Improving public sector performance? Understanding efficiencies

Note by the Scrutiny Unit

Introduction

This briefing by the Scrutiny Unit for Clerks and Select Committees aims to dispel the myths surrounding the government's efficiency programme, ahead of the publication of the 2005 Autumn Performance Reports.

The efficiency programme

The Spending Review 2004, informed by independent reviews of public sector efficiency (Gershon)[1] and public sector relocation (Lyons)[2], announced agreed departmental targets for achieving annual efficiency gains of 2.5%. By 2007-08 this would equate to gains in excess of £20 billion per year.

The aim of the Government's efficiency programme is to improve the performance of the whole public sector. Departments, local authorities and other public bodies are required to re-engineer existing processes to deliver improvements in quality or release resources (cash, time or assets) for front line services. The efficiency programme places particular emphasis on reducing administrative costs by streamlining back office functions, relocating offices outside London and the South East and reducing civil service posts, but many of the efficiencies will arise from improved procurement processes.

Reporting efficiencies

Each department should have produced an Efficiency Technical Note (ETN), in line with Treasury guidance, to explain how it plans to achieve, measure and monitor its efficiency targets. The efficiencies within departmental ETNs also relate to local authorities and other public bodies where relevant.

The 2005 Autumn Performance Reports (APRs) will show how well departments and other public bodies are delivering on efficiencies. The APRs offer committees an early opportunity to challenge the rigour of targets, performance to date and the impact on front line services. The Scrutiny Unit will assist committees in examining both the ETNs and the APRs, following their publication by 19 December.

Analysing efficiencies

There are some key points to bear in mind when intepreting reported efficiencies:

1. Increased efficiency will not always result in cash savings

- More or better outputs could be achieved from the same inputs, i.e. the efficiencies are non-cashable (see Glossary)
- Savings are already built into SR2004 budgets for use on other activities so there should be no underspends as a result of the planned efficiencies
- Efficiencies are measured in real terms, taking account of inflation

It is therefore better to think of efficiencies as gains (in the ratio of outputs to inputs), rather than purely as savings.

2. Cost reductions do not necessarily represent efficiency

'Efficiencies' which arise from a decline in performance, policy change, one-off saving, double counting or cost-shifting (e.g. replacing staff with consultants to reduce headcount) are ineligible. Genuine efficiency gains should be sustainable year on year and higher-quality outputs should deliver a direct service benefit (i.e. the increased quality is valued by the customer).

3. There could be substantial costs in achieving efficiencies

For example redundancy payments, early release clauses in contracts and leases, consultancy or IT expenditure to improve processes. Some of the one-off restructuring costs are being funded centrally by the Treasury's Efficiency Challenge Fund, but increases in costs elsewhere may not be identified.

4. Verifying performance may prove problematic

The data used by departments or public bodies to measure efficiencies should be 'transparent and auditable'[3], but the detail given in ETNs is variable and raises a number of questions:

- Are the targets realistic and stretching?
- Are the baselines for both financial and quality improvements reasonable and robust?
- What can actually be attributed to the efficiency programme and what would have happened anyway?
- Is there external validation of progress made against the efficiency targets?

Glossary of terms

Efficiency	The ability to (1) reduce inputs or costs to achieve the same output, or (2) achieve a greater or better output from the same inputs
Inputs	The resources used in a process (cash, human capital or skills, physical assets)
Outputs	Goods produced and services provided
Cashable	Cash savings are realised for use elsewhere in the public sector
Non-cashable	Resources are not released for use elsewhere (but higher quality outputs are achieved)
Recyclable	Cashable savings are reinvested (should be in front line services)

References

[1] Releasing resources to the front line, Sir Peter Gershon CBE, July 2004

[2] Well Placed to Deliver?, Sir Michael Lyons, March 2004

[3] Supplementary memorandum submitted by HM Treasury 'Departmental Guidance – Efficiency Technical Notes' reproduced within CM 2004-05 331-i

Generic examples

- Public bodies joining forces to share back office functions such as finanical processing in order to reduce the unit costs of transactions.

- The formation of consortia to consolidate expertise and bargaining power and increase value for money in procurement.

- Reducing staff absence, with associated increases in productive time and reductions in temporary staff costs.

Case Studies

A good example - The Department of Trade and Industry's Two Roof Strategy will generate operational efficiencies across several workstreams including corporate services, procurement and policy, funding and regulation (PFR). The strategy is aimed at addressing both the rising cost of office accommodation in central London and the department's aspirations for a flexible workspace to improve internal communication and productivity.

Phase 1 of the strategy involved the redesign of workspace within 1 Victoria Street to accommodate open plan team-working with hot-desks. The redesign has increased the capacity of the building by 625 staff and released three buildings for alternative use, the long term savings of which are expected to be around £7.7 million per annum. The capital outlay of phase 1 will reportedly be recouped within 5 years.

A poor example – One local authority claims efficiency gains of £4,000 have been realised through the use of voluntary groups to clean up a local park which the council would not otherwise have been able to afford to do. The £4,000 was based on the hours contributed by volunteers and the 'efficiency' has been achieved by cost-shifting rather than increased outputs by the council itself.