substantially alter tax relief on pension contributions in the 2016 Budget, high-rate tax payers breathed a sigh of relief. Yet Steve Simkins, Partner at KPMG, argues this "stay of execution" must not conceal the potential impact of changes to pensions taxation already in play.

Why should local government leaders pay attention to the issue of pensions tax?

"Changes to the rules around tax and pension savings mean allowances have been steadily dropping. Three or four years ago, it might only have been a council's chief executive who was impacted by pensions tax. Now we're looking at the top 20 people in a medium-sized council: the whole of the senior leadership team now effectively on a lower net pay package."

"With your top people affected – and it could impact on some other people too – you now have a business issue, not just a personal one."

How aware are leaders to the impact of these changes?

"The notion that these changes are going to impact senior officers below chief executives hasn't fully hit home yet. Even where individuals are aware of the issue, they will rarely understand the actual impact."

"People know about pensions tax if they have already been affected, but part of the issue is the lag effect. If the amount you can save to your pension each year drops on 5 April 2016, you don't actually find out if it effects you until your pension scheme tells you in the early autumn of 2017, this is too late to do anything about it and will be quite a surprise."

Where there is awareness, what's been the reaction?

"For those who realise that there is a potential impact, a common reaction is to consider leaving the scheme. But pension savings over the Lifetime Allowance can still be valuable because of the contribution by the Council. Even so, if net pay is reduced, the obvious consequence may be that people leave or become demotivated at a time when local government really needs a motivated senior leadership team. Changes to pension allowances could actually cause a reduction in performance in a local authority."

"It is more likely to impact on the higher performing people; those who are aware of their value and who are therefore not prepared to work for a higher marginal rate of tax."

How do you advise employers to manage these risks?

"I would advise employers to help their employees: don't just leave this to individuals to sort out themselves, because it's so complicated. We advise our clients to 'analyse, control and engage' (ACE for short).

Time to analyse

Do you know who has been impacted, who is being impacted, and who will be impacted in the future? That gives you your constituency to work with."

"This isn't going to impact anybody earning £30,000 per year, but you get up to £60,000 per year and you could get scenarios where they could be impacted in some years. From around £80,000 per year, they are quite likely to be affected each year, and over £110,000 per year, the impact will be very significant."

What can local authorities do to control the situation?

"When these new lower pension tax allowances were introduced it was generally envisaged employers would reduce the amount of pension that they provide, because it is so tax efficient, and instead provide pay, which is taxed in the normal way."

"The challenge in the public sector is employers have fixed pension arrangements, which they have to provide, and can't be flexed. Some employers are naturally cautious and say, 'if I try and control this, it could be tax avoidance'. So employers need to decide whether they are going to do something to try to enable a better balance between pay and pension, and to carefully consider the implications."

Engagement is key

"But, regardless of the steps employers take to control the position, engagement is key. Much of the problem can be dealt with when high quality communication is provided early enough to avoid any surprises that are too late in the day."

How should local government employers engage with staff?

"I would start from the premise that it's good to communicate with as many people as possible and to engage with all of those potentially affected."

"An extension of talking about pensions tax changes is talking about pensions themselves – what you pay, and what you get back. Presentations and quality communications material work especially well when an organisation hasn't covered the changes in isolation. Instead, they've thought about it in the context of the wider pension provision and have communicated about pensions more generally. It then starts to integrate those messages into a wider total reward programme."

"I think there's power in education, communication and good understanding of the whole issue."

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Reimagine Local Government

Time for the Care Act to deliver

Time for the Care Act to deliver

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"So you have to engage the frontline staff in the vision: how to fix a broken system. Because if anyone knows it's broken, it's them."

- Momentum behind last year's Care Act risks stalling
- Councils struggling to create an accessible care market with well-informed consumers
- Local authorities must improve digital presence and engage providers
- Austerity need not be an impediment to progress. It could be an enabler

It is now 12 months since the initial implementation of the Care Act, a legislative success many years in the making. The act spoke of fair and equal access to support services, of vibrant and diverse care provider markets, and of people having information about how and when to access services. Put simply, it was to be generational change in the foundations of social care.

In the run up to its implementation, local councils focused intensively on what the act would mean for them. Directors and professional leaders sought to ensure their colleagues understood how services would need to change and a momentum built behind the changes.

Stalled progress

A year later, there is a real risk this momentum has stalled. Instead of surveying a diverse care market, we read headlines about providers considering an exit from the sector. Council websites are filled with pages about getting recycling bins or parking permits, but little about how to have a grab rail installed so you can stay in your home safely. For now, the vision of the Care Act largely feels just that: a vision rather than a reality.

It would be a real shame if that remained the case. The idea of councils as responsive organisations, guiding people to the best care, is the correct one. It is not only right for the wellbeing of our population, it is right in today's financially-constrained public sector. Less resources are forcing councils to consider making more radical changes to care, as they have already made to other services.

First, councils should strike a new deal with local people – making it clear both sides have a responsibility to maintain people's independence and wellbeing. That mean's everyone acting quickly when long-term care starts to be needed. People have to raise the issue before reaching the point where they need care at home, and councils need to respond with accurate advice about local services.

The need for digital

Second, to do that, councils must raise their digital game. People need to be able to visit a council website and find details of all the services available – voluntary, health and social. Some councils have done a good job of building directories. But often, they build portals which redirect users to other sites rather than offering immediate personalised information and advice.

Convening power

All of this costs money. Councils can raise some from a council tax precept, but that will not be enough to sustain the existing care system. A good place to start would be to bringing all major local care providers together into one room – not to drive down prices even lower but to work out how to help providers thrive, support new services coming to market and to create a digital platform offering access to these new services.

To promote a sustainable care system councils could choose to invest in training for specific staff groups, building investment in health technology into their economic growth plan, or working with schools to develop better ways to keep young people healthy.

The solutions are not necessarily expensive, but the benefits could be huge and lasting. They could be the foundation of the new era promised by the Care Act.

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Councils can save more than just cash by sharing data

Councils can save more than just cash by sharing data

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- Better data sharing in the public sector can save lives and money
- The duty to share information can be as important as the duty to protect it
- Local authorities are yet to realise the full value of their data and are wary of sharing information
- Cross-sector structures and the right leadership is the first step to combating the problem

Local authorities have a moral obligation to share data inside their organisations and with other public agencies. The prize is great, data sharing has the potential to improve and save lives, but too few councils are yet to understand its potential or are too uncertain to lead.

Just think: if a social worker sees a client's breathlessness has got worse, shouldn't their healthcare provider know? If the client smokes, isn't it worth telling the fire service to check their smoke detector? If police are called to a disturbance at the client's home, couldn't that be a useful pointer for social workers to consider a wider set of interventions?

Yet few, if any, public bodies reliably share data in this way. On a curve showing their maturity in using data, local authorities are typically low down in the bottom left-hand corner; uncertain of how to proceed.

Sharing data can be as important as protecting it

Why such reluctance to share data? Fear and uncertainty is too often the reason. The Data Protection Act and other pieces of legislation have become compliance mechanisms in the minds of local government staff. To them, they represent the possibility of punitive action when things go wrong, rather than a framework to get things right.

For instance, colleagues working in health report that too often, the first six Caldicott principles on patient information are rigidly followed at the cost of the seventh: "The duty to share information can be as important as the duty to protect patient confidentiality." Local authorities have a leading role to play in driving the balance between privacy and sharing.

Sharing information does not just improve outcomes. With economic challenges present and intensifying, using data to stratify risk in local populations will be an important way to work more efficiently, manage demand and allocate resource. To make that a reality, local government has to overcome several barriers.

First, we need to recognise that cultural transformation is required within and across organisations. The fear and uncertainty around data sharing pervades all levels from the chief executive to the intelligence officer, to those on the front line.

This quickly becomes a deterrent to even starting out on the journey. Everyone involved in the local care economy needs to regard data sharing as a priority in order to provide more integrated care and overcome organisational boundaries.

From there, local authorities may need to create a cross-sector structure focused on the issue. For example, Greater Manchester is working with KPMG to create a data-sharing agency, GM-Connect. This organisation has a mandate to drive outcomes focused data sharing across the conurbation It will play a leading role in breaking down information silos and applying data to the most vexing problems facing our public services.

Establishing new organisations won't be possible – or necessary – every time. It is, however critical that senior leaders give somebody the mandate to champion data sharing and make it happen. This individual must be capable of winning hearts and minds but also possess the technical acumen to provide challenge and rigour where needed.

Here another challenge lies – senior sponsorship. Leaders must be bold and committed when driving the data sharing agenda. Data sharing strategies must be visionary, realistic about the barriers but compelling about the benefits. Cross sector buy-in is critical to success and this starts with the quality of the leadership.

This in turn leads to a requirement to focus on influencing stakeholders. Using a problem solving ethos is one way to do this. Defining shared use cases creates the basis for collaboration and fuels commitment.

Get the information governance right

Managing risks means getting information governance right. It has to be front and centre of any local authority's approach to data sharing. It means respecting the privacy of data, while at the same time not neglecting the seventh Caldicott principle – the duty to share information.

In Manchester, we've been doing this by speaking about "information coaching" rather than "information governance". Because for local authorities looking at data sharing, it isn't really about governing: much of that is set out by national or even European legislation. Instead, we need to coach on how we can achieve the best possible service via the use of information – working with the legislation as an enabler rather than a reason not to do something.

After all, would you rather your information be locked away, unused and forgotten in a dark corner, or used safely and securely to save lives and give communities the services they deserve? Most people would agree with the latter – local authorities should too.

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CRT059867 | May 2016

KPMG

Reimagine welfare

Pooling the buying power of benefits claimants to purchase essential services

March 2016

www.kpmg.com/uk/reimaginegovernment

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Let's reimagine...

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This paper is one of a series of thought experiments in which KPMG staff imagine new ways for government to achieve public policy objectives.

This might mean building services around the user rather than the provider. Or drawing on the huge potential of data and digital technologies. Or tapping into the power of markets, new incentives, transparency, or the wisdom of crowds. In every case, it involves fresh ideas.

To channel our thinking, we imposed three rules. Ideas must be designed to produce better public outcomes without increasing the burden on the taxpayer. They must align with the government's philosophy and headline policies. And they must be realistic and deliverable.

But within these rules we want to step outside conventional thinking, and test out new ideas on how public policy goals can be achieved. We want to stretch ourselves, applying new technologies and techniques to solve old problems. We are not calling for a specific future – but we are reimagining it. **What do you think?**

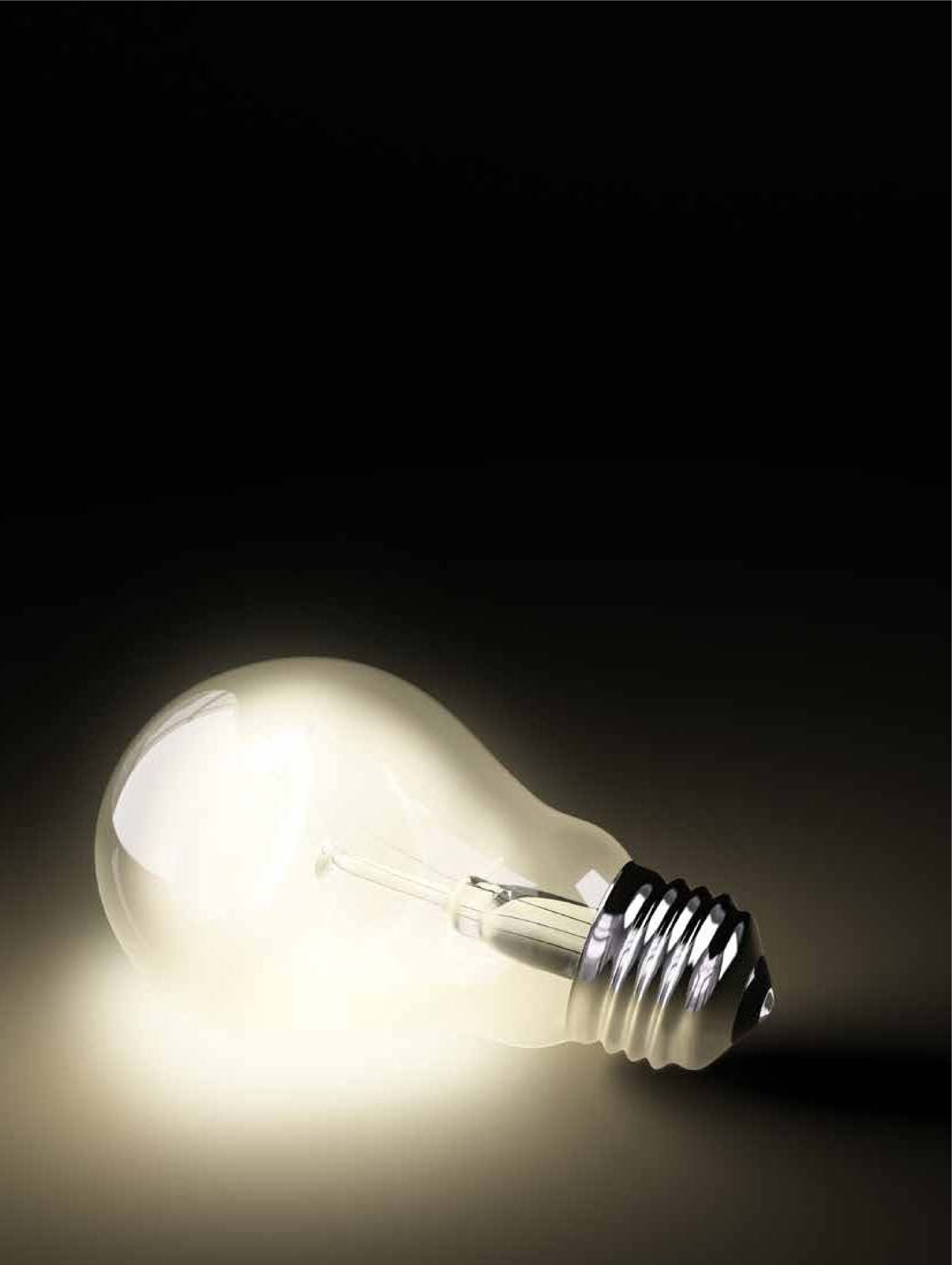
Where we are

It's a sad fact that those least able to heat and power their homes often pay the highest prices – for 4 million[1] largely low-incomes have prepayment electricity meters, incurring an additional cost that ranges from £80 to several hundred pounds a year.[2] Even taking the low end of these figures, the poorest families in the country are paying a price premium totalling more than a third of a billion pounds.

This inequity bites particularly hard in winter, when power use increases; unlike those paying a fixed monthly direct debit, households with prepayment meters cannot even out their electricity costs over the year. Then there's the inconvenience and cost of visiting shops to charge up meter keys, and the harm caused when vulnerable people simply cannot afford to keep the lights on; dependence on a prepayment meter is bad news for many of the poorest in our society.

Yet much of the money coursing through Britain's prepayment meters is provided by an organisation with vast purchasing strength and the country's best credit rating: the UK government. Indeed, the government buys its own electricity at well below retail rates: to minimise the burden on taxpayers, many departments and agencies aggregate their purchases through the Crown Commercial Service (CCS) – which, trading on the wholesale markets, uses its huge spending power and specialist skills to achieve the best prices available. So taxpayer cash which reaches energy markets via the CCS is stretched to the limit; but those government funds which instead pass briefly through the hands of benefit claimants produce far slimmer returns.

Under this system, the poorest in society pay the highest prices for electricity – and for low-income households, power represents a big chunk of their monthly outgoings – and have the lowest security of supply. Meanwhile, hard-pressed benefits budgets are used inefficiently, so the DWP must spend more to provide the unemployed and vulnerable with life's essentials. And power companies must maintain an unwieldy and expensive physical infrastructure of prepayment meters, in a bid to maintain some level of service for a group they view as high-risk and low-return.



Let's reimagine this whole system…

What if DWP claimants could elect to put some of their benefits entitlement into an innovative new government-run electricity purchasing service, transforming themselves from some of the weakest individuals in the marketplace into members of a huge and powerful electricity-buying syndicate? Pooling their buying power with that of other claimants and the government itself, they would become partners in a huge trading block – and secure much better prices in the market.

Not all of those savings would accrue to the consumers – for the government would also share in the savings, enabling it to reduce benefits spending. Given the substantial gap between the below-market prices currently paid by CCS and the premium charged via prepayment meters, there would be plenty of savings to go round.

Participants would also benefit from fixed and predictable monthly outgoings, with their electricity spending smoothed over the year, and eliminate the inconvenience of key charging and the risk of being cut off. In exchange for these advantages, they would see a small reduction in their spending flexibility – for with a proportion of their benefits diverted at source into the scheme, they would draw out less cash – and a smaller cut in their headline benefits figure; but their spending power would rise.

Electricity suppliers should also benefit. For them, prepayment meters are simply a way to minimise risk when supplying electricity to people who may not have the money to pay bills in arrears. The premiums charged such customers are spent on supporting the infrastructure of meters and charging points; most providers would much prefer to be charging lower rates to a less complex and more reliable set of customers.

If instead these households' bills were paid directly by the government itself, the whole calculation facing energy providers would change: participants would become a very low-risk consumer group, with lower customer acquisition spending and bills handled via an automated central system – producing much reduced administrative and payments costs.

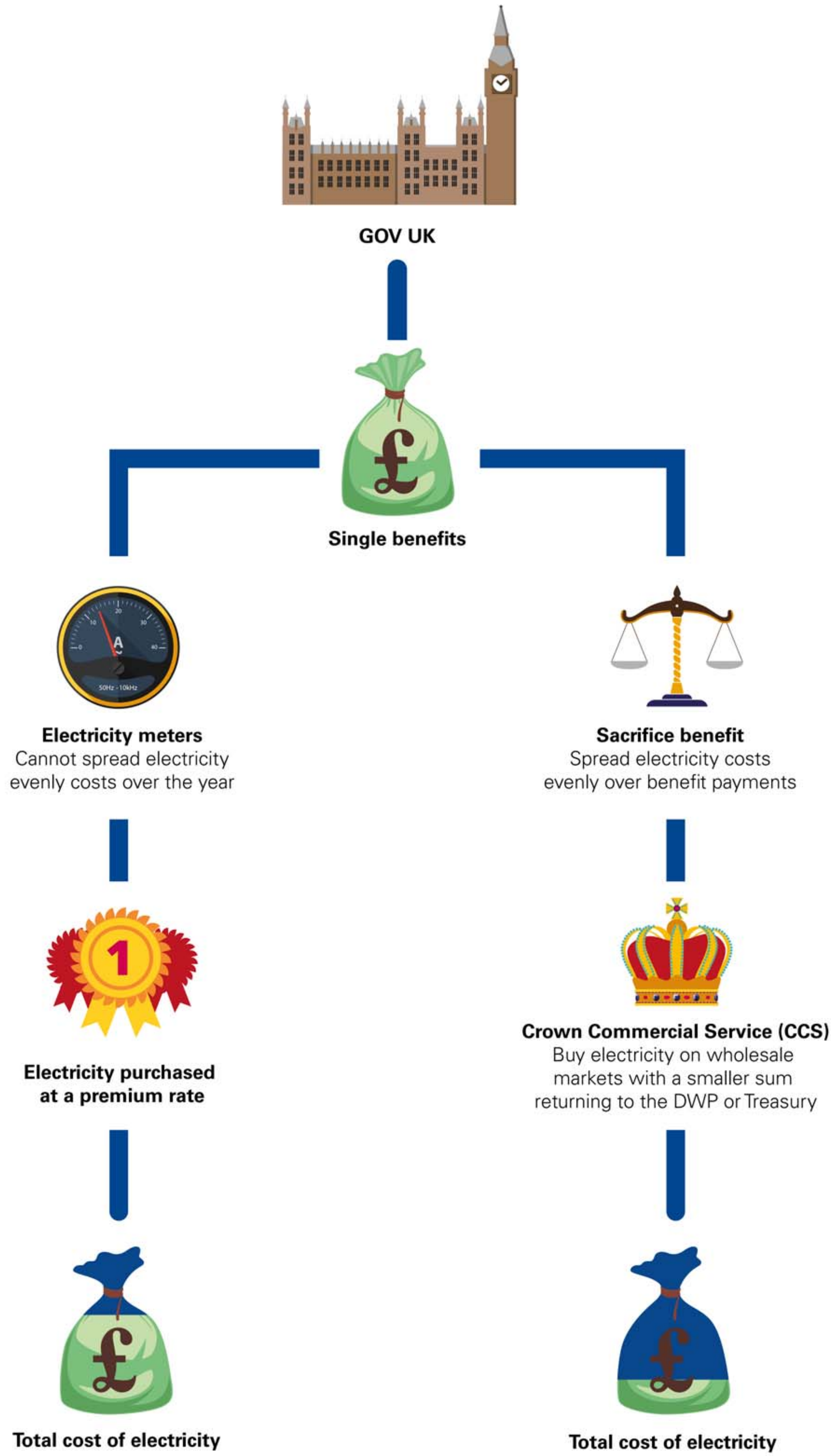
How to deliver the new service

The service would aggregate participants' electricity purchases, perhaps channelling them through the CCS systems already established to take advantage of the best possible wholesale market rates.

The scheme would initially be linked to a single benefit, though it could be expanded later to include others. Participants would be required to 'sacrifice' enough of their monthly benefits to cover their household's average monthly electricity use over the previous year – a figure smaller than previous years' spending, thanks to the discounted rate achieved under the scheme. The lion's share of this 'sacrificed' money would be spent buying electricity on wholesale markets, with a smaller sum returning to the DWP or Treasury.

If participants' electricity use began to rise during the year after they joined the service, threatening to outpace their contributions and leave the government out of pocket, the system – which would track both electricity use and benefits sacrificed – would ask them to raise their monthly payments to cover the difference.

Benefits claimants would access the service via a GOV.UK web page or an app, both of which could verify eligibility with the DWP and keep users informed on market prices and their cumulative savings. Those unable to access or use these technologies could instead call a telephone helpline, but the government would aim to make the digital services so easy to use, quick and convenient that they become by far the most popular channels. These goals would be aided by the use of citizen-centric design, the deployment of emerging cross-government technology platforms, and the application of Government Digital Service expertise and standards.


GOV UK
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Electricity meters
Cannot spread electricity evenly costs over the year
Sacrifice benefit
Spread electricity costs evenly over benefit payments
Electricity purchased at a premium rate
Crown Commercial Service (CCS)
Buy electricity on wholesale markets with a smaller sum returning to the DWP or Treasury
Total cost of electricity
Total cost of electricity

Alignment with public policy objectives

As well as the advantages for consumers, suppliers and the government listed above, this system could produce a range of further public benefits. The most obvious of these include:

By reducing energy costs, smoothing payments over the year and preventing ‘blackouts’ when participants can’t afford to recharge their keys, the service would help the government realise its goals around reducing fuel poverty;

Integrating this approach with the government’s winter fuel payments system could reduce the latter’s administrative and service delivery costs;

The system could provide a helpful channel for energy providers to meet their Energy Company Obligation (ECO2) requirements, further supporting work to tackle fuel poverty and producing more energy savings for the poorest consumers;

Collecting data on individuals’ spending and their use of services, the government could – with the right consents in place – gather evidence to inform future policymaking, improve its targeting of advice and support services, and identify the most effective ways of reducing energy use.

Going further

This approach has huge potential benefits in electricity, where the existence of prepayment meters creates a twin-track market penalising the most vulnerable consumer groups. But the government could also produce savings within many other markets by aggregating the spending power of benefits claimants and, in many cases, combining it with its own. And if people began using and valuing this service to purchase electricity, they would already have the equipment, experience and confidence to make other essential purchases through the same system.

These purchases might include water and sewerage, basic food, insurance, simple financial products, telecommunications and broadband. And incorporating some of these new services into the system would provide additional social benefits. We might see a rise in the number of insured households, for example – an important goal, given that the poorest families both experience an above-average risk of burglary or home damage, and are poorly prepared to recover from such blows. We might also broaden access to home internet, tackling 'digital exclusion' and – in a virtuous circle – making it easier for people to use the 'benefits sacrifice' portal. We might even improve eating habits, contributing to public health.

Extending the scheme in this way would have obvious benefits for claimants and the government – with both sides seeing their outgoings falling as they share the benefits of bulk discounts – but service providers and retailers would also have strong incentives to participate. Currently, businesses targeting these consumer groups typically find that individuals are highly price sensitive, with low spending power and poor credit ratings. Under this service, they would instead be invited to bid for substantial bulk-sales contracts, with payment underwritten by government and much reduced marketing, service provision and payments costs. In such low-margin markets, these benefits are extremely attractive.

In each of these examples, the purchasing model would be similar to that of electricity. Consumers would voluntarily forego a proportion of their benefits in order to receive the product at a discounted rate – so they'd pay a fixed monthly fee up front, with usage tracked almost in real time.

Addressing the challenges

As with any significant policy initiative, there are many potential problems and risks around this idea. Here we address six of the most substantial.

1

The scheme depends on high volumes to drive down prices and attract energy providers. What if it doesn't attract enough claimants?

The project's ability to attract participants would depend on the quantity and quality of marketing; the system's accessibility and ease of use; and the savings available. Given that the government already communicates extensively with benefits recipients, it has a range of existing channels to market. Meanwhile the Government Digital Service has demonstrated its ability to produce accessible, attractive service delivery platforms; and the savings on offer should easily be substantial enough to attract this price-sensitive group of consumers.

2

If service users consume more electricity than they've funded through benefits sacrifice, then stop claiming or disappear, someone's left with an unpaid bill. Who carries that risk?

Energy companies. Because the service tracks energy use monthly, these bills could only be small. And energy suppliers currently find low-income customers an expensive group to supply, with high fixed infrastructure costs and disproportionate expenses for marketing, billing, money transfers, administration, complaints and dispute resolution; the savings that come with moving to a single, highly reliable customer should more than outweigh any additional losses. As an additional safeguard and deterrent, participants could also be required to repay overspends through deductions from any future benefits payments.

3

This looks like a difficult technology project and a brand new form of public service – does government have the skills to deliver it?

In fact, this is only an iterative development of existing successful policies. The Motability service aggregates benefits spending to provide a single service for users. Childcare vouchers involve a salary sacrifice scheme, administered through HMRC. And the DVLA's Vehicle Excise Duty service instantaneously checks vehicles' insurance cover, demonstrating government's ability to manage real-time data exchange with private industry. What's more, in recent years the Major Projects Authority (now the Infrastructure and Projects Authority) has substantially improved government's programme and project management capabilities, whilst the Government Digital Service has boosted digital skills and 'agile' development capabilities. With the right team in place and an intelligent programme of pilots, the service is well within the government's capabilities.

4

Would the wider public, who must pay full price for services, resent the fact that benefits claimants are paying less?

The scheme would have to be restricted to core services and goods, and could not be used for the purchase of luxuries. And whilst benefits claimants would indeed see their total spending power rise a little, taxpayers would also benefit from a share in the savings: the fall in benefits spending should be welcomed by most people, who would see the sense in the government aggregating its buying power – and the waste inherent in the current state of affairs, under which government funds are spent huge inefficiently on basic services provided to claimants.

5

Does the scheme adopt a patriarchal approach, depriving people of choice over their own spending and limiting their independence?

Many consumers' independence is already constrained by their own weakness in the market and their status as high-risk and/or low-value consumers – with outcomes such as their having to use prepayment meters, or paying higher prices for items bought in small quantities. This service would empower people by combining their individual spending powers to form a trading block. It would be entirely voluntary: people could choose to opt in or out at any time. And far from decreasing personal responsibility, it would increase it. These consumers have often been deprived of personal responsibility and the task of planning their spending because the market doesn't trust them – preferring instead to refuse them the credit required to smooth payments over the year or to pay bills in arrears. This service would return to people the responsibility for managing spending on a monthly basis, supporting them to 'normalise' their finances.

6

Would businesses currently serving this market oppose the scheme's introduction?

Some might – for these markets include more than one kind of supplier. Some businesses offer cheap food and services to low-income consumers, making a living by 'piling 'em and high and selling 'em cheap': such companies would be well placed to bid for work as suppliers to the new scheme, making good use of their business model whilst reducing their administrative, marketing and billing costs. Other businesses make their money by taking advantage of poor consumers' weakness in the market – offering sky-high interest rates for unsecured loans, for example, or charging high prices for goods sold in small volumes. These organisations might lose out as the markets were rebalanced to offer more support and security to the poorest in society; but their interests are outweighed by the service's benefits for taxpayers, government's policy aims and wider society.

Summary

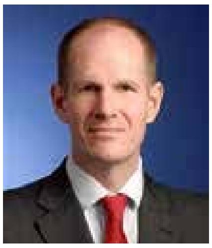
Aggregating individuals' buying power in this way would help to reduce the public finances deficit, produce a more efficient energy market and infrastructure, and secure improved services for the most vulnerable in society – many of whom currently get a worse deal than wealthier citizens. The concept sits well with many government policies and agendas, and uses techniques and systems tested in other successful policies.

If at first glance it seems radical, that's simply because we are only just grasping the endless possibilities for the potential of digital technologies and user-centred design. In years gone by, this kind of service could not have been established without vast, bespoke IT systems, layers of regulation, and substantial organisational change. But today the technologies exist to gather, manage and analyse data in this way, whilst government's ability to deliver digital projects – especially those well-suited to agile development – has much improved.

Whilst we appreciate there are a number of challenges within this piece, it is, just a thought; the results of us exercising our imaginations and approaching social goals or challenges from a new perspective.

Author biographies

To discuss this piece in more detail feel free to contact the authors.



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Reimagine care

Using digital platforms to improve life for service users and carers

March 2016

www.kpmg.com/uk/reimaginegovernment

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Let’s reimagine

Kru Desai

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This paper is one of a series of thought experiments in which KPMG staff imagine new ways for government to achieve public policy objectives.

This might mean building services around the user rather than the provider. Or drawing on the huge potential of data and digital technologies. Or tapping into the power of markets, new incentives, transparency, or the wisdom of crowds. In every case, it involves fresh ideas.

To channel our thinking, we imposed three rules.

1. Ideas must be designed to produce better public outcomes without increasing the burden on the taxpayer.
2. They must align with the government’s philosophy and headline policies.
3. They must be realistic and deliverable.

But within these rules we want to step outside conventional thinking, and test out new ideas on how public policy goals can be achieved. We want to stretch ourselves, applying new technologies and techniques to solve old problems. We are not calling for a specific future – but we are reimagining it. **What do you think?**

Where we are

Government policies on public services emphasise personalisation, empowering service users to choose providers that best meet their needs. But despite an increase in the use of personal budgets, the offer in social care often falls short of these goals. And it isn't only service users: carers too often operate within a demanding, inflexible system that takes little account of their preferences, requirements and specialisms.

Imagine if, as a service user, you were given a timetable for visits built around your essential needs such as meals, washing and personal care. Someone did talk to you about managing a personal budget but it seemed quite daunting to plan it all. And anyway, even if you set the schedule it still wouldn't be flexible enough. Some days you don't need as much help, or you have relatives or friends who can help out. What if you need the loo but it's hours till your next visit? What if you get hungry between visits? What if you feel able to feed yourself today, but really need a lightbulb changing? Even if you made the plan, it still feels a bit too rigid, doesn't it?

Some of your carers have time to talk, you enjoy their company and you build up a rapport. Others are professional, but not warm. On some days, if there is traffic, or your carer is up against the clock, your visits can feel a little bit rushed. You don't expect to click with everyone but wouldn't it be nice if you could have more of your visits with the people you like?

Now put yourself in the shoes of a carer: you are on or near minimum wage on a 'zero-hours' contract that is difficult or impossible to combine with other work. You receive rigid timetables with sometimes optimistic travel times. There are days when you have barely enough time to get everything done before you have to get in your car and dash to the next appointment. At those times, you'd like to provide a more caring experience, but the service users are not your employer; you work for the care company, whose customer is the local authority.

And now let's imagine you are that company that contracts with the local authority to provide the care. Your performance metrics tend to emphasise efficiency and availability over service users' views and experiences. You understand this. Your customers have seen significant pressure on their budgets, yet have statutory obligations to provide services to an ever-expanding population of people with infirmities, disabilities and long-term conditions. Councils have tried to square this circle by cutting rates, but this only puts more pressure on this narrow-margin industry – paring away at the quality you can offer.

While so many public services become more citizen-centric, we have a system of visiting social care services which poses challenges to carers, providers, commissioners and service users. Users, who often struggle to have their views heard through other channels, and who could benefit more than most from a better level of choice and voice.

Let's reimagine this whole system

Let's ditch the rigid timetables and the staff rosters; the local authority contracting process and the tight-margin care management firms. Could we make service users the clients here, rather than their local authorities – putting them in the driving seat? Could we let people choose the times and types of service they receive, and allow them to select their preferred carer? Could we make caring roles more flexible and attractive, bringing in a new cadre of carers who fit the job around the other things in their life – rather than having to fit their lives around the job? With a change in approach and some relatively straightforward digital technologies, we don't see why not. Just imagine if a service user could request a visit as easily as ordering a taxi.

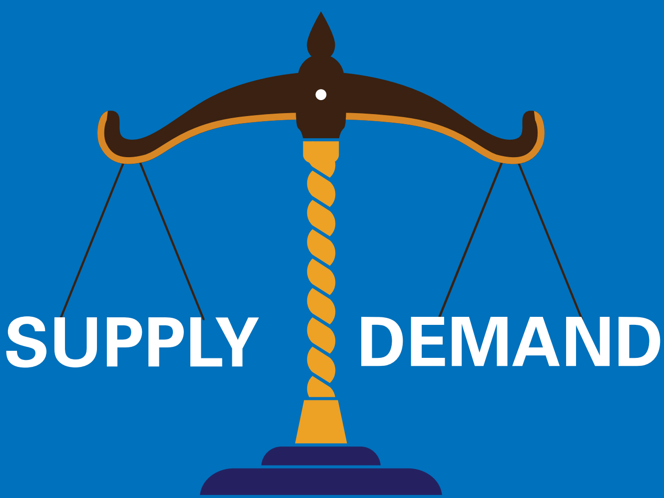
Many local authorities around the country have developed forms of 'personalisation', in which service users can choose to spend their 'budgets' at a range of local services – but these don't generally include home care, instead providing a menu of daytime activities provided by approved firms. With digital technologies, though, it would be possible to take this much further – enabling service users receiving home visits to 'buy' a much wider range of services, at the time of their choosing, from named individuals.

Following an assessment of an individual's care needs, they would be given a 'budget' and a mobile device containing real-time information on all the carers in their area: each carer listing would contain details of their skills and services, their availability, and a rating based on feedback from previous clients. Then they could 'spend' their budget how they chose, requesting the timeslots, the services and the individuals that met their needs that day.

After each visit they'd be asked to score the quality of care, influencing the carers' rating and guiding the choices of other service users. In time they would no doubt come across carers with whom they had a particular bond, and might want to schedule a regular visit; but if their needs changed and they required – for example – someone to unblock the drain or do a bit of shopping for them, then they could always rearrange. And if they had an urgent need for personal care or a meal, they could simply press a button and receive a visit from the first available carer.

On the provider side, this model reduces the costs associated with scheduling appointments and rostering staff. Instead, carers would effectively be self-managed, signalling their skills and availability and letting the technology organise incoming service bids into an efficient route between jobs. So the carer's working lives would be transformed: given the ability to choose when they work and the freedom to decline jobs, the role would grow in status, flexibility and autonomy. This in turn would attract new kinds of people into the job: parents willing to work during school hours; the active retired, happy to do a few jobs a day; the employed who want to earn a little extra in evening work; even volunteers ready to contribute their earnings to charity and, perhaps, to spend a little extra time having a cuppa with their clients.

Of course, not all services are the same: people's needs, locations and characters would affect how attractive a particular job is to carers, so the system would even out these variations by altering the price paid. If a service user's remote location or difficult health condition made it harder for them to attract carers, the price paid for a visit would be raised. If carers with a particular skill proved in short supply, the price for that service would increase until others retrained or entered the market. And if individuals experienced long waiting times on any particular day, a steadily-rising price should encourage carers to squeeze in an extra visit or come on duty.



By passing power from the local authority and the management firm to the service user and the public service worker, this model would return control from institutions to citizens. By providing a real-time picture of service users' evolving needs and the people available to serve them, it would provide a way to dynamically match supply and demand. And by attaching higher prices to services found to be more scarce, it would ensure that gaps in provision were plugged.

Currently, many service users feel as if they get what they're given and carers do what they're told: our rigid system provides services that aren't required whilst ignoring people's changing needs. But under this model, both groups would win back control of their lives in a system that gives each side exactly what it's looking for.

How it would work

There are four parties under this model: the commissioner; the provider; the carers; and the service users. All four would have different 'dashboards' on a shared app that would gather, process and share data.

The commissioner would typically be the local authority, although people ineligible for state-funded care could also access the system – either performing the commissioner's scrutiny duties themselves, or passing that task to the council or their Power of Attorney. The commissioner would perform an oversight role on the work of the provider, scrutinising the system's performance, ensuring that minimum standards are met, and handling any complaints or appeals from service users. It would also receive alerts when the system identified a risk: if, for example, a service user failed to log on or a call for service was left unanswered for too long, then the provider would have to intervene.

The provider would be responsible for conducting care assessments and reviews; recruiting, vetting, training, monitoring and advising carers; providing service users with the right equipment, training and support; adjusting the pricing protocols to ensure that people's needs are being met; and providing a core service to support users with specialist needs or to fill any gaps which the new approach could not fulfil for any reason.

Service users would be given an app and, if required, a simple smartphone or tablet. This would show all the carers available – both in real-time, and through the shifts that carers have chosen to advertise over coming weeks – and prompt users to rate the quality of care after each visit. They could search for individuals' names, high ratings or specific services, and either book visits in advance with particular individuals or simply request an urgent visit from the next available carer. Users would all pay the same for a particular service; the price variation would only affect the fees paid to carers, ensuring that people receive a broadly equal service even where it proves harder to attract a carer for a particular job.

Carers would be carefully vetted and trained, then upload a profile setting out their skills and the services they can offer. They'd be encouraged to set out their availability over future days and weeks: whilst it would be possible to simply switch on their 'taxi cab light' and pick up any unmet demand, those who allowed service users to book in advance would be likely to get the best jobs and the most efficient travel itineraries. And they'd be able to see the ratings and skills of other local carers, along with the proportion of their available time pre-booked – encouraging them to improve their service quality or undertake training in order to get a bigger share of the market.

Whilst service users would pay a fixed price for a specific service, carers would have to keep a close eye on the fees available: some would vary to reflect the need for a longer journey or visit; a higher rate might be paid for unsociable hours visits; and other fees would gradually rise as the system tried to attract a carer for a complex medical condition or an unpopular individual.

Those with the best average ratings would receive more bookings and fill their diaries more quickly; but they could also be paid a small premium for each job, ensuring that great service brings rewards even where supply is so tight that most carers can find plenty of work. As with private sector equivalents such as CheckaTrade, the need to build and retain a good rating would be likely to have a strong positive influence on service providers' behaviour.

Before finalising a booking, carers would be presented with information on relevant travel times – perhaps using local traffic information and data on daily congestion patterns – and the app could suggest diary alterations to make for a more efficient route. Via GPS tracking, the app would monitor carers' locations and keep service users updated on their estimated arrival times. And before a carer arrived at a property, the app would ensure that service users had the carer's photograph and supply both sides with a password to verify identity.

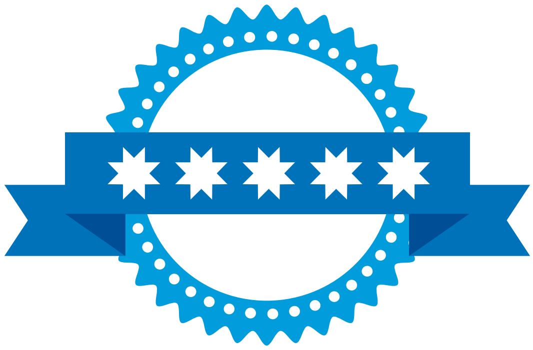
Alignment with public policy objectives

There are many ways in which this idea sits neatly alongside existing government policies, service reform agendas, public sector goals and popular opinion, including:

Personalisation and choice in public services.

Government as a facilitator rather than a provider of public services.

The digital by default agenda, and the aim of rebuilding services to make full use of the potential of data and digital technologies.



The need to drive up the standards of care, focusing on patient needs, safety, and really high-quality service provision.

The public disapproval of ‘zero-hours’ contracts, and the desire to give people more satisfying, empowering and engaging working lives.

The aim of strengthening the role of competition in public services in order to drive up quality.

The goal of increasing voluntary work and building community cohesion. With the role of carer made much more flexible and autonomous, new kinds of people should be attracted into the field – including volunteers, and others able to spend more time with service users than they’re being paid for.

The austerity agenda and ‘more for less’: this system would do away with much of the administrative work involved in scheduling and managing carers, cutting the costs of delivery. By closely matching demand to supply on a daily basis, it should also improve outcomes and efficiency in service delivery. These are particularly crucial goals in social care: demographic changes and falling council budgets are already weakening services and forcing the government to permit rises in local taxation. The forthcoming rise in the minimum/living wage is set to exacerbate these problems.

Going further

Whilst this app could work at a borough or district level, the market would function more effectively if the system was applied on a larger scale – enabling carers to serve a bigger market, and minimising inefficiencies and perverse outcomes around council boundaries. The city-regional devolution agenda could be helpful here.

Extending the system to a national or regional level would open up further possibilities: perhaps people with relatives receiving care in other parts of the country could provide services to people in their local neighbourhood, gifting the credits earned to their relatives for them to spend.

With the system in place, it could also be extended to cover other forms of work – allowing service users to buy, for example, home repair or decoration services from providers. These providers could pay a charge on work won through the system, helping to fund the care service whilst enabling vulnerable people to buy services from providers who've been vetted, tracked and monitored through the app. This facility could help tackle incidences of fraud, aggressive door-to-door sales, distraction thefts and poor service – major risks for vulnerable people living in their own homes.

Summary

Our current care system offers an inflexible, inefficient service that can deprive users of choice and is unable to flex around people's changing needs and preferences. Just as importantly, it disempowers carers, who have little control over their working lives and are tasked with meeting the needs of their employer rather than their clients. This system has grown up over time as government has tried to meet the ever-growing needs of an ageing population in the face of weakening family support systems, creating a big, low-margin industry built around the interests of local authorities and private providers.

Our suggested system would strip out some of the administrative deadweight and focus on three key goals: providing the right care services for individuals; facilitating councils' responsibilities to meet their statutory obligations; and improving the working lives, morale and performance of carers. Digital technologies enable us to rethink our system of care visits from first principles, building a replacement that prioritises the rights, choices and wellbeing of individuals rather than the interests and budgets of organisations.

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