

Localising Efficiency – More than Just Saving Money

BARRY QUIRK

Chief Executive, London Borough of Lewisham

ABSTRACT Following on from Best Value and organisational improvement through comprehensive audit and inspection, the Government's efficiency drive seeks to focus political and managerial attention at the local level on improving productivity and optimising resource use. This paper examines the practical managerial questions that need to be addressed by councils if they are to deliver improved services at higher levels of productivity. While improved efficiency is an important factor in local public service management, it remains a means and not an end in itself. Moreover, the multi-purpose character of local government requires a sophisticated approach to improving local service efficiency.

The 'Efficiency Agenda' is big politics and simple management. Helping citizens to gain the most value out of the public sector at the lowest cost to taxpayers can be big politics. Helping service users gain value from specific public services that are delivered ever more efficiently can be simple management. In practice, of course, the politics is not so big and the management not so simple.

The efficiency agenda introduced in the 2004 Spending Review is different to previous efficiency approaches in the public sector. Efficiencies across public institutions are usually secured through cost containment, cost reduction or service reduction exercises – and hence this is how they are traditionally covered by commentators. Big fiscal numbers are explained principally in terms of large scale public sector job losses – through a mix of headcount reductions or institutional de-layering exercises (removing so-called 'redundant layers' within or between institutions). This is not so with this new agenda. The 2004 Spending Review introduced a new approach to securing 'efficiency gains' and 'releasing resources to the front-line'.

Correspondence Address: Barry Quirk, Chief Executive, London Borough of Lewisham, 4th Floor, Lewisham Town Hall, 1 Catford Road, Catford, London SE6 4RU, UK.
Email: barry.quirk@lewisham.gov.uk

Tiers of Analysis, Layers of Action ...

System-wide approaches to improving public sector efficiency have previously relied on top-down regimes and models or the widespread promotion of institutional entrepreneurship combined with the application of quasi-markets for public services (Le Grand & Bartlett, 1993; Osborne & Plastrik, 1997). The difference with the new efficiency agenda is that it is centrally concerned with 'efficiency gains' and not with straightforward efficiency savings – it is about how more added value can be delivered to service users through improved productivity as well as how resources can be released and re-directed within the public sector for better effect. This twin focus on re-directing resources and improving productivity is very challenging to public managers – it requires strong and effective management skills allied to sophisticated service knowledge. After all, if resources are to be released from one service area to another (to heighten overall organisational effectiveness) it is essential that local decision makers are aware of the gritty detail of changing service costs and demands, and of the relative efficacy and efficiency of services across the breadth of the service range. Why re-direct resources from 'service A' to 'service B' if the latter is less effectively designed and less efficiently delivered than the former?

Moreover, as Figure 1 shows, inefficiencies in public services can be identified at various tiers of enquiry: at the system-wide tier – across local government or, say, across the home care system; at the level of individual organisations – through, say, variations in the resourcing and effectiveness across organisations doing similar activities; at the level of service design and delivery – say, the design and deployment of a library service locally or a recycling and waste management service; and finally at the level of practice – say, the proportion of front-line staff time directed at customer-facing work as opposed to the bureaucratic demands of the work or, say, the ratio of supervisors or managers per field staff, and so on. Given these different tiers of enquiry it is clear that the nature of management action required to drive out these inefficiencies differs accordingly.

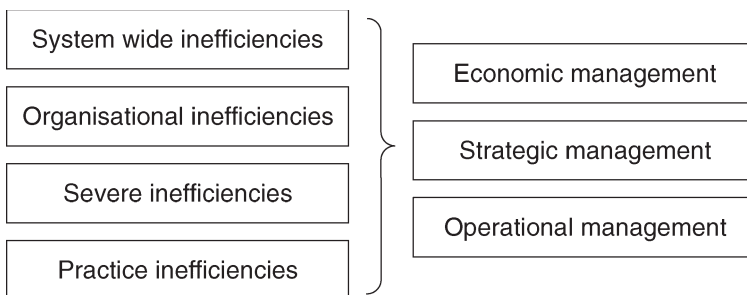


Figure 1. Tiers of inefficiencies and layers of management action.

System-wide change to achieve higher overall levels of efficiency requires alterations to broader economic management (to public financing, to institutional incentives, and so on) while the managerial changes required to drive out service or practice-level inefficiencies requires alterations to strategic management or to operational management. The Government (and its commentators and critics) are focused principally at the overall system. Locally elected politicians and local government managers are focused less on system-wide concerns and more on organisational, service and practice concerns. Thus organisational theory and management economics are more relevant to local practitioners than political theory and public economics. And local practitioners (politicians and managers) realise that effective strategy is not everything, efficient delivery is equally crucial – they know from experience that ‘leadership without the discipline of execution is incomplete and ineffective’ (Bossidy & Charan, 2002).

In a sense, local government is the ‘adaptive tier’ of government (Quirk, 2004) operating at the level of ‘getting things done and delivered’. And as such it is usually focused on ensuring that service strategies (for reducing crime and anti-social behaviour as much as for collecting rubbish) are effective and that service design and deployment is practical and efficient. In a real sense, pragmatism and not ideology dominates local concerns for public action.

However, a good deal of the commentary about the efficiency agenda is trapped at the system-wide tier – at the merits or de-merits of the Government’s management of the public finances (of its economic management) and of its targets as well as its overall method of achieving change. This is a debate which, in the national media and professional press, centres on the economic management of the public finances. Too little attention is focused on the other tiers of enquiry: on the impact of the agenda on individual councils and services. And yet this is exactly the tier where management action makes the difference; where a blend of effective strategic and operational management is required to secure organisational, service and practice-based efficiencies. This short paper seeks to redress this imbalance but at this stage some points of overall context are required.

Big Targets, Achievable Gains ...

The overall efficiency gains targets of £21.5 bn, agreed in 2004 for the three years until 2008, have a simple objective – to focus attention on how to make more of the public resources available. This is not a ‘cuts’ exercise – it is about re-directing money within the public sector. For local government it is an encouragement for individual councils to re-direct budgets internally and to improve the productive output of their services. Overall, local government has to achieve a headline efficiency gains target of £6.45 bn to March 2008: one-quarter of the total of the overall gains target.

Of the local government target some 40 per cent (£2.6 bn) is to be found by the Department for Education and Skills from the delegated schools budgets and a further 10 per cent (£0.65 bn) is to be found from police authority budgets. This leaves a total of some £3.22 bn to be found from mainstream local authority budgets. Over a three-year period this equates to an aggregate target of just over £1 bn each year.

In practical terms each council has to achieve efficiency gains equivalent to some 2.5 per cent of its revenue budget each year for three years. The only 'rule' is that 'at least one-half of the efficiency gains identified should be cashable'. What this means is that a council with an annual revenue budget of, say, £200 m would need to identify some £5 m of efficiency gains each year and of these at least £2.5 m should be 'cashable' in that they result in actual resources (cash) being released, re-directed or otherwise used by the council concerned. Conversely, less than one-half of the £5 m should be efficiency gains that arise from improved productivity such that they do not enable resources to be released locally. The important point to be grasped is that the requirement from government is simply for councils to be more rigorous in their approach to managing services efficiently – the targets are not for additional cuts in service. It is up to each council to devise its own approach to releasing resources and it is up to each council to decide where it wants to re-direct resources (ODPM, 2004, 2005).

For local government, the efficiency agenda raises new challenges and opportunities for local politicians in re-directing resources to meet new needs, new demands and new priorities. Conservative-led councils, Liberal Democrat-led councils, Labour-led councils and councils with 'no overall control', will all be keen to make more use of the resources they have locally. Positively put, all local politicians want to make a difference in their community. They all want to use public resources wisely and efficiently for the betterment of their locality and the people who live locally. Negatively put, public service inefficiency corrodes citizens' trust and confidence in public services. Inefficiency and waste are not signs of competence. Indeed, being in political control of a council that appears to its public to be inefficient is to be seen 'to be in office but not in control'.

Hence it should come as little surprise that all political parties at local level want citizens to get more value from their current services and if possible they would also want to re-direct resources to meet new demands for public spending locally or to contain (if not to lower) council tax bills to their taxpayers. That is why the efficiency agenda is not a managerialist agenda – changing how services are designed and delivered is rarely a simple managerial question at the local level – local politicians are centrally involved in determining how services should change, how costs could be lowered and how resources are to be best re-directed. That noted, devising the options for service change and the task of implementing the change for more modern, responsive and efficient services falls squarely to local government managers.

To date a good deal of attention has been focused on the so-called 'economies of scale' that are achievable through aggregated purchasing arrangements across councils (OGC, 2005). But councils are attempting to improve the effectiveness and efficiency of services as diverse as, say, housing maintenance and pension fund management. And it would be foolish to apply similar models and approaches to services as diverse as these. Some supply markets are mature and commoditised, others are fragmented and under-developed – supply management approaches are required that are appropriate to the context and conditions of each service (its cost structure and key drivers of future cost and value).

And while better supply management is needed its role in achieving efficiency should not be over-stated. The diversity of 'how things are done' is probably as great a source of inefficiency across local government as the diversity of 'how things are bought'. Standardising processes and procedures (particularly in the implementation of technology) can therefore produce substantial efficiency gains over the coming period. For example, customised approaches to implementing technology accounts for a great deal of additional cost in local government and the recent work of Office of the Deputy Prime Minister (ODPM) to establish common ICT standards across the sector should begin to bear fruit over the coming decade – but only if managers appreciate the scale of efficiency gains that derive from appropriate standardisation of processes.

In local government, it is undoubtedly the case that operational managers can improve operating efficiency (by lowering costs or improving outputs) by a series of incremental service changes at the operational level. However continual year-on-year efficiencies of 2.5 per cent are simply not feasible in each and every local service through operational changes. At some point in every service it becomes necessary to make strategic changes in how the service is designed and delivered if costs are to be lowered substantially and/or if productivity is to be significantly enhanced (Berman, 1998). Hence, service design is as central to efficiency as the management of operations and supply.

New Management Challenges, Old Management Lessons ...

The efficiency agenda is not entirely novel to local government – there is a rich seam of management practice which needs to be adapted if local government is able to deliver efficiency gains of over £3 bn over three years. However, the efficiency agenda does pose new challenges and opportunities to managers inasmuch as they are now being asked to implement lower cost solutions to service delivery while also raising productivity. Lowering cost is, relatively, the easy part; raising productivity (or output) is the more difficult.

At the level of organisational practice, lessons can be drawn from the O&M studies (organisation and methods approaches or 'work study' analyses) of over 40 years ago; the quality management drives of the 1980s

(from Deming's process control charts in 1982 to Peters and Waterman's eulogies of corporate success in the same year); the business process re-engineering efforts of the 1990s (Hammer & Champy, 1993); the emphasis on people motivation and learning (Senge, 1992); the focus on e-business solutions and out-sourcing that characterised the management of organisational change in the period from 1995 to 2005 (at the high point of the hype curve some authors predicted that the internet was changing everything for ever – Evans & Wurster, 2000); and the comparative method used by Collins (2001) to identify what attributes were needed, as well as which needed to be absent, for successful companies to grow into great ones.

As Peter Drucker expressed it in 1989, the 'new realities' of management (across public and private sectors in increasingly networked organisations) requires a detailed grip on issues as varied as people management, project management, supply management and the management of demand. Thus at one level the 'new' efficiency agenda is simply a call for a renaissance of effective management in local government – blending the approaches that are proven to work with the managerial problems that require resolution.

While the efficiency targets stem from the Government's political drive to modernise the public sector, in some way this new sector-wide impulse for greater efficiency is a response to a public sense of inefficiency in public service delivery. Improvements in customer experience in the private sector witnessed over the past two decades have understandably leached into the public's expectation of the quality demanded from public services. People do not expect public services to deliver 'positional goods' as is the case with a growing sector of the modern private economy (Hirsch, 1977) but they do expect public services to be as well managed and as well delivered as standard private sector organisations.

The public is offended when it witnesses waste and inefficiency in public services – and as citizens and taxpayers they want something done. Too often they seem to see things being done unnecessarily; things being done twice; or things being done at cross-purposes. Sometimes there is good reason why this is so – but not always. The efforts used to make sure that public services are ever-more effective need to be complemented by energies to make them increasingly efficient. This point is reinforced through examining public opinion surveys of local councils. Regularly, councils find that their local citizens' judgement as to whether they are doing a good job is highly related to citizens' overall view about whether council services are efficient and well run.

Public services share many characteristics with private services in terms of their organisation, design and delivery. And there is much that can be gained in the public sector through adopting successful private sector approaches to service management and service delivery. Smarter approaches to supply management, project delivery, asset management and team motivation are just some examples. But it also needs to be recognised that the nature of the connection between customers and public services is also of

different character than that between customers and service providers in the private sector (Leadbeater, 2003).

People are not just customers of public services – they are also citizens and taxpayers. Customers of public services rightly want higher quality services, of a high standard with high degrees of personalisation and choice (particularly if they are not paying for them directly through user charges). Citizens, however, want public services to be thoroughly accountable through ‘voice’ and politics (particularly if something goes wrong in the design or the delivery of the service). Taxpayers want public services to be more efficient and designed and delivered at lower cost (particularly if they, because of their current stage in the family life-cycle, are not current users of many public services but are nonetheless current contributors to the financing of all public services).

Thus any efficiency drive can only be but one aspect of a wider modernisation and reform agenda for public services. Alongside the delivery of service the purposes of public services include the allocation of public goods, the minimisation of ‘public bads’ and the stewardship of the public interest. Who gets social housing? How should care for lonely elderly vulnerable people be organised? What should school pupils eat at meal times? And how can ‘anti-social behaviour’ reduce and good neighbourliness be encouraged? That is why in any public service efficiency is but one of the key factors to consider. The efficacy of public policy is always under scrutiny (‘does this policy actually work?’) as well as its overall fairness (‘is the service delivered fairly and in the wider public interest?’).

In terms of the overall target of £6.45 bn, local government is not expected to achieve these efficiency gains without an infrastructure of support and assistance from central government. At the national level and to complement the work of the Office of Government Commerce, the Improvement and Development Agency has a strong role in promoting best practice and in providing direct support to councils. And at the regional level a strategic capability has been established to encourage co-operative approaches to procurement and service purchase.

The Role of the Regional Centres ...

Following the success of the central – local task force on construction, the ODPM established nine regional centres of procurement. The role of these centres was to strengthen the emerging regional approaches to procurement and broader service supply management. The idea behind the regional centres of procurement was to act as formal networks of buying expertise enabling councils to benefit from economies of scale in ways they could not achieve alone.

Many county councils and the larger metropolitan councils had already established a sound track record in hosting large scale commodity procurement in their areas. It was a logical step to encourage those successful

organisations to help all councils in their region to move up the procurement value chain from aggregating the procurement of commodities to begin aggregating the procurement of services. Examples of this include Norfolk, Essex and Kent county councils. Moreover, there has been a developing trend among district councils to achieve economies of scale (notwithstanding the relatively small budget base of some districts) through combining forces on some basic services and back-office support functions – others have formally combined their procurement of specific services. Some have gone further – for example, Adur and Worthing district councils in West Sussex have gone so far as to commence merger discussions to create a new borough. This is an evolution of joint working which over the past two years has seen them merge their refuse collection and vehicle fleets to achieve economies of scale.

The Government's 2004 Spending Review announced a wider brief for these regional centres in that their remit was to encompass all strands of the efficiency agenda. The period from September 2004 to March 2005 witnessed a major expansion in the role of these centres, a substantial increase in the level of their resourcing, a development in their approach to their work and methodologies, as well as a maturing approach to collaboration across the nine regions. Some regional centres have taken national leads on particular work-streams (for example the regional centre led from Yorks and the Humber lead on corporate services, nationally).

At this stage in the agenda the regional centres are developing an intelligence about local supply markets and are identifying opportunities for collaboration between councils that enable services to be shared or procured co-operatively. The range of variety of local government services makes this a complex task. Councils are attempting, say, to improve the overall rates and quality of foster parenting in their areas and at the same time they are also attempting, say, to improve the effectiveness and efficiency of road re-surfacing. In industry sector and supply market terms foster parenting and road re-surfacing are poles apart (although some road re-surfacing workers could well be great foster parents!) and yet councils need to make progress in both areas (and in every service area along this service continuum).

During these early months of the efficiency agenda a good deal of practical support and assistance has been provided to local government by the Office of Government Commerce (OGC) through its experience of gateway reviews of major project delivery, of government procurement generally and its approaches to aggregating demand.

Managing Demand as well as Supply ...

While improvements in supply management (including the management of in-house services through directly employed staff) will help – they will not alone guarantee improved efficiency. The productive output of local government is crucially affected by the nature of interaction between service

providers and service users. As some have argued (Leadbeater, 2004) service users are 'co-producers' of the value of public services. For example, the condition of our health as individuals is as much a product of our own behaviour as it is a reflection of the health care services we 'consume'. The same argument can be made with the case of child protection services or with environmental care and maintenance.

But more than simply involving service users more closely in service design and delivery (at its extreme, the greater use of internet channels for information services can lead to a form of self-service amongst some service users) it is important that the public sector improves how it manages demand. In the private market demand is managed through the pricing mechanism and through brand management and product or service marketing. Usually the aim in the private sector is to encourage more demand for one's products or services – building customer loyalty.

In the public sector, the aim is less to build customer loyalty but instead to encourage customer independence. Nonetheless, brand management and marketing can be extremely useful in managing service demand in areas as diverse as social housing or leisure services. Of course, the utility of pricing mechanisms for managing public service demand is under-developed, although direct pricing (say, for social care payments) and surrogates (say, for education vouchers) are beginning to emerge (Le Grand, 2003). Perhaps the most notable exception is the London congestion charge. This novel road pricing mechanism seeks to manage demand to encourage modal shift (from cars to rail, tube and bus) as well as to regulate road usage. However, while demand management is a crucial arm of the private sector's approach to managing businesses, in the public sector it is somewhat overshadowed by supply management concerns.

One way forward in evaluating the impact of the efficiency agenda in the public sector is currently being investigated by the Work Foundation in partnership with a number of public institutions – using the notion of 'public value' developed by Harvard academic Mark Moore (1995). Over the coming year a number of different institutions (including the London Borough of Lewisham) will be involved in applied research to measure the dimensions of public value and how it can inform local political choices and management questions about service delivery.

The Prospects for Efficiency in Local Government ...

In April 2005, all councils submitted their first statements to government on how they are approaching the efficiency gains agenda in their locality. These 'annual efficiency statements' will attribute efficiency gains between service heads and cross-cutting approaches and will also identify which gains are 'cashable' and which are 'non-cashable'. Once these statements are thoroughly analysed the overall shape of the local government response will become clearer.

Until then any assessment of likely achievement must be provisional and qualified. That noted, the scale of the targets appear entirely achievable for 'top tier' councils (Counties, Mets, London Boroughs and the 'new' Unitaries). These councils have experience in re-shaping their budget base and in re-directing resources at least at the level required by government and they have the organisational capacity to alter their corporate processes to adapt to the new productivity agenda. And this is no bold and un-evidenced assertion. The Audit Commission's comprehensive performance assessment process (CPA) is based on a modular appraisal of council's performance and capability. It incorporates an audit assessment of the degree to which council's perform in respect of fiscal stewardship and budgetary control (the so-called 'use of resources' block). Of the 150 top tier councils appraised under CPA for December 2004, two-thirds received the top score (four out of four) for their budget management, with just two councils scoring less than three out of four.

Cashable efficiency gains will arise from smarter supply management, more collaborative service purchasing and better asset management. Cashable efficiency gains will also arise from more extensive process standardisation, better ICT investment, from better management of internal mechanisms of control and co-ordination as well as from internal transactions such as those in payments and invoicing systems to the more outward facing systems that interact directly with customers and service users. In short, achievement of the efficiency gains targets of £6.45 bn will require a significant step-change in the management of change across local government.

In a recent speech (May 2005) the architect of the Government's approach, Sir Peter Gershon argued that 'the discipline of efficiency is simply not part of the DNA of the public sector'. He is undoubtedly right. The public sector is infused with the discipline of public accountability and not of efficiency and competition. However, just as the modern economy demands ever greater accountability from private companies (for their social and environmental impact) so modern polity demands public institutions to embrace the disciplines of efficiency and innovation to deliver heightened public value to citizens. Efficiency may not be part of our DNA but with some genetic engineering on the part of local politicians and managers, local government will achieve the efficiency gains targets the Government has set.

References

- Berman, E. (1998) *Productivity in Public and Non-Profit Organizations* (Thailand, London, New Delhi: Sage).
- Bossidy, L. & Charan, R. (2002) *Execution* (Random House).
- Collins, J. (2001) *Good to Great* (Random House).
- Deming, W.E. (1982) *Quality, Productivity and Competitive Position* (Cambridge, MA: MIT Press).

- Drucker, P. (1989) *The New Realities* (Heinemann).
- Evans, P. & Wurster, T. (2000) *Blown to Bits* (Cambridge, MA: Harvard Business School Press).
- Gershon, P., 2004, *Releasing Resources to the Frontline* (London: HMSO).
- Hammer, M. & Champy, P. (1993) *Re-engineering the Corporation* (Nicholas Brearley).
- Hirsch, F. (1977) *Social Limits to Growth* (Routledge & Kegan Paul).
- Le Grand, J. (2003) *Motivation, Agency and Public Policy: Of knights and knaves, pawns and queens* (Oxford University Press).
- Le Grand, J. & Bartlett, W. (Eds.) (1993) *Quasi-Markets and Social Policy* (Macmillan).
- Leadbeater, C. (2003) *The Man in the Caravan and Other Stories* (Improvement & Development Agency).
- Leadbeater, C. (2004) *Personalisation through Participation* (Demos).
- Moore, M. (1995) *Creating Public Value* (Harvard University Press).
- Quirk, B. (2004) Local government: the adaptive tier of governance, in: T. Bentley & J. Wilsdon (Eds.) *The Adaptive State* (Demos).
- Office of the Deputy Prime Minister (2004, 2005) *Efficiency Guidance 1 and 2* (London: HMSO).
- Office of Government Commerce (2005) *Aggregation* (London: HMSO).
- Office of Government Commerce (2005) *Gateway Process Review Pack* (London: HMSO).
- Office of Government Commerce (2005) *Productive Time Measurement Guidance* (London: HMSO).
- Osborne, D. & Plastrik, P. (1997) *Banishing Bureaucracy* (Addison-Wesley).
- Senge, P. (1992) *The Fifth Discipline* (Century Business).

