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# Innovation and value

New tools for local government in tough times

March 2010

This paper from the Young Foundation sets out our work in progress on innovation and efficiency

## 1 Introduction

The UK public sector is facing budget reductions that dwarf any of the efficiency drives experienced in the last decade. Cuts are inevitable. They are likely to be deep, painful and sustained over several years. They are threatened at a time when the social consequences of recession are sharply felt, and the pressures of social need on the public sector are unlikely to fall for some years.

There is widespread awareness that the scale of budget cuts needed is beyond the domain of what can be delivered by traditional efficiency programmes. The key questions are how to manage the approach to efficiency? How to make sure that money is saved whilst doing as little damage as possible to organisational capacity and the delivery of priority outcomes? How to make sure that the services that remain meet the changing needs of different places and the people who live there? And how to make sure that the focus of budget cuts translates into new ways of providing services and frees up creativity to find fresh approaches to old problems?

The history of local government over the past century is in many ways a history of decline. The sector's scale of operation and remit has shrunk as central government, and other institutions (in the public and private sector) have taken on more functions formerly directly provided by councils, including house building, housing management, direct management of schools, even electricity generation and water supply going back further into the past. As the size of the local state has diminished, so too it seems has its legitimacy. One cause of the loss of power of the local government sector has been a direct result of a failure to innovate, to find fresh new solutions that provide services through new, cheaper and more effective approaches.

In November 2009, Bank of England Executive Director for Financial Stability Andy Haldane warned of a "doom loop" in the financial markets: as the state bailed out banks without curbing the excesses that had created the conditions for the credit crunch, the scene was being set for future crisis, and future calls for state intervention.<sup>1</sup>

Is there a parallel for local government? As spending falls, will local government fail to meet the challenge of delivering "more for less"? If this leads to loss of faith by public and politicians (an overall fall in legitimacy), central government's settlements may further reduce. With even small budgets, and remits, the sector's legitimacy can slump even further – creating a downwards spiral. Is this the "doom loop" for local government?

If local government could not significantly improve outcomes for residents in many priority areas in the last decade of plenty, can it meet the challenge of spending cuts?



The "Doom Loop" for local government?

## The 12 economies framework

This paper sets out the Young Foundation's 12 economies framework. This tool can be used by local authorities, and other public bodies, to frame their approach to efficiency, to understand when and where to aim for "more for less", but also when "less for less" is the right option. It can be used to link innovation to efficiency, to finding creative new ways of providing priority services. The aim is to help ensure that efficiency programmes are smart and creative, as well as relentlessly focused on reducing costs.

Innovation is an essential tool to develop more effective and cheaper services that deliver better outcomes for residents. The opportunity to invest in building innovation capacity and understanding within public sector institutions is now, while there is still some leeway in budgets.

*“It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something.”*

## Franklin D. Roosevelt

Our approach has evolved from our practical experience with public agencies, and our research on social innovation. The Young Foundation’s work with local government and other local partners now has a strong focus on supporting the sector develop fresh thinking and innovation, in the face of radical change and diminishing budgets.

- Our **Recovery Network** is working with Knowsley on the potential of behaviour change techniques to be applied to improve outcomes for “just coping” families; with Camden on new relationships with the third sector; and with Sutton on using behaviour change approaches to help the council to reconfigure its street cleaning services. This programme aims to support local government to find new ways of thinking about local priorities against the backdrop of spending constraints
- Our **Local 2.0** programme focuses on the ways that new digital media can be used to support communication with residents in Kirklees, Kensington and Chelsea and King’s Lynn and West Norfolk
- The **Neighbourhoods Futures** project works with six authorities including Lewisham, Hackney and Suffolk on neighbourhood working against the backdrop of the recession
- The **London Collaborative** is funded by London’s Regional Improvement and Efficiency Partnership – Capital Ambition – to improve collaboration between London’s public sector, focusing this year on equipping the capital’s councils with the tools and capacities to develop their thinking
- Our **RIFAS** (Regional Innovation Fund Advisory Service) team, jointly with NESTA, works with Strategic Health Authorities, funded by the Department of Health, to look at how the health sector can innovate to meet rapidly changing health care needs, advising the 10 NHS Regional Improvement Funds
- We now host two **Social Entrepreneurs in Residence**, through the Birmingham East and North PCT and a new joint local authority-PCT appointment in Kingston-upon-Thames
- We are developing a range of tools, from **Social Impact Bonds** to new ways of measuring **community resilience** that can support councils and their local partners.

## 2 Innovation and efficiency

Audit Commission<sup>2</sup> and Young Foundation<sup>3</sup> research has found strong evidence that in the public sector, innovation happens because of financial pressures – not because it is a good thing in itself. When money is plentiful people may talk about innovation and reform but inertia usually wins. When cash is tight there is no option but to get serious. The lessons of the past suggest there is a choice to be made between uncreative efficiencies and creative ones: the former freezes possibilities while the latter unblocks them.

Clear themes are emerging from our work with the public sector about how the current crisis can catalyse new ways of providing services. The common themes are familiar from public policy debate in recent years. However the challenge of responding to the recession and reduced budgets has galvanised momentum. Our many conversations have highlighted a growing interest in:

- a new role for the state, as orchestrator of a wide range of providers and provision, including by residents, by local community organisations, by a range of mutuals, by social enterprises, employee buy-outs or by the private sector
- co-production of outcomes, moving beyond ad hoc examples to look more systematically at how residents and agencies can work together
- building mutual aid and social networks
- reducing dependency, particularly focusing on families and individuals who have been supported by benefits and other state aid for a significant time
- using behaviour change techniques to tackle issues from recycling and green behaviour to supporting isolated older people
- the need for dialogues with residents that encourages and enables them to take more responsibility for the issues they care about
- the potential of new technologies, particularly new media, to deliver services and to communicate with residents
- reducing the constraints of performance regimes and the structuring of funding streams to allow greater local discretion.

### 3 The shrinking pot of public sector resources

The UK may be slower than other countries to recover from recession, and the path to recovery may not be linear but “double dipped”, with further falls in manufacturing output still to be experienced. The pain of a sustained recession will be felt most acutely by the people, families and communities who depend most on public services.

With recessions come rising social needs. It is well recognised that unemployment tends to be one of the last headline economic indicators to show signs of recovery, so even if the timing of economic recovery matches the most optimistic predictions, unemployment and its associated manifestations of exclusion will continue at high levels for some time to come. Social need is not evenly distributed, with some areas experiencing pressures more sharply than others. We know that in the UK, cities like Doncaster and Stoke are struggling, while cities such as Edinburgh, London and Reading are proving more resilient.<sup>4</sup>

The UK now spends £4 for every £3 it raises in tax.<sup>5</sup> According to Treasury figures, of the growth since in the last decade, £112 billion (just over a quarter of the increase) reflects growth in the economy, £84 billion (20 per cent of growth) supports bigger government. In the last 10 years, public sector employment has risen 10 per cent in this period. A 10 per cent increase in pay over this decade would equate to £16 billion, the actual increase in spending on pay was £36 billion.<sup>6</sup> The UK state now spends £123 billion on procurement alone.<sup>7</sup>

The public sector is now on the brink of substantial budget cuts. Tony Travers has warned that real reductions of 10 to 15 per cent over three years from 2011-12 to 2013-14 are unavoidable, and that over this period every £11 spent today will need to shrink to £8.50.<sup>8</sup> These cuts dwarf the scale of efficiency programmes of recent years – the 2004 Gershon Review’s 2.5 per cent efficiency target for local government, or the 2007 Comprehensive Spending Review’s higher targets of three per cent cashable savings.

Performance management and transformation programmes have been part of the drive for better efficiencies for a generation. The public sector has borrowed heavily from the private sector during this time, for example by developing automated back offices, using call centres for customer interface, and putting services out to tender with external providers. However what is now needed is a step change in saving money.

Local government, and its partners, are designing their efficiency strategies. However, cutting funding is never easy. It generates political backlash and an outbreak of self-interest amongst service providers. The prospect, let alone the reality, of cuts can strengthen silos and defensive empire

building. Zero sum games – where one interest group (a service delivery team, an agency, a sector) gains at another's expense, are inevitable.

Spending cuts will not be evenly distributed as some areas are more constrained by statutory obligations than others. Services for vulnerable people are driven both by legal and regulatory frameworks but also by political imperatives and wishes to provide safety nets and care for those in greatest need. Other areas are under the spotlight because they are subject to substantial upward pressure, this includes services for older people and for disengaged young people (or "NEETs"). National political imperatives will ensure that certain issues, including action to curb CO<sub>2</sub>, will continue to be high priority.

This analysis suggests that the budgets that are most vulnerable to being cut are for discretionary areas where needs are relatively stable, and which are not critical political priorities. This could include targeted spending on disadvantaged areas, on leisure and on parks. Birmingham City Council has estimated that its spending on worklessness and regeneration will be just a third of current levels in two years' time.

## 4 A new framework for understanding economies

*"Rule one: never allow a crisis to go to waste... they are opportunities to do big things."*

White House Chief of Staff Rahm Emanuel <sup>9</sup>

Governments, both central and local, have many familiar ways to handle periods of retrenchment. These include:

- accelerating what should already be mainstream efficiency measures, including maximising online and automated transactions
- putting off the pain of paying until the future, one example is through PFI (Private Finance Initiative) schemes; or cutting back on routine maintenance, with the result that the costs of repairs increase in the future
- selling assets
- classic targets for incremental reductions in discretionary spend (1,2, 3 per cent), with all their well-known limits
- freezes on pay, recruitment or bonuses, which are crude and vulnerable to gaming, but can be effective in the short term
- savings through administrative consolidation; shifting regulation and inspection to risk-based approaches
- contestability, in the right circumstances can drive down costs by over 10 per cent but slow impacts
- establishing norms for the wider public sector by modelling spending freezes and other austerity measures at the centre.

Tough times demand a new rigour in understanding the implications of different ways of making efficiency savings. Lessons from previous periods of change suggest there is a choice to be made between uncreative efficiencies and creative ones, those aiming to deliver "less for less", and those that try and unlock ways to do "more for less". We have identified 12 dimensions of efficiency and economies, each suggesting different ways of thinking about what needs to be done. The first three are familiar, and unavoidable in times like these. The nine others all require innovation, and offer the potential to link cost cutting to radical new approaches to service delivery.

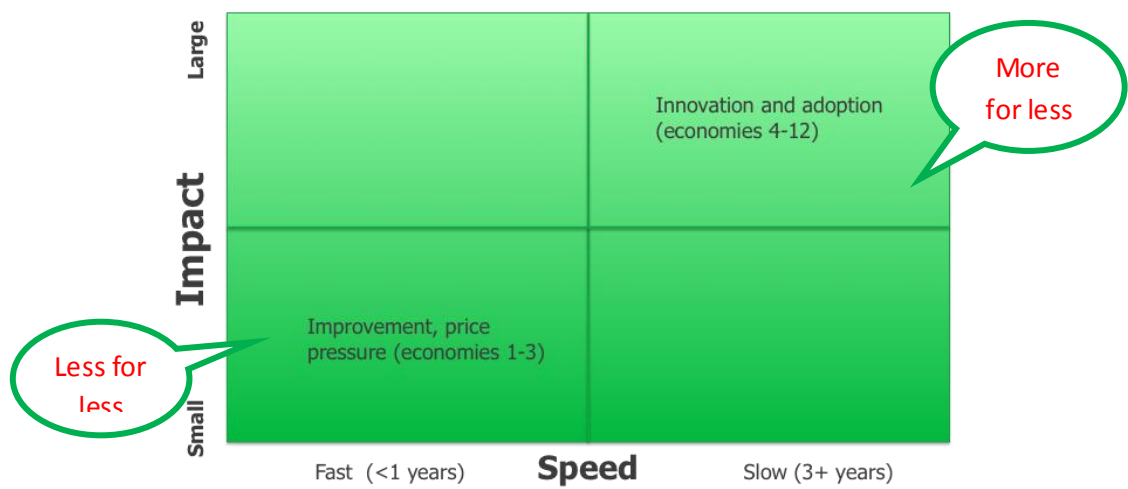
# The 12 economies framework

First three are main current focus – other nine involve innovation and are key to productivity gains

1. **Stopping** - pure economies that come from stopping doing thing
2. **Trimming** – freezing pay, spending, reducing service quality, end 'extras'
3. **Delay** – postponing capital, pay rises, promotion
4. **Scale** – organising services or processes at larger scale, eg aggregating call centres, back office, delivery units
5. **Scope** - bringing multiple functions together, eg multi-purpose call centres (111), websites, personal advisers, doubling up (solving two problems with a single intervention)
6. **Flow** – managing flows of events, customers, to achieve economies of specialisation, reduce failure demand
7. **Penetration** – economies that come from geographical concentration eg Combined Heat and Power, street concierges, doubling up roles of postal delivery
8. **Responsibility** – passing responsibility out to citizens (with changed scripts – eg waste, street cleaning, tax returns), or introducing charges
9. **Commitment** – shifting provision from low to high commitment people and organisations (tapping into volunteer labour, social enterprises...)
10. **Circuit** – reducing costly events through effective prevention (eg recidivism in crime, hospital repeated readmissions), with financial tools such as Social Impact Bonds
11. **Risk, regulation, monitoring** – moving to readier acceptance of risk, reduced monitoring regime
12. **Visibility and information** – mobilising public eyes (eg MPs' expenses) and the power of shame, and information enrichment – to improve performance

Each economy will be appropriate in different contexts and will deliver benefits over different time horizons. There is no right or wrong answer about which to deploy under what circumstances. Those that focus on stopping doing things are more likely to have the fastest impact, but less impact than the economies that spur innovation.

Economies can work positively in tandem – for example economies of scale combined with scope (big outsourcing operations bringing different services together for example); or economies of risk and regulation with economies of commitment when transferring services to organisations operating outside local authority constraints (this could be the third or private sectors). But economies can, in combination, generate unexpected and unwelcome results. Economies of scale (making things bigger) can make it much more difficult to benefit from economies of flow (concentrating particular activities in one business unit). Many managerial solutions designed to save money – economies of scope, of scale, of flow – can all frustrate attempts to localise and make services sensitive to particular places or groups of service users, often linked to attempts to maximise economies of responsibility, of commitment or of penetration.



Economies and their impact over time

## 5 The 12 economies explained

First there are **pure economies**: simply stopping doing things. In the harsh light of budget shortfalls there are many things formerly considered necessary that may yet prove to be non-essential.

Next come **economies of trimming**: recruitment freezes or imposing across-the-board cuts, of say 10 per cent, in every department. These can be useful but damaging if sustained for a long period, for example stopping new talent coming into organisations. The French government is now only recruiting one person for every two that retire.

Third are **economies of delay**: pay freezes or withdrawing capital expenditure. These are unavoidable but tend to reinforce the unfortunate habit of the British public sector of swinging from feast to famine and back again, as seen in public capital investment and embracing new technology.

Beyond these three economies lie more radical changes, where innovation moves us away from the traditional public sector response to making cuts.

**Economies of scale**: for example, efficiencies found by sharing back office functions or aggregating local delivery into a more streamlined unit. This is familiar territory with many examples; however the benefits of scale can be overestimated. Bigger is not always better, for example some small local authorities can be as efficient as large ones. Scale can bring diseconomies as well as economies.

Southwest One is an example of joined-up back office working. This joint venture between Avon and Somerset Police, Somerset County Council and Taunton Deane Borough Council and IBM merges finance, ICT, procurement, property facilities management, human resources, design and print services. The arrangement is forecast to save the agencies involved £35 million over the next 10 years.<sup>10</sup>

There is better evidence to support **economies of scope** – where services make savings by sharing buildings, frontline roles and technologies, like the Blackpool school that now hosts Job Centre Plus staff to work with parents. Or in Hammersmith and Fulham where the borough and the Primary Care Trust have a joint Chief Executive and the borough's budget for community care has reduced from £14million to £11million.<sup>11</sup> One stop shops have offered many gains to customers and staff, though their success is not guaranteed and not all have thrived. Addressing two needs simultaneously, or "doubling up", offers great scope for creativity. For example, employing long-term workless for projects to reduce CO<sub>2</sub> emissions such as insulating lofts, or using older people's day centres as youth centres in the evenings.

Private sector experience suggests that focusing on maximising through-put of customers accessing the same service can greatly increase productivity. These sorts of **economies of flow** are rarely considered in the public sector (bar, for example hospitals that specialise in a few operations) but offer clear gains. They run counter to the wish to localise access to services through very local initiatives.

**Economies of penetration** rely on operating intensively at a local level to increase efficiency, for example green initiatives to generate energy locally (a throwback to the way in which 19<sup>th</sup>-century energy companies operated). There may be scope for increasing the remit of existing initiatives – for example, expanding the duties of street wardens to deal with low-level emergencies or employing live-in caretakers to fix small problems in blocks of flats. One pilot of "caretaking plus" (the Scandinavian model where caretakers provide a variety of caretaking, cleaning and minor repairs) found that on one site the cost of repairs was cut to half that of putting the work out to contract (with repair work only taking up 12 per cent of the caretaker's time).<sup>12</sup> Another example is the work of fire services in Merseyside, where firefighters carrying out fire safety checks fit free smoke detectors, give bespoke fire safety advice and sign post to welfare and benefits services providers.<sup>13</sup>

The changing dialogue with the public about what they should do and what they should pay for feeds into the next area, the **economies of responsibility**: costs saved when residents take on a bigger role in keeping their streets clean, running local facilities, or minimising their household waste. This sort of shift means treating residents as citizens – with responsibilities as well as entitlements – rather

than customers. It is a complex process that requires a shift in power and a change in mindset by both public services as well as citizens. "Pledge Banks" ("I will if you will") and tools like Community Dividends can help. Herne Hill Velodrome in South London, a venue for the 1948 Olympic Games, is now run by volunteers. Up to 2005, it was managed by Southwark Council with Sports England support. Since its reopening in August 2005 it has been run by volunteers, with a focus on creating a thriving community club.

**Economies of commitment** encourage the public sector to tap into the extra motivation and commitment that volunteers and staff can feel for organisations that they feel strong ownership over. Parents who come into school to read have significantly improved the literacy of students in local schools. A number of studies have found that council tenants, who have taken over the management of their homes and set up different forms of tenant management organisation, including housing cooperatives, provide efficient and cost effective services. Sickness and absenteeism have been reported to be less where former public services have transferred to management buy outs or employee owned agencies.<sup>14</sup>

Repeat events make public sector costs soar, for example prolific reoffending, recurrent homelessness, or repeated hospital admissions. **Circuit economies** reward prevention and tools such as Health Impact Contracts or Social Impact Bonds can be used to stem the flow of high cost events. In Northumberland the county council, Job Centre Plus, the fire service, and other agencies have come together to manage the risks posed by vulnerable young people and respond to their needs in a coordinated way.<sup>15</sup>

Public scrutiny over other costs that are visible to the public can help bring dramatic changes. **Economies of visibility** may be seen in future levels of MPs' expenses, however this approach is less seldom applied to very big spending areas like taxpayer support for banks. In the Netherlands and now in Wales, citizens can call in the "Kafka Brigade" when public servants become tangled in a web of dysfunctional rules, regulations and procedures. Visibility also implies enriching the supply of information, to improve performance and understand public perception. David Cameron has announced his "radical transparency agenda", should he win the next election, which would result in every item of central government and quango spending over £25,000 being published, plus the details of senior public sector salaries. All local authorities will be told to publish every item of spending over £500, many are already doing this.

The final economy – **the economy of risk and regulation** – kicks in where heavy-handed and counter-productive risk management or performance regimes generate costs and deflect attention from intended consequences. Removing risk control and performance management is risky, but populist. Done cleverly, a recrafting of risk management and target cultures could generate key savings, whilst freeing up creativity and productivity.

## 6 Understanding the backdrop

*"The downturn is not simply another turning of the wheel but a fundamental transformation... resetting the economy."*

Jeff Immelt, Chair and CEO of General Electric

Recession and recovery are framed by longer-term changes in the UK economy. Social sectors in the future will play a larger role in GDP and employment, with health and care services accounting for up to 20 per cent of GDP, education nudging towards 10 per cent, and environmental and energy services playing an increasingly larger role.

Businesses are increasingly taking advantage of new digital technologies and the changing relationship consumers expect to have with suppliers. Open source software allows customers to contribute to product development or use it for their own purposes. Apple highlight its continuous



process of innovation and gives customers scope to do the same by supporting their creation of applications for mobiles and the web. Apple stories invite customers in to discuss how to improve the way they use technology, talking to users and encouraging them to learn to solve their own problems, rather than taking delivery of a broken machine and mending it.

Changing patterns of demand are influenced by demographic shifts and changing lifestyles and values. Children are living at home well into their 20s, there are more lone parents, increased ethnic diversity, and a growing ageing population, including the baby boomers with very different lifestyles and aspirations from past generations.

*“The future is already here, it is just unevenly distributed”*

## William Gibson

The private sector is developing new business models to meet the expectations of customers and to capitalise on the cost-saving potential of technology. From Toyota’s development of modular house building structures, building on their technological strengths and creating housing to high design and sustainability standards; to the adoption by high street banks of web technology; to Lego’s “design by me” service which offers customers the software to design, and then buy, their own creations in Lego. Budget airlines have pared core services back to the minimum to cut costs, charging incrementally for the services that formerly were expected as standard. Meanwhile, more long-standing business models founded on mutual principles, including John Lewis and the Co-op, are attracting fresh interest, with building societies having proved more resilient than banks in weathering the credit crunch. And very local corner shops – more expensive, with limited stock – but maximising convenience, continue to have a role.

These models of retail and production recognise the need to engage with customers, breaking down what were formerly one-way relationships. Some models put a premium on keeping costs down, or convenience.

In the last year, local government too has developed new models that build on private sector examples, with Barnet branded “easyCouncil”, for its plans to move towards focusing on core services. Hammersmith and Fulham has reduced council tax by embracing the private sector approach of outsourcing and cutting in-house jobs. The leader of Hammersmith and Fulham, Stephen Greenhalgh, cites his council as an example of “how you can take those costs out without strikes or compulsory redundancies”.<sup>16</sup>

In South London, Lambeth has embraced the John Lewis retail model, a employee owned partnership where employees have a stake in the company’s success. Lambeth proposes to adopt the model to “try to involve the users in providing [services] at lower costs”.<sup>17</sup> In practice this includes asset transfer and may see residents receiving council tax rebates in exchange for taking part.

In Essex, the County Council has signed a £5.4 billion deal with IBM that will see all council services evaluated to see if it is more cost effective to deliver them in-house or outsource them. It is hoped that the new partnership will save Essex County Council 20 per cent of its annual £1.2 billion budget within three years.<sup>18</sup>

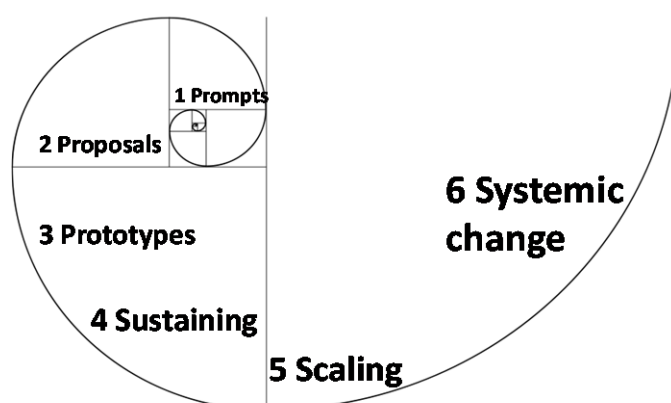
## 7 The potential of innovation

Innovation has been described as “the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes, efficiency, effectiveness or quality”<sup>19</sup> or “the development of new ideas (products, services or models) to meet unmet social needs.”<sup>20</sup> This implies a step change in how work is done, with a move to radically different ways of delivering services. The UK has a long legacy of innovation in public services and institutions – from Victorian municipal infrastructure to the NHS, NHS Direct, Sure Start, the Open University, and signing up to Fair Trade movement.

Innovation uses new perspectives to design and develop different solutions or ways of delivering services. Innovation is different from improvement (a more gradual change of existing models) and transformation (the pursuit of new strategic objectives often through new technologies) and is associated with step changes in how work is carried out. It is the difference between competing to design and manufacture the biggest and best fire engines versus the design of the much smaller and cheaper smoke alarm.

Innovation takes different forms in different contexts. Some innovations are “new to the world” (for example the internet) many others fall short of this but still have powerful impacts. There can be existing ideas in new settings, or applied in different ways. Innovation can be:

- **New to the place** – new practice taken from one location and applied in another. For example intensive supervision of young offenders taken from New Zealand and applied successfully as Intensive Supervision Programme (ISSP) teams in local authorities, or the Sure Start model growing from the experience of the Headstart projects in the United States of America.
- **New to the sector** – ideas from industry applied in another sector, for example “just in time” car manufacturing processes used in the NHS.
- **New to scale** – small ideas used in one place, scaled up to generate different outputs, such as South Tyneside’s street scene attendants on one estate who were each given Blackberrys to report vandalism and other low-level crime and improve responsiveness. The small-scale initiative was so successful it has been rolled out to all frontline staff.



The innovation process can be understood as a linear journey beginning with prompts, moving through proposals to prototypes, which then become sustained and scaled.

Many innovations develop in this way, and this framework is useful for thinking more systematically about the process. However this is not a precise science. Many innovations go quickly to scale – and then have to adapt fast in the light of experience. Some evolve as solutions in search of problems.

#### A model for understanding innovation

Although there are good examples from across the country, innovation remains more rhetoric than practice amongst mainstream public services. Whilst many managers and professionals understand the need, few are equipped with the methods to probe service challenges innovatively, the budgets to pilot new solutions or the mandate to take risks in a time of increased public scrutiny.

Innovation can be disruptive; often the individuals who have fresh ideas are not people who fit neatly into management hierarchies. Large agencies often struggle with understanding, supporting, incubating and growing innovation. Supporting innovation means accepting the possibility of failure, and changing attitudes to risk. It also demands looking under the radar – amongst staff and residents – for new ideas. And it often means challenging comfortable conventions and professional assumptions.

The Young Foundation, supported by NESTA, has for the past two years been systematically documenting the different methods used for innovation. More than 500 methods have been documented on the website <http://www.socialinnovator.info>.

## The Young Foundation's 15 most useful innovations for local government

### *Fostering innovation*

- |                                       |                                      |
|---------------------------------------|--------------------------------------|
| # 1 Budgets for innovation            | # 5 Time-limited focus on innovation |
| # 2 Procurement and commissioning     | # 6 Innovation as part of job roles  |
| # 3 Systematic support for innovation | # 7 Innovation specialist            |
| # 4 Supporting your entrepreneurs     | # 8 Learning through collaboration   |

### *Innovation design process*

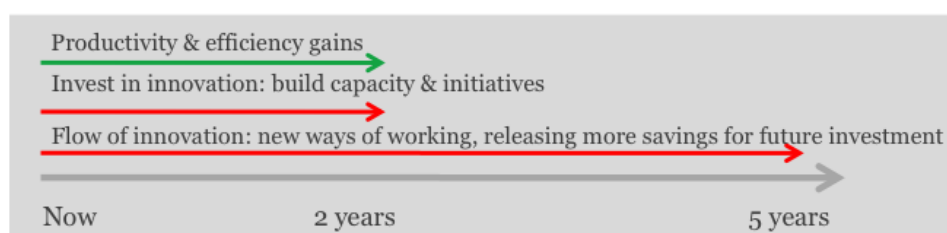
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| # 9 Creative ideas generation  | # 12 User-centred research    |
| # 10 Ideas generation by users | # 13 Systems analysis         |
| # 11 Ideas Bank                | # 14 Prototyping and piloting |

### *Evaluation*

- |                                       |
|---------------------------------------|
| # 15 Innovative evaluation and review |
|---------------------------------------|

## 8 Linking innovation to efficiency

An innovation lens can bring rigour and creativity. All efficiency processes need a future focus – identifying what could go massively wrong and taking steps to mitigate this. The danger is that without these key lenses – of future scanning, value identification, and innovation – cuts processes will increase efficiency and productivity for the first year or two, but that after that cuts may become too deep and vital capacities and capabilities may be lost. Investment in innovation now can build capacity for future savings and better outcomes, and prepare agencies for a time when resources will be in very scarce supply. Investment in innovation is investment for future savings.



If agencies do not invest energy and resources in responding innovatively to the need to save money, they will be “wasting the crisis”. The key elements needed to spur innovation in the current context are:

- a sense of urgency, burning platform
- focus on where cost pressures are greatest
- prioritise areas where there is discretion to change
- where the problem has an upward trajectory (carbon; ageing; NEETs)
- where there is political will to support change
- engage service users, frontline energy and senior support
- understanding of possibility of different methods
- work at pace
- understand and manage risk
- use intermediaries.

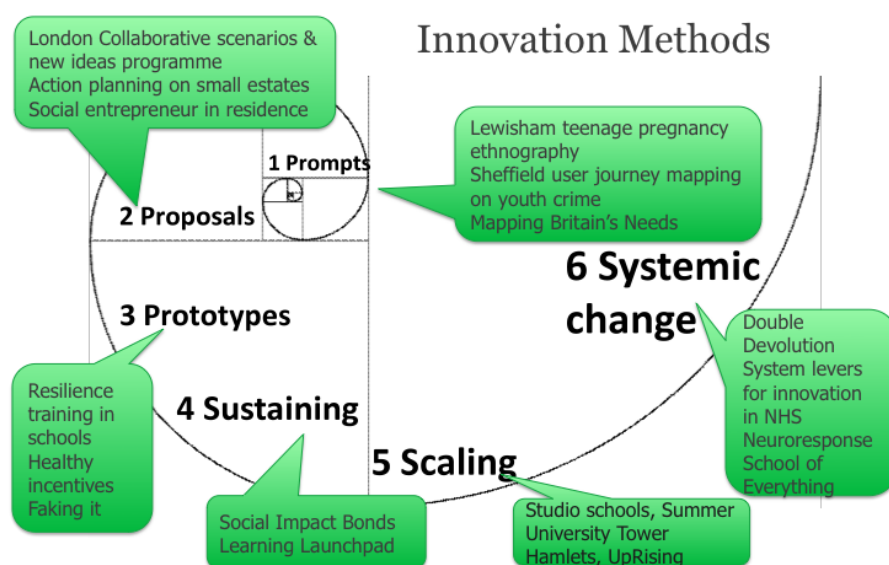
## 9 Taking this work forward

The Young Foundation will continue to work with local government and other public sector partners to develop our thinking and practical understanding of the different ways to generate fresh thinking and innovation, at the same time as grasping the nettle of the need for economies and increased

efficiency. The ultimate aim is to improve outcomes for people who use public services.

The examples of working that have been trialled in places as diverse as Barking and Dagenham, South Tyneside, Manchester and Knowsley point to the possibility of a more systematic working understanding of how to grow and sustain innovation. In the private sector, it is mainstream practice that a percentage of overall spending should be ring fenced for innovation, often through research and development budgets. The public sector globally has been slow to follow this trend.

The spending crisis has given impetus and energy to radical transformations of public services, and there is a flurry of work on new approaches. However, these need to be supported through systemic investment in innovation, so that individual agencies can boost their own capabilities, the best new thinking can be disseminated widely, and the maximum value extracted from individual initiatives. Innovation flourishes when it leads to better ways to meet people's needs and aspirations, working with the grain of how people are choosing to live in the 21<sup>st</sup> century.



The Young Foundation's work at different points of the innovation cycle

This paper has been written by Nicola Bacon, with inputs from Vicki Savage, Corinne Cordes, Brigitte Gohdes, Neil Reeder and Geoff Mulgan. It has emerged from our work on progress on a number of different programmes. We welcome comments and thoughts, to [nicola.bacon@youngfoundation.org](mailto:nicola.bacon@youngfoundation.org).

See [www.youngfoundation.org](http://www.youngfoundation.org) for more information about our work with local government.

The Young Foundation brings together insight, innovation and entrepreneurship to meet social needs. We have a 55 year track record of success with ventures such as the Open University, Which?, the School for Social Entrepreneurs and Healthline (the precursor of NHS Direct). We work across the UK and internationally – carrying out research, influencing policy, creating new organisations and supporting others to do the same, often with imaginative uses of new technology. We now have over 60 staff, working on over 40 ventures at any one time, with staff in New York and Paris as well as London and Birmingham in the UK.

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