



Operational efficiency programme: final report

This briefing is provided to APSE member authorities and will be of particular interest to performance and best value officers, strategic and service directors. It is provided to Scotland, Wales and Northern Ireland members for information

Key issues

- Pre-budget report 2008 announced that the Government would take action through the operational efficiency programme to generate a further efficiency drive within the public sector.
- Five areas of operational expenditure have been identified in the UK's public sector to drive further efficiencies
- This briefing explores each of the areas and the potential issues for APSE member authorities and front line service providers.

1. Introduction

Gershon efficiency savings, realised within the public sector, already amounted to some £26.5 billion between 2004 and 2007. The comprehensive spending review 2007 set a further target of some £30 billion and the Pre-Budget Report in November 2008 set a further target of an additional £5 billion of savings for 2010-2011.

The HM treasury report '**Operational efficiency programme: Final report**' identified five areas of operational efficiencies in the public sector with an appointed lead for each area. The operational efficiency programme (OEP) sets out the five strands as follows:-

- Back office operations and IT led by Dr Martin Read
- Collaborative procurement, led by Martin Jay
- Asset management and sales, led by Gerry Grimstone
- Property, led by Lord Carter of Coles and
- Local incentives and empowerment, led by Sir Michael Bichard

The purpose behind the report was to identify commonality of certain objectives across the public sector and to ensure best use of resources. This briefing explores each of the identified areas and comments upon them from a local authority, police and fire perspective.

2. Back office operations and IT

Back office operations include the full range of services that provide support to the front line including finance, HR, estates management, procurement, legal services, travel services and marketing and communications. The term IT comprises the full range of IT spend including software, hardware, IT support and major IT enabled change projects.

The OEP estimates approximate expenditure on back office operations of £18 billion per year across the public sector excluding IT functions. The OEP estimates that simply moving the weakest performers up to the top end of the lowest quartile of performers would generate around £4 billion in additional efficiency savings.

However the report is critical about the lack of effective performance management data that is robust and supports effective benchmarking. What is not well measured will not be well managed is an on-going mantra within the OEP report. The report therefore calls on the Government to:

- **Improve the collection and reporting of data across the public sector. Management information on back office operations should be fully integrated into departmental processes and should be collected and reported on a regular, consistent, auditable and transparent basis to allow for robust comparisons.**

The five audit agencies value for money indicators in HR, finance, procurement and estates management should be used by all public sector organisations including local government.

- **Introduce benchmarking and operational performance reviews across the public sector**

The OEP report calls for improved performance data with collection, checking and publishing in a form that allows for consistency across the public sector and enables any disparities to be identified. The OEP suggest that the data is then used for the Audit Commission 'use of resources' measure. It suggest that within local government the Regional Improvement and Efficiency Partnerships (RIEPS) could

use peer review of back office data in their areas and allow outputs to be available for review by the Audit Commission. Schools data should be collected at an

aggregate level through the local authority for reporting to the DCSF. Within the Police service the performance indicators should be produced with the value for money profiles produced by Her Majesty's Inspectorate of Constabulary (HMIC) linked to ensuring the maximisation of resources for front line policing.

- **Take the estimated savings into account in determining departmental settlements (taking note of savings already made where appropriate)**

The £4 billion estimated savings should be taken into account in reaching departmental settlements. Reference is made to those that can demonstrate they are already underway with savings and or that can already demonstrate they are operating above public sector medians.

The OEP back office operations and IT strand also recommends an increased momentum on shared services and outsourcing. This is in the context of recommendation 1.4 of the report that suggests public sector organisations with more than a 1000 employees *'should conduct a systematic review of their functions , systems and processes to drive simplifications and standardisation. Reviews should be carried out by the end of 2010-2011 and thereafter at east every five years. They should lead to significantly greater sharing of services and potentially increased outsourcing.'* There is no explanation attempted as to why service reviews would lead to more outsourcing.

This last statement as to outsourcing is contrary to the findings of APSE's research on insourcing – particular with ICT and back office examples whereby outsourcing has led to increased costs and complexities, particularly where contracts have been linked to exclusivity clauses, within the supply side of IT contracts for software and hardware. Without justification for this statement it is an unsupported assumption made by Dr Martin Read.

3. Collaborative procurement

This workstrand led by Martin Jay has explored the collaborative procurement practice within central government and the wider public sector including the potential to realise savings in local government. Of the procurement spend of £175 billion local authorities account for £103 billion of this sum.

Mr Jay suggests that collaborative procurement should be expanded to cover additional categories of common spend. For example, in facilities management, food and construction.

Specific recommendations include:

- Use of collaborative procurement public sector organisations (Professional Buying Organisations or PBOs)
- Increased uptake on collaboration particularly on common categories of goods

Current categories include professional services, ICT, energy, fleet, travel and office solutions with scope to expand into construction, food and facilities management , social care, operational goods and waste management (for the health sector there is also a reference to clinical and medical expenditure).

The report is critical of the public sector for lack of data on prices. It states that it is not common place for the public sector to codify expenditure to enable effective monitoring of prices.

Whilst this may be true for some areas of the public sector it is arguably less the case within local government. Purchase order arrangements, for example tend to include codification in the vast majority of authorities. Similarly expenditure lines in budgets are able to categorise procurement spend. In public sector catering for example this includes detailed product lines.

The report also fails to address the current economic climate. Even without a recession local government in particular has been keen to develop local supply chains both for environmental purposes and to bolster the local economy. Whilst there may be advantages to bottom line costs, in terms of collaborative procurement arrangements, there are also dangers. Loss of small local businesses, for example, that may rely upon some elements of spending by the local authority. There is a balance between generating economies of scale and safeguarding the local economy. Lowest cost does not always equate to highest value in the longer term.

APSE research '*Creating resilient local economies; exploring the economic footprint of the public sector*' explores some of these arguments. A key finding was that for every public pound spent a return of £1.64 was generated within the local economy. At a time when demand upon public services will increase it would seem potentially self-defeating to transfer business and spending power out from the local economy to realise a saving that will not necessarily materialise into a local benefit; contributing instead towards meeting a central government efficiency target. A balance will need to be found for this strand of the OEP report to gain widespread support.

4. Asset management and sales

The asset management and sales strand of the OEP is designed to improve the public sector management of assets. Where there is no longer add value to the public sector it is encouraged to consider disposal or transfer in whole or in part to the private sector. Summary recommendations include:

An ongoing six monthly review carried out across government to identify new assets to be then examined by the shareholder executive with an update on progress forming part of the Pre-budget Report and budget announcements

Assets being examined to be reviewed by project teams and coordinated by the shareholder executive with full support of HM treasury including:-

- Is the most efficient use being made of the assets from the point of view of the business model, organisational and customer requirements, capital structure, including whether the current position within the public sector is appropriate
- Bring forward for decision making the findings of these studies
- Once decisions are made overseeing the implementation stage to convert plans to appropriate action
- Lead, where appropriate partial disposal or activity within departments and
- Report progress publicly (within budget processes).

Many local authorities hold large assets (in terms of property and land) and already carry out rigorous reviews to identify best use of the assets. This is already a requirement under Best Value and many authorities will already operate effective asset management systems and procedures. The disposal of property, or commercial viability of holding property, is explored in the work strand led by Lord Carter of Coles.

5. Property

Lord Carter of Coles has reviewed the use of property in the public sector and whether greater efficiencies could be found from public sector property assets.

Summary recommendations include:-

- That Government should create a central property function to drive efficient use of property across the whole of the public sector as a small strategic resources working closely with the treasury

With its main role to provide:

- A strategic overview of rationalisation and disposal
- Property standards and advice and
- Coordination and oversight of property performance

This work strand has found that there is significant scope for the public sector property and land to be used more efficiently and effectively. This strand could, according to Lord Carter deliver around £20 billion in receipts from property disposals (excluding council housing) and savings of up to £5 billion a year. There is recognition that to realise the value of their estates department (and local authorities) may need to pump prime their estates.

From an asset base of some £100 billion when council housing is excluded there is an assumption that the public sector incurs running costs of £25 billion. This calculation includes PFI running costs such as rent, rates, utilities and facilities management, but the unitary charge associated with capital payments on PFI schemes.

The property strand of OEP goes on to suggest that further efficiencies could be sort, for example from facilities management costs, of around £0.5 billion per year through savings on management costs. Facilities management costs can however include labour intensive services such as catering and cleaning (where between 70% and 80% of total services costs are labour related costs). This could therefore be an unrealisable saving as statutory protection such as TUPE and the national minimum wage would make savings on labour costs relatively difficult to achieve.

There are also assumptions that with good practice the volume of space per employee could be reduced from around 14.5 square metres per employee to 10 square metres per employee – with for example the introduction of desk sharing or other measures.

There are also assumptions as to the ability to create regional hubs from central government functions, freeing up office space and sharing space across different areas of the public sector. An example of this would be co-location schemes.

As with other areas in the OEP report property is identified as an area where the running costs of an establishment may not be known and lack of data can lead to ineffective management of the assets. APSE's performance networks service, in the service areas of leisure and civic catering, recently established models based on data collection on individual facilities – this helps to breakdown benchmarking information on the individual facility. It is a relatively simple process to establish and allows the member authorities involved to aggregate data as well as drilling data down into individual properties or facilities.

The property strand also recognises that there is a need for sustainability to be factored into any new measurement designed to test efficiency of the public sector property portfolio. RIEPS are again identified as a source of support alongside CIPFA that has already developed some good practice guidance around benchmarking property performance management. APSE's performance networks service also collates the costs of non-housing related building maintenance services allowing comparisons between councils on cost and quality issues.

APSE would comment that within the current economic climate even if decisions are made to dispose of land and property market values may be much lower than anticipated. The public sector cannot be open to disposal of assets at relatively low market value and open up the risk of paying higher commercial rents on leased property in the future. It is imperative that assets values are considered in the short to medium and longer term.

Within Northern Ireland the proposals to transfer public assets into a PFI style lease arrangement has now been suspended as concerns have grown as to the viability of the scheme, including projected increases in costs.

It is likely that the effectiveness with which local authorities manage their property portfolios will be considered under the use of resources element of CAA.

6. Local incentives and empowerment strand

The local incentives and empowerment strand led by Sir Michael Bichard, recognises that there has been unprecedented growth over the past decade with total public spending increasing by 42% in real terms, with local government seeing real increases of grant of 39% since 1997.

However, with spending being forced towards addressing challenging public sector pressures, such as the cost of the rise in coronary heart disease, diabetes and strokes the public sector will be under increasing pressure to reduce expenditure, in some areas, in order to support increased costs in others. Resources will need to be prioritised, not just because of the current global recession but because of the new environment in which increased demands will be placed on public services.

Two guiding principles have governed this strand of the OEP. These are:-

Encourage the good: By identifying successful or promising initiatives and reforms to delivery systems that can be extended further, rather than creating new programmes or imposing rigid solutions which are neither locally owned nor appropriate for the challenges they seek to address and

Eliminate the barriers: by reducing bureaucratic burdens on the front line and stopping programmes that do not add value to create space for those that do.

The local incentives and empowerment strand will look at ways to :

- Join up local public services through the concept of local places, looking specifically at how duplication can be removed. It also considers investing in public services that will reduce the cost of other local services even if the costs and benefits fall to different organisations, by looking at the benefit to the public sector as a whole in a place.
- Better targeting of resources through strategic commissioning
- Joining together the functions and management structures of different services to reduce overheads and transaction costs.

The OEP again references performance as essential in the delivery of efficiencies. Specifically these include:

Performance frameworks for public agencies, which provide strong incentives, rewards and drivers for service delivery but which are often designed and delivered in silos

Financial regulations and ring-fences which when they prescribe the specific activities to be funded by central grants, can prevent the sharing of spending on joint aims in a local partnership or increase the complexity of doing so

Inspection assessment and regulation regimes, which are vital for ensuring that national standards are being met and to challenging the quality of services, but if seen as end in themselves can restrict local flexibility and responsiveness

Commissioning frameworks in different sectors, each with their own reporting and monitoring requirements, which create complexity in organisations jointly commissioning services to meet local needs and

Accountability and reporting to the centre which can often take priority over local accountability to the public and to partner agencies.

As part of the analysis of the current framework there is reference to the ability to extend the scope of the CAA to all public services within an area.

A key recommendation is the alignment of performance frameworks across sectors and to encourage greater local collaboration and give greater weight to the joint priorities for each place.

Emphasis is placed on the CAA framework to become the 'main assessment for the public sector in a place'. In addition reference is also made to the need to reduce the new NIs to ensure that they reflect the absolute priorities of government leaving greater scope for local priorities to be determined locally.

Innovation and service redesign will also be deemed critical in order to achieve improvements in the quality, and efficiency, of public services in more challenging economic times.

There is also reference to connecting with front line services as they have the best connections with service users and are more able to develop better engagement and innovation. Sunderland City Council's Northern Way Worklessness pilot is cited as an example whereby engagement with employers, practitioners and clients, has led to service redesign allowing for more effective commissioning of the service and designing out elements that did not help to meet the needs of the clients.

APSE welcomes the fact that this strand of OEP recognises the need for continuous improvement. Designing out production processes, that do not add value, to the outcomes, but nevertheless use valuable resources. A method of continuous improvement advocated by APSE in our '*Competitiveness continuum*' shares this aim by looking at the cycle involved in continuous improvement including assessment of performance information, user satisfaction and future service design and delivery. This can be downloaded from the APSE website and is free of charge. Click [here](#) to download.

7. APSE comment

Many of the issues raised in the OEP report do not come as a surprise to the public sector but as the pace of change quickens, in response to the current economic climate, there are some clear emerging themes.

Performance information and performance management systems will increasingly be used to demonstrate both value for money and the delivery of efficiencies. Those organisations that currently have weak performance frameworks may well find that they need to rapidly enhance their capacity to both collect data, and use that data, more effectively in the targeting of resources. However it is important to remember that simple compliance with targets will not of itself lead to service improvements.

More over whilst 'collaboration' is cited in terms of a desirable approach the targeting of future public resources, more joined up approaches to inspection and a drive towards shared services in back office and IT, alongside possible co-location arrangements for public sector properties, seems to suggest that there is more than a hint of 'compulsory collaboration' throughout the OEP report. This may seem something of a policy in the context of previous policy direction towards a more localist agenda.

Many in local government would argue that having delivered on the first round of Gershon efficiencies, and not only having met but overreached the set targets, there is little 'fat' to be cut from local government. Service demands and subsequent need for delivery may well increase within a recessionary environment. However, what is clear is that the 42% growth, in real terms in public expenditure, and the 39% growth, in real terms, in local government, will no longer be sustainable. If public services are to be maintained at existing levels then more must be delivered for less.

APSE member authorities that are using APSE performance networks service in order to benchmark cost and quality in front line services will be well placed to offer both accurate performance data and comparisons to others within the public sector. This good practice is clearly an area where some of the corporate functions within a local authority would be best placed to learn from those front line services. Performance management will need to become an embedded culture right across the public sector

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