

The Guardian roundtable in association with Grant Thornton

Can mergers benefit the public sector?

With funding cuts looming, public sector managers are asking whether consolidation can help provide more efficient service delivery. **Sue George** reports

This is a time of change, politically and financially. The forthcoming general election means the immediate future is unpredictable. But whichever government takes power, the UK's financial deficit will have an impact for years to come.

So are mergers and consolidations across the public sector the way to provide more cost-effective, efficient services? And what might be the opportunities and benefits?

These issues were discussed at a roundtable event held by the Guardian, in association with Grant Thornton. The event was conducted under the anonymity of reporting allowed under the Chatham House rule to encourage frank debate, so this report picks up themes that were discussed, without attribution.

Change needed

The discussion began with a general acceptance that, due to public finance deficits, things had to change – and fast. However, this presented a wide range of challenges for participants, whichever part of the public sector they were working in.

While public sector bodies had started to trim their budgets, this was not reducing costs enough. For instance, Total Place, which has been designed to provide better services for less by cutting out overlap between organisations in specific geographic areas, was considered the most significant development so far but would not provide significant cuts.

In general there was so much difference between those parts of the sector that were localised, such as primary care trusts (PCTs), and others that had a national remit that it made the necessary flexibility difficult.

In the employment sphere, the commissioning strategy was currently focused on overcoming barriers to entry to the labour market. This was done by creating specific packages for individuals. However, if different sectors (for instance healthcare, housing, benefits) were able to work together, this could perhaps be done more effectively and cheaply.

According to one participant, “looking around the table, we should realise that if our respective customer groups were represented by a Venn diagram there would be an overlap of 80%. It is up to providers with local partners to do the joining up – national partners don't do very well in terms of commissioning and funding.”

Several participants spoke about the complex, differing demands of separate funding streams. “If we had the ability to flex money at a local level we would be able to deliver better outcomes at lower cost,” one said. “The fact that everything is fragmented and has to be knitted together at local level adds bureaucracy and inefficiency.”

Was partnership-working the quickest way to make the savings that would be needed? Participants generally thought not, with some who worked in this way highlighting related issues, for instance within procurement, where proposed measures had turned out to be illegal.

Redesigning services

Services may need to be completely redesigned if enough cuts are to be made. Some participants talked about the process of deciding where to make these cuts. “We have to decide which services to stop, which policies we are going to change,” said one. “There is always some legislation, minister, or community that cares passionately about those services.” Another participant talked about the case of four very popular and well used charity-run day care centres, which were told by the commissioning local authorities that they had to merge.

The NHS is now in the process of being redesigned. In London, for instance, 31 PCTs could be reduced to as few as five or six over 12-18 months. This is part of a general move towards a subregional model because, according to one participant, “they can't get the local model to work well because local politicians will not take responsibility for healthcare. Unless they do, then subregional is about as local as they can get it.”

Another participant considered that consolidation was not necessarily the right answer in commissioning. Big contracts reduced the number of organisations capable of bidding on a large enough scale, and increased costs for both sides. “Small-



At the table

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(chair)
Editor,
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Stephen Baker
Corporate
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Jonathan Baume
General secretary,
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Alan Cave
Delivery director,
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Rosie Chapman
Executive director
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Karl Eddy
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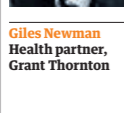
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Stephen Hughes
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De Graham Stokes
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‘If we could flex money at a local level we would be able to deliver better outcomes’

Background

Since the beginning of the recession, the UK's national debt has increased sharply, standing at £848.5bn in February 2010. Ensuring this debt does not continue to rise, and ultimately paying off some of it, means drastic cuts in public spending. One way these cuts might be managed is through consolidation of different services.

The first NHS acquisition of one trust by another took place recently when the South Essex Partnership Trust took over mental health services in Bedford and Luton. Exactly what happens to the public sector will depend on who wins the forthcoming general election. However, mergers, acquisitions and consolidations across the public sector seem likely to be on the agenda.

scale organisations are often more efficient at delivering services,” the participant said. “The problem is we find it difficult to deal with lots of small organisations. We need an intermediary.” Another participant considered that dealing with such small organisations had already been tried, and the experience had been chaotic and unmanageable.

One participant wondered at the way the discussion had focused on cost-cutting as an overarching motive for public sector mergers. Shouldn't consolidation be about more than cost-cutting? What about better services? More simplified government? In the private sector, he said, mergers happen “for strategic reasons, for consolidation, revenue generation. Cost is a byproduct... In the current environment such a focus on public sector cost is part of the agenda, but we need a discussion as to how do we do things differently. How do we get better outcomes, closer to what the customer needs?”

Some public sector participants mentioned reasons they had involved the private sector in their work, for instance to improve services, or change the nature of the workforce, or to change the way that services run to make them more business- or customer-focused.

Another question was whether public sector consolidations happened primarily as a result of ministerial decisions, and if so, whether these consolidations worked

Will the current redesign to merge primary care trusts be successful in helping the NHS achieve its ambitious savings target? Photograph: Alamy

effectively. One participant considered that ministers didn't really know how the public sector worked. Another thought that ministers often didn't feel they needed to get involved and, when they did, did not consider the implications.

The role of the state

The biggest question in the run-up to May's election, and for a considerable time afterwards, would be: what exactly should the state provide? One participant asked: “What is it that government is for? What do we need to prioritise?” While there was a political consensus that the state needed to contract, there were implications for civil servants at all levels and this should be considered, with the public sector a major employer in some parts of the country. New models of service were fine, but their impact might be no more than marginal.

There was a general agreement that there should be fewer bodies responsible for delivering services, and more diverse delivery vehicles. Across the public sector, there would be more outsourcing for cost reasons, but one participant pointed out that if commissioning costs were too low, providers' ability to provide care of acceptable standard might be jeopardised. This could be a risky strategy for the most vulnerable people. The state had to remain as the provider of safety-net services.

Much needs to be done, and quickly, to ensure that the public is still served. Nevertheless, any public sector mergers need to be considered ones. In this period of political change, as one participant said: “Hard choices need to be made, and it should not just be about electioneering.”

Roundtable report commissioned and controlled by the Guardian. Discussion hosted to a brief agreed with Grant Thornton. Paid for by Grant Thornton. Contact: Matt Rice: 020 3353 2984. For information on roundtables visit: guardian.co.uk/supp-guidelines

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Public sector merger and consolidation

Summer 2010

As deficit reduction takes precedence over any of the other measures in the government's programme, part of the response to this is a greater focus on the opportunities that mergers and consolidations present and whether this can provide more efficient service delivery. This in turn will impact the private sector, local authorities and third sector in particular, which are likely to take on bigger roles in delivering those services, but are themselves working in a constrained economic environment.

With deficit reduction being the driver of change in the public sector, there will have to be a radical change in the way that the required savings can be made. To do this successfully, many key questions will need to be addressed. These include: what the potential is for mergers and consolidations to happen; what will prevent it; what needs to be considered; and how do different areas of the public and not for profit sectors compare.

Arm's Length Bodies (ALBs)

Around £80 billion of public expenditure each year is through arm's length bodies. While a programme of action is already underway to ensure they deliver better value, there will be a step change in the agenda to reduce significantly the number, size, scope and influence of quangos to ensure we maximise the amount of public money going to frontline services. NDPB boards and

poor, they consider alternative options only rarely, and frequently do not plan implementation or share learning. In summary, the agenda to rationalise quangos is therefore a minefield with a real risk that mergers will fail to deliver. We believe that a critical success factor is to apply more rigour, attention and radical thinking to other options before rushing to the politically expedient solution of merger. These options

“A critical success factor is to apply more rigour, attention and radical thinking to other options before rushing to the politically expedient solution of merger. These options include: stop doing things, or at least time-limit and review them; strengthen governance; outsource more and share back-office services.”

chief executives need to be ready to respond to an unprecedented scale of challenge.

One of the barriers to a successful merger will be caused by a lack of available case studies. While little practical guidance on successful implementation is available, there is evidence that reorganisations in central government often result in failure. The National Audit Office (NAO) reported recently that central government departments and agencies are weak at identifying and systematically securing the benefits they hope to gain. Their track record of identifying implementation costs is very

include: stop doing things or, at least, time-limit and review them; keep organisations separate but strengthen their governance; and outsource more services and share back-office services. There is a real opportunity to grasp here, which we cannot afford to waste. **Local Government** Within local government, there are already a growing number of examples of shared management arrangements, shared services, and the shared use of assets with public sector partners. While these are all areas of consolidation, we are seeing a break in tradition, with some authorities stating their intention



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“Consolidation could be a key solution in local government’s response to the unenviable challenge of providing high quality services.”

of considering all-out mergers. This could be a key solution in local government’s response to the unenviable challenge of providing high quality services in a period of significant change, falling income and rising demand for services. However, to be successful, the focus of such major redesign must remain on the customer. While past initiatives that put customers at the heart of the process, such as Total Place, have got this aspect right, they don’t deliver changes that meet the new government’s accelerated timescale. Until mergers become imperative, however, statutory, cultural and regulatory barriers will mean we are likely see continued examples of local government collaboration with both other local authorities and the wider public and third sectors.

Charities

While increased delivery of local services by charities through strategic partnerships may be a solution for local government, like all parts of the public sector, the not for profit sector is facing unprecedented calls for cost efficiencies and value for money. Creating economies of scale through the creation of larger organisations by merger and/or acquisition has been a way to achieve this and in recent years, there have been a number of substantial mergers resulting in the establishment of some very large charities. While there is anecdotal evidence that charity mergers are on the increase, there are currently no hard facts or figures. Recent changes in the law have made mergers easier,

yet there are key questions that need to be addressed by CEOs within the charity (and any other not for profit and public sector considering merger) so that the barriers and opportunities are clearly established. These include:

- what has been achieved from mergers so far and have the expected synergy savings been achieved?
- what are the drivers required to make a merger happen to effect cost reductions/improve services to beneficiaries?
- what is the optimum size/ configuration for a charity and do we expect to see some more substantial charities created over the next few years?
- what are the risks of creating fewer, larger organisations to provide much needed services? How would this be viewed by stakeholders?
- are there effective alternatives to mergers through more partnership

“Creating economies of scale through the creation of larger organisations by merger has been a solution. But big is not always beautiful and there are key questions that the not for profit and public sector need to consider.”

working or use of shared services which mean that value can be secured without costly merger and integration processes?

- can some of the current barriers to mergers including pension issues and cultural differences be overcome?
- can the costs of mergers, not least professional fees, be reduced through better transfer of knowledge from those who have gone through the process?

There is also anecdotal evidence that grant makers and commissioners of services are preferring to contract with the bigger organisations due to the administrative advantage of dealing with a smaller number of larger contracts. However, big is not always beautiful and the small grass-roots organisations often have something different to offer in terms of their connection with the local community.

No doubt mergers will remain a hot topic for debate with some strong advocates for either side of the argument, but what is clear is that trustees should consider the options for the best possible means to deliver services and one of these options is clearly mergers/collaborative working.

Social Housing

In contrast, the housing sector has already been through a period of consolidation in recent years with some very large housing associations being created as a result. While there is very little evidence of significant merger activity at present, there is still scope to consider if further consolidations are possible. At an association level, the questions already outlined in the section above need to be answered, merger activity needs to be supported by a confidence that past mergers have achieved the anticipated synergy savings and that the optimum size and configuration for a housing provider is identified.

Recent history also shows that typically, in housing there are no levers to make a merger happen unless an association is in financial difficulty or if there are clear governance problems. As a result, there needs to be creation of a driver so that mergers can be pursued to effect cost reductions and improve customer services in the absence of the cheque book.

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While the case for mega-mergers has yet to convince housing associations based on evidence so far, a thorough assessment of how to drive down costs and maintain service delivery will be a continuing theme for those providing high quality public services.

Further & Higher Education

The continued debate around the delivery of high quality public services at a lower cost is an area of increasing significance in the education sector, where there is an ongoing expectation of high quality provision, but which has to be provided within the current economic climate. It is also a sector where there are overlapping costs, such as efforts to attract overseas students in a highly competitive market. It is therefore an opportune time to consider whether there may be alternative operational structures which may be able to create economies of scale and enable valuable resource to be redirected to deliver the quality agenda. These structures may include collaboration with other providers, or mergers of all or part of an organisation.

Like the other not for profit and public sectors, education needs to consider what size of organisation is needed to provide the appropriate economies of scale. It will also require the necessary levers to make mergers happen. Also, while some rationalisation of the sector may be required, economies may also be achieved through collaboration and the development of shared services to attack the overhead cost base, particularly those areas such as marketing activities and research functions which may not be reduced in large scale mergers.

Within this sector there also are a number of specific issues that need to be considered, some of which will be based on hard reality. Other issues may be more subjective, but equally important if any collaboration or merger is to be successful. These issues will include:

- brand – which will often have been created over long periods of history
- geography - education institutions are recognised in the communities they serve and/or are located, which may inhibit merger.

In other sectors, mergers may present a compelling argument, but in education, alternative approaches may have more relevance and practical application in providing an operating platform to be able to deliver the high quality provision expected from our providers.

Health

In contrast to the education sector, the reorganisation of the NHS will need to be considered wherever any given system is incapable or unwilling to drive required improvements in efficiency, productivity or quality.

Merger activity will not be driven by efficiency gains themselves, as the savings of board costs and back office synergies alone are not sufficient to justify investing in so much organisational upheaval. Rather, mergers will be driven by the desire to create new organisations capable of making the required improvements, and post-merger implementation plans will be as important, if not more so, than preconceived cost reductions and productivity saving plans.

Once any health economy is structured to deliver change, it enables far greater collaboration between parties who hitherto had too many conflicting interests to deliver demonstrable benefits for patients and taxpayers alike.

We see that the simplification of the system (fewer commissioners and less provider boundaries concentrating on the continuous delivery of whole health pathways), should enable easier accountability for patient care, in terms of quality care, financial cost of services and clinical and organisational governance.

Summary

Merger and consolidations are one of the potential tools to drive changes and

efficiency. They need to be considered against other action such as shared services, better procurement and collaboration. Equally, when taking bold steps towards creating a merged entity it is critical that consolidation has a clear role, remit and is driven by a robust performance framework.

It is clear that as the required levels of efficiency are sought, there is scope for the sector to learn from the experience of other parts within the public and not for profit sectors, and to share lessons learnt and best (and worst) practice.

The positive drivers for merger seen within the private sector don’t currently exist within the public sector. Therefore, there is a requirement for these levers to be developed centrally, so that the case for public sector mergers becomes a win-win situation from a Whitehall, organisational and end-user perspective.

theguardian

Grant Thornton commissioned the Guardian to hold a round table discussion with key public sector bodies to discuss the impact that merger and consolidation will have on the future blueprint for the delivery of public services. The resulting commentary is printed overleaf.

Our work with The Guardian seeks to identify the real appetite for, and understanding of, the potential for mergers and consolidation across the public sector. A survey assessing the public sector is currently open and we would be delighted to have your views as part of our anonymous survey. To have your say on the merger & consolidation agenda, please visit: <http://survey.confirmit.com/wix/p1229575629.aspx>