



National Audit Office

Opinion pieces on improving government efficiency

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 156-II Session 2006-2007 | 8 February 2007

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Opinion pieces on improving government efficiency

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John Bourn
Comptroller and Auditor General
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5 February 2007

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FOREWORD

Understandably, public sector efficiency attracts significant attention from a wide range of organisations and individuals including business, trade unions, academia and the management consultancy community. In presenting this volume of opinion pieces on how to improve government efficiency, I am pleased to offer a flavour of this lively and constructive debate.

Through a combination of direct approaches to leading commentators and an open invitation for submissions, organisations and individuals interested in government efficiency were asked to set out the one change they would like to see made to improve government efficiency. In particular, we asked for evidence-based answers that considered:

- definitions of the proposed change;
- explanations of why the change was needed;
- what benefits the change would lead to;
- the practicalities of how the change would be implemented; and
- the specific recommendations that would allow the change to occur.

I would like express my considerable gratitude to the contributors for the opinion pieces which are brought together in this publication. The views expressed are relevant to the content of the study outlined in the first volume but are not part of the formal audit findings. However, these pieces put forward some new ideas and promise to contribute to the debate on government efficiency. As the Committee of Public Accounts considers my latest report on the Government's Efficiency Programme, I hope this volume provides an additional source of thought-provoking and original perspectives.

Sir John Bourn
Comptroller and Auditor General

SUMMARY

Summaries of opinion pieces

Good people trapped in bad systems

by Kevin Beeston, Executive Chairman, Serco Group plc

Serco's Executive Chairman, Kevin Beeston, says liberating front-line managers provides the key to unlocking efficiencies in government and public services. With the help of quasi-contractual arrangements and clear performance regimes that ensure accountability, Beeston feels front-line managers can harness the potential of autonomy to innovate, respond to user needs and make public services more efficient.

Public procurement reform at the heart of government efficiency

by Dr. Neil Bentley, Director of Public Services, Confederation of British Industry

Arguing efficiency is 'not a gimmick but an integral way to delivering continuous improvement in service delivery', CBI Director of Public Services Neil Bentley calls on the Government to get more 'bang for its procurement buck'. Dr Bentley believes better procurement rests on improving commercial capabilities in Whitehall departments. Proposed practical steps towards improved procurement include the introduction of project sponsors for each major project, and end-to-end plans for government purchasing.

Managing for outcomes: how to make it work

by Prof. George Boyne, Cardiff Business School

Professor George Boyne feels that focusing on 'outcomes', not 'inputs' or 'outputs', is the key to driving efficiency, and outlines the criteria that need to be satisfied to make this a reality. Once the most important outcomes are identified, Boyne argues, outcome-based targets need to be developed and utilised. And, having established suitable indicators to measure progress against outcomes, policy-makers must be prepared to switch resources between different objectives.

A social definition of efficiency

by Charles Cochrane, Secretary of Council of Civil Service Unions

According to the CCSU, the Government needs to consider the impact on society when managing the Efficiency Programme. CCSU argues that too often the Government adopts a market-oriented definition of efficiency that neglects social considerations that are often harder to measure. In particular, CCSU calls on the Government to put an end to what it sees as 'arbitrary job cuts' and instead base staffing levels on objective evidence of what is needed to deliver public services for all members of society.

Efficiency through effective outsourcing

by Andrew Haldenby, Director, Reform

Andrew Haldenby of independent thinktank Reform urges the Government to focus on outsourcing as a means of realising greater efficiencies. Haldenby addresses the potential of contracting-out and highlights the obstacles to its effective implementation. In particular, the Government is urged to strengthen local management to equip them to make the most of outsourcing.

Procurement by public bodies contrasted with private sector approaches to the purchase of contracted out services

by Alan Jones, Chief Executive, GSL

GSL's Chief Executive, Alan Jones, puts forward his recent observations on government procurement policy and proposes some solutions for improved procurement as part of the efficiency drive. In particular, Jones articulates the important role information plays in the contracting process, the need to bring in suitable procurement personnel and the risks associated with expecting immediate benefits as a result of outsourcing. Jones concludes by suggesting that success in government procurement rests on 'genuine partnerships as well as smart procurement processes'.

Why make when you can buy?

by Brian Kingham, Chairman, Reliance Security Group plc

Brian Kingham, Chairman of Reliance Security Group, feels that significant efficiencies can be achieved by contracting support staff as a means to liberate public sector professionals to concentrate on the jobs they were recruited to do. Citing the Prisoner Escorting and Custody Service (PECS) contract as a model of a centrally-managed, locally-delivered contract, Mr Kingham outlines his thoughts on how the public sector can save money, enhance operational delivery and create efficiencies.

Role of performance dialogues in improving government efficiency

by Alastair Levy, Sharon McKeown, Tim Roberts and Jules Seeley, McKinsey & Company

The authors present McKinsey's account of why effective performance dialogues between managers and those reporting to them are a powerful tool in the drive to deliver efficiencies. They assert that effective performance dialogues can increase transparency, reinforce accountability, address all dimensions of performance and, by clarifying expectations of performance, change the way staff think and act. Their suggested approach rests on commitment from the top, sound integration into performance management systems, sufficient time and repetition to enable effective dialogues and a strong and committed team.

Gain-share systems and performance improvement culture

by David Reid, TAP Consultancy Ltd

David Reid of TAP Consultancy Ltd suggests that the creation of a deep-rooted performance improvement culture across the civil service is fundamental to achieving the efficiency agenda; a culture that can only be cultivated if everyone from the lower echelons through to the senior civil service shares the same vision. A mechanism is proposed to encourage this outlook with teams across organisations being rewarded for successful performance improvement suggestions via a gain-share scheme.

Sustainable efficiency in the public sector

by Ann Rossiter, Director, Social Market Foundation

The Social Market Foundation argues that to 'embed efficiency in the civil service', there needs to be an alternative to 'attempts to drive efficiency through targets and monitoring [which] are running against the grain of embedded incentive structures'. Considering the civil service to be inherently risk-averse, Ann Rossiter proposes abandoning efficiency targets and incentivising efficiency by rewarding individuals and teams in departments with a share of the efficiency gains they have helped to achieve.

Gershon, efficiency and public value

*by Professor Colin Talbot,
Manchester Business School*

Seeking efficiencies is nothing new for governments, with the present Efficiency Programme largely a product of the Government's concern to couple investment with reforms capable of generating savings, releasing resources to the frontline, and promoting trust in public services (Public Value). So asserts Professor Colin Talbot, who goes on to say that concerns over measurement undermine what could turn out to be the biggest round of efficiency savings ever achieved.

Turn on the tap!

*by John Tizard, Director of Government &
Business Engagement, Capita Group plc
(writing in a personal capacity)*

'Turn on the TAP!' urges John Tizard, citing transparency, accountability and performance as the three factors that must lie behind sustainable efficiency. According to Mr Tizard, public services should articulate their public contribution and strive towards measurable outcomes; those who fail to achieve best value for the community should be held to account; and, the Government should balance national targets with room for local discretion and responsiveness to local communities.

Good people trapped in bad systems

by Kevin Beeston, Executive Chairman

Former US Vice President, Al Gore, famously wrote in his 1993 report on 'Reinventing Government' that the problem with modern government was good people trapped in bad systems – budget systems, financial management systems, personnel systems, management information systems – 'when we blame the people and impose more controls, we make the systems worse'.¹

This is particularly true of the managers of front-line public services: school principals, hospital administrators, police commissioners and prison governors. A great deal of the challenge of delivering efficient, high-quality public services falls on the shoulders of these men and women. They must balance the need for customer responsiveness with the demands of financial responsibility, and more than anyone else, they are the ones who must make sense of that well-worn phrase of 'value for money'.

And yet in the numerous reports on public sector management, they have received very little attention. Efficiency reviews driven from the centre tend to focus on the over-arching structures of government – the architecture of departments, agencies and local authorities. Much of the public debate is concerned with the motivation of front-line workers – doctors and nurses, teachers and police officers. But little has been said over the years about those who are charged with reconciling the demands of politicians and public officials in head office, and the end users of government services.

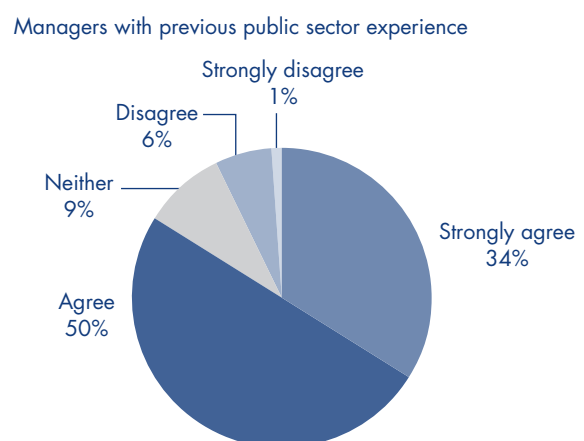
In my view, if we wish to make significant improvements to the efficiency and effectiveness of our public services, then the answer lies in liberating these front-line service managers. It has long been recognised that we must 'let the managers manage', but in the public sector, it has proved

difficult to implement. Indeed, many have argued that, with the introduction of performance management in recent years, managerial autonomy has suffered a serious decline.

Contracting services out provides a unique opportunity

There has been one clear exception to this trend – where front-line public service managers have been given real autonomy at the same time as they have been held more accountable under a performance management framework. I am referring to those services that have been contracted to private and voluntary providers (and in a few cases, to public providers).

1 Serco Survey 'Managing my contract, accountability is much more personal than it was in the public sector – I feel that I am under the spotlight to deliver'



Source: Megan Mathias and Emma Reddington *Good People, Good Systems: what public service managers say* Serco Institute, 2006, p.7.

¹ Al Gore, *The Gore Report on Reinventing Government: Creating a Government that Works Better and Costs Less* (New York: Times Books, 1993) p.2.

Since many of those managing these services under contract previously delivered the same services under command-and-control arrangements, contracting offers us a unique opportunity to compare the two models of management.

In an attempt to understand the differences, the Serco Institute recently surveyed² almost a hundred former public servants who are now managing public services under contract.³ Most striking was the number who reported that they enjoyed increased freedom to manage – nine out of ten (88 out of 95, with 42 strongly agreeing) said that they had greater autonomy than when they were in the public sector, almost half of them agreeing strongly with this proposition. A similar proportion (nine out of ten) also reported that scrutiny was much closer and performance much more transparent under contract management.

The heavy cost of bureaucratic intervention in operational management has been documented over some years. In the Prison Service, for example, Lord Woolf criticised ‘the confetti of instructions descending from headquarters’ in 1991, Sir John Larmont referred to the ‘blizzard of paperwork’ in 1995, and Lord Laming condemned ‘the deluge of paperwork’ in 2000. What was perhaps most disturbing about Lord Laming’s report was the observation that little had changed since this issue had been identified in the Woolf and Larmont reports.⁴

Clearly the kind of accountability that is delivered under a contractual (or in the case of government, quasi-contractual) model is fundamentally different from this ‘deluge of paperwork’. Almost all of the survey respondents reported that contractual performance measures had been useful in clarifying what must be done; eight out of 10 (74 out of 95) agreed that the contract had given them a stronger sense of mission.

Around four out of five observed that contractual accountability was much more personal than it had been in government. Their language suggested that they had acquired a sense of ownership of their particular service, very like what is seen in small businesses.

The contractual structure also seemed to result in much clearer lines of accountability than existed under the traditional model. To a considerable extent, a contracted service is a self-contained bubble, with one point of entry in and out, via the contract manager. When they spoke of their time in government, contract managers tended to speak of responsibility as being layered (and for this reason, more diffuse).

² Megan Mathias and Emma Reddington *Good People, Good Systems: what public service managers say* (Serco Institute, 2006).

³ The Serco Institute conducted unstructured face-to-face interviews with 13 contract managers with a background in managing similar services in the public sector. Based on these responses, a survey was mailed to 311 contract managers across Serco’s public sector business, with a response rate around 50 per cent. Responses were by reply-paid envelope and anonymous. 96 respondents (64 per cent) had a background in the public sector, while 55 (36 per cent) had come from the private sector. The former public servants, the focus of this study, had worked in government for 16.5 years on average.

⁴ Lord Laming of Tewin, *Modernising the Management of the Prison Service* (Home Office, 2000) pp.3, 14.

How does increased autonomy make a difference to service delivery?

Most contract managers reported that the freedom to build their own team was crucial to delivering high quality performance. Most reported that they had greater flexibility to hire people, and four out of five said they were better able to manage difficult staff. Changes could also be introduced much quicker and they had a ‘far greater flexibility to correct mistakes’. Almost nine out of ten said they had greater freedom to experiment and innovate under the contractual model. This was important in turning around performance when it was failing.

Among other things, a contract is a charter or a constitution. It lays down in advance the rules of engagement between the commissioner and the service manager, and in this way it creates a ‘shield’ that protects the manager from detailed and persistent interference from head office. Contract managers reported that it was less than a perfect shield, but they felt protected to a greater extent than their colleagues in the public sector.

Surely there are lessons here for the way in which government manages its own services in-house. The ‘Next Steps’ review created quasi-contractual arrangements for Agencies, but it failed to carry those same principles down to the front-line service units – the hospitals, the schools and the prisons.

In recent years, the Government has cascaded performance targets down to front-line service managers, but without also giving them the autonomy that comes with a contractual shield.

Introducing a quasi-contractual model

The first step in the introduction of a quasi-contractual model lies in the recognition of the primacy of the front-line service unit. The scale of this unit differs, but in most public services there is a clearly-defined structure that is responsible for the delivery of the actual service – a school, a hospital or a prison. These service delivery units should look more like bubbles and less like layers in a layer cake.

Given the current enthusiasm for shared services, this will appear to some as a retrograde step. I disagree. If front-line service managers are given the appropriate authority, given clear performance targets and held personally accountable for the financial and service outcomes, then they will be more likely to make rational decisions about business models than if accountability lines continue to be blurred through persistent intervention.

Stricter accountability, with a fair and predictable system of rewards and sanctions, will create an incentive for public service managers to develop reliable and timely information systems. With a system of escalating interventions, and the freedom to introduce reforms in response to emerging problems, front-line managers will find such information absolutely essential.

While it will be necessary for government to make room for investment in such systems, such investment needs to be driven by front-line service managers themselves. The kind of management information that our respondents valued was, in many cases, tailored to their contract or service, and directed to enabling them to meet their performance objectives.

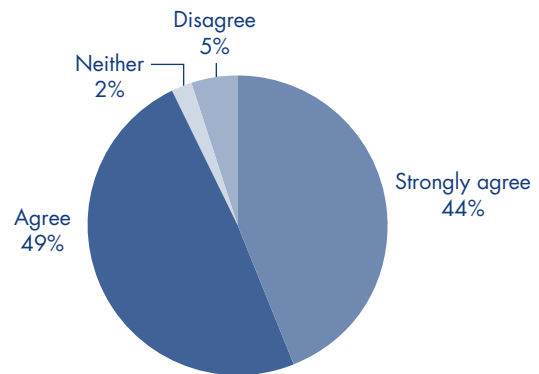
Answering the critics of quasi-contractual models

Those with reservations about a quasi-contractual model usually raise two objections. Some are concerned about the rigidity associated with formal contracting. There is little doubt that policymakers lose some of their flexibility under such a model, but that is the price that we pay for giving greater certainty to those charged with actual delivery. In the case of major changes in the economic or policy settings, there is still the possibility of re-negotiation, and if the quasi-contracts are for three or four years, then a moratorium on shifting priorities may well be for the better.

In any case, it is unclear that the structure and governance of front-line service units – schools, hospitals and prisons – need to change a great deal over a five year time period. Much of the structural change that has taken place in recent years has been at a higher level in government.

There is also a concern that creating strong organisational boundaries can result in some fragmentation of public services, making ‘joined up government’ even more difficult than it is at present. There is little doubt that the introduction of a contracting model demands that government pay a great deal more attention to questions of collaboration and partnership.

2 Serco Survey ‘In my contract, I have more autonomy than I had in the public sector’



Source: Megan Mathias and Emma Reddington *Good People, Good Systems: what public service managers say Serco Institute, 2006, p.7.*

Autonomy is not autarchy. In government, as in business, there are occasions when the centre needs to intervene in order to achieve economies of scale, or to ensure that systemic issues are addressed. But that is no reason for undermining the autonomy and the accountability of front-line managers for the delivery of services day-to-day.

A study of 21 ‘high-performing, high-poverty schools’ in the United States, published several years ago, found that high-performing principals all enjoyed greater freedom to make important decisions regarding their schools. The principals of private and charter schools had been granted this freedom in the way that they were constituted, but public school principals had to seize this right or otherwise negotiate permission.⁵

The challenge, as I see it, is how to structure the delivery of public services so that managers are given a charter to assume a leadership role. Not every public service manager is willing to bluff, haggle or undertake significant professional risks in order to negotiate such a charter for themselves. The negotiation and signing of a quasi-contract would contribute to the creation of space within which the managers can manage.

5 Samuel Casey Carter, *No Excuses: Lessons from 21 High-Performing, High-Poverty Schools* (Washington: Heritage Foundation, 2001) pp.3-4.

Public procurement reform at the heart of government efficiency

By Dr. Neil Bentley, Director of Public Services

Business' stake in government efficiency

Business supports the Government's ambition to instil greater efficiency in our public services. We are a significant funder of public services, and since 1997 have paid £60 billion in tax above and beyond what we would have paid if taxes had remained at their pre-1997 level. We want to know we are getting value for these considerable sums of money.

But as a user of services, we want to know the quality of services will not be hit as a result of any efficiency drive. Sir Peter Gershon emphasised in his review that a workforce reduction accompanied with a fall in quantity or quality of output does not constitute an efficiency saving and this is something we wholeheartedly agree with.

We do not want to see the review remembered as a once-a-decade bloodletting, with a few jobs cut and some suppliers squeezed, followed by everything returning to how it was before. Instead, we want the review to be seen as a golden opportunity to bring substantive and lasting changes to the way the public sector operates which was seized.

What we want to see is streamlined bureaucracy and resources being released to the frontline and used more efficiently and effectively to improve outcomes for public service users.

But it is easy to see why business and, indeed, the general public, are often sceptical when political parties make efficiency claims. Driving greater efficiency should be intrinsic to the business of government, not for the sake of grabbing headlines but to achieve a culture of continuous improvement in service delivery. But there are often major problems with the practical application of efficiency plans.

After the publication of the Gershon review, we raised a concern about the definition – or lack of definition – of what an efficiency gain actually is. Unless it is made absolutely clear what does and does not constitute such a gain, then it will always be impossible to tell if targets have been reached.

The Efficiency Technical Notes published by government departments in November 2004 – the first evidence of progress towards Gershon targets – revealed ambiguities on this. In our opinion, some of the supposed efficiency gains were not efficiency gains at all, but merely policy changes.

There have also been queries about job figures, with Treasury data failing to tally up with individual departmental figures, the use of different baselines and disputes about when individuals – for instance non-permanent staff or those on maternity leave – should or should not be accounted for.

Any fudging of figures only builds scepticism towards the programme. A February 2006 CBI member survey revealed 90 per cent of businesses did not believe the Gershon targets would be achieved at all.

To counter this, performance against targets needs to be thoroughly audited by an external and independent body to ensure transparency in the Efficiency Programme. We want targets met by the end of the 2007-08 fiscal year and we want more cashable savings realised – and we want total confidence in the figures that show this.

Driving efficiency through better procurement

One key area that has yet to be properly addressed by the government is public procurement. This year the government will spend some £150 billion on goods and services, but we don't believe it gets enough bang for its procurement buck. There are huge savings to be made at the same time as improving services to the public.

The Office of Government Commerce (OGC) believes £9 billion a year can be saved through better procurement. For this to be achieved in a way that leads to better services means the commercial capabilities of Whitehall departments need to be reviewed and improved as a matter of urgency.

At present, aborted contracts and drawn-out procurement processes impose additional and unnecessary costs on the taxpayer. In January 2006, Richard Abbott, the OGC's Director of Procurement Programmes, admitted at least £8 billion a year was being wasted through weak procurement practice.

In Improving delivery: realising best practice in procurement and contract management we make a number of recommendations for how the Government can improve procurement practice and deliver greater efficiency.⁶

Equipping departments to procure effectively

Improving procurement requires a better understanding of the public sector's supply markets. We want to see major spending departments and local government bodies prioritising market engagement, including dialogue with suppliers outside of the tendering process. Establishing partnerships which can evolve and adapt over time, and in which both parties are properly involved, will help realise complex public service outcomes. Experience needs to be shared.

To be able to make and close the best deals, the Government needs to have dedicated commercial staff. The ongoing Departmental Capability Reviews and the Professional Skills for Government programme should be used to assess current commercial and delivery skills against the requirement to realise increased value for money in public service delivery.

For this to happen, policy and delivery must be joined up in public authorities and across government. Several Whitehall departments have established commercial teams for this purpose, something the CBI has been calling for since 2004.

This process has not been lengthy or expensive as few staff are needed. Further, complex partnerships are relatively infrequent for most public bodies and so it is not necessary or desirable for smaller bodies to build up cadres of staff.

The challenge, instead, is to make effective and efficient use of those talented staff that do exist. One way would be for departments to set up procurement 'academies' to ensure the pooling of expertise. The OGC could work with each department to identify the skills required for complex procurements and delivery models.

Navigating the procurement process

One of the most common problems with public procurement is that procuring authorities do not always resolve what it is they want to buy before the tendering process begins. To improve this, project specifications need to be improved and thought through properly to ensure they are appropriate for delivering desired policy outcomes. This includes allowing adequate resources for project planning and management from the outset.

The credibility of timetables and intended procurement processes are reinforced through early publication. To ensure they are effective, failure to comply with published timetables should have clear consequences, whether through external intervention or the withholding of PFI credits or future funding.

An existing problem is that alterations to procurements are often made but not subsequently published. Currently, bidders have no impartial right of appeal when they feel a procurement deal is not proceeding according to expectation. Authorities must be clear about the potential for, and limits to, any changes to the project scope or how the procurement will proceed. The Government should establish a system to scrutinise deals if bidders have raised concerns about the way they are progressing.

⁶ Confederation of British Industry *Improving delivery: realising best practice in procurement and contract management* (2006).

Assessing bids must be done in a transparent way. At the start of all procurements, quantitative and qualitative evaluation criteria should be published showing how bids will be assessed. Later, authorities must show evidence they have used rigorous methods for evaluating rival bids and be prepared to publish the results to bidders and auditors.

Working in partnership

Partnerships are evolving into varied models, with flexible contracts delivering complicated outcomes. We want to see the development of best practice guidance for central and local bodies that would celebrate success and demonstrate what makes a successful partnering relationship and what skills are required in them.

Project sponsors for each major procurement could be invaluable in avoiding high-profile project failures. If there is a point of accountability and strategic vision at the very top of a project then it is far more likely to succeed, especially when a third party is involved. This sponsor should remain as the point of accountability for the whole life of the contract.

Finally, all projects should develop an end-to-end plan at the very outset. This would set out all the obligations and dependencies on both sides, outline how resourcing challenges will be met and how risk will be identified and managed. These arrangements are particularly valuable where customer dependency is high, with partners relying on one another to complete phases so the project can move forward. The purpose of such project plans is not to assign blame in the event of delay, but rather to focus people on delivery of shared project outcomes, which is, surely, what both parties want.

Under-developed procurement skills threaten the viability and success of the government's efficiency agenda. Procurement savings make up a massive slice of the targets, as so much that we recommend needs to be applied, and quickly.

Business is making its contribution to the efficiency process. We have supported the work of OGC, provided secondments into government, shared best practice and worked with the wider public sector.

This commitment will continue because efficiency is not a gimmick but an integral way to delivering continuous improvement in service delivery. It is crucial that all parties involved in the efficiency drive share this belief.

3 Procurement do's and don'ts

Do

- Review and improve commercial capabilities in Whitehall
- Establish system to scrutinise deals if bidders have raised concerns
- Create project sponsors for each major procurement to ensure accountability
- Develop end-to-end plans at outset of projects setting out obligations of parties

Don't

- Tolerate aborted contracts and drawn-out procurement processes
- Wait until tendering process begins to resolve what you want to buy
- Accept failure to comply with procurement timetables
- Let market engagement fall down list of departmental priorities



Managing for outcomes: how to make it work

By Prof. George Boyne

Recent years have seen a growing recognition that the fundamental purpose of public organisations is to improve public service outcomes. This term refers to the effects of public services on the well-being of citizens – for example, their health status, education, economic prosperity and the quality of their environment. Thus public servants should concentrate their efforts not on inputs (resources expended) or outputs (quantity of services produced), but on the outcomes and the value for money (cost per unit of outcome) that is achieved. Yet, many governmental targets and performance indicators continue to focus on spending, staffing and service levels rather than contributions to public welfare. Similarly, management consultants and professional bodies often emphasise the adoption of particular processes and practices, which can become ends in themselves, rather than the consequences of organisational activities. Without a focus on outcomes, public managers may waste effort and resources on the implementation of policies that have questionable results. A comprehensive and consistent approach to managing for outcomes can deliver better cost-effectiveness in public service delivery, which is the ultimate test of resource allocation in the public sector.

How can the principle of ‘managing for outcomes’ be put into practice? A number of conditions must be met if managing for outcomes is to be effective in driving public service improvement:⁷

Identifying the most important outcomes

No organisation can do everything, or give priority to all outcomes simultaneously. Managing for outcomes means that choices have to be made between a range of potential contributions to public welfare. Two criteria come into play here. First, which of the needs that might be met are most pressing? This question can only be answered accurately if public organisations consult regularly with a range of stakeholder groups who receive their services. In other words, this part of the process of identifying outcomes requires a strong ‘customer orientation’. Secondly, which of these needs are most likely to be addressed effectively by an organisation’s activities, either in isolation or in combination with partners? Service recipients are also likely to make useful contributions to answering this question, but their views will need to be interpreted on the basis of the professional expertise available internally and externally. Here knowledge of best practice elsewhere is crucial in judging the outcomes that are most likely to be tackled successfully.

Setting targets

Public service targets have been widely criticised in recent years for a variety of reasons. Most importantly, targets set by central government have proliferated to such an extent that delivery organisations are confused about priorities and de-motivated. Also, targets have been set for activities and processes (e.g. waiting times) rather than the ultimate objectives to be achieved (e.g. better health). To some extent, these shortcomings of target regimes are understandable. Public organisations serve a variety of

⁷ This paper is based on research evidence derived from a large number of studies of public service improvement undertaken at Cardiff Business School, in collaboration with academics at other leading international institutions such as Hong Kong University, Texas A&M University and the University of Georgia. Details of the projects and related publications can be found at www.clrgr.cf.ac.uk.

stakeholder groups (e.g. service users, citizens, taxpayers, politicians) and are held to account against a range of performance criteria (e.g. economy, efficiency, speed, courtesy). This leads to a temptation to set too many targets and to give equal attention to all aspects of the service production process.

The implementation of a system of managing for outcomes is a useful way of resolving these problems. As already noted, organisations that adopt this approach need to prioritise between different objectives. It is also important to limit the number of headline outcomes (perhaps to between 5 and 10) to provide focus and clarity for managers and front-line staff. Every organisational activity can then be judged by its contribution to the achievement of the relevant results. Managing for outcomes also requires a focus on performance indicators that are valid measures of what public service providers are really trying to achieve (see below).

A crucial element of effective target-setting is to consult with the staff responsible for delivering the results. A range of research evidence shows that targets should be 'stretching' but within the financial resources and technical capacity of the organisations that are charged with achieving them. This helps to mobilise effort and commitment to the achievement of the targets, and implies that targets need to be negotiated locally rather than set nationally. Moreover, targets should be clear and quantified, which requires the selection of a robust set of outcome indicators.

Selecting outcome indicators

Many public agencies and managers still do not routinely think in terms of service outcomes, so it is unsurprising that existing performance indicators mostly cover other dimensions of performance. A recent example is the policy of Local Public Service Agreements (LPSA) developed by central government to improve public services. Although the explicit purpose of this policy was to enhance service outcomes, many local authority departments found it difficult to identify such outcomes. In effect, they struggled with questions such as 'what is this service for?', 'what is the point of providing the service?' and 'what would be lost if the service were discontinued?' Even when relevant outcomes were identified by local authorities, performance indicators that accurately and reliably captured their achievement were often unavailable. A consequence was that many of the LPSA indicators reflected service inputs and outputs rather than outcomes.

Once organisations have identified the outcomes that they wish to achieve, it is then necessary to locate or develop a set of indicators that allow progress to be tracked. In the absence of such management information, service providers will be unable to tell where they are starting from, let alone whether they are heading in the right direction. If managing for outcomes is not already embedded in an organisation, it is likely that new performance indicators will need to be devised and new data collected. It is essential to avoid a resort to 'off the shelf' performance indicators that just happen to be available, because effort will be distorted and resources misplaced towards targets that may not be closely connected with the real outcomes that are desired. This may mean investing in new data and processes of performance management, which clearly need to be taken into account when assessing whether an improved outcome is not only desirable but can also be delivered cost-effectively.

Outcome budgeting

The final essential component of managing for outcomes is a budgetary process that allows resources to be switched to fit the objectives that are most important and most achievable. This implies something different from conventional budgetary procedures of 'fair shares' (equal gain or pain for all) or repeated incremental adjustments to the status quo. Instead, the allocation of financial resources needs to start with an evaluation of the alignment between existing spending programmes and the headline outcomes that are sought, and a check on whether the expenditure is achieving the relevant objectives. This in turn requires spending departments to have outcome indicators in place that allow progress across different areas to be compared, and financial systems that allow spending, activities and outcomes to be linked so that judgements about cost-effectiveness can be made. An organisation that is managing for results will also need a specialist team whose responsibility is to help spending departments to clarify outcomes, develop relevant indicators and make independent judgements about value for money. Again, all of this will consume some resources but will be worthwhile if significant sums are moved in ways that allow better outcomes to be achieved, or the same outcomes to be delivered more efficiently.

4 Four steps to managing for outcomes

Step 1 - Identify the most important outcomes

Which needs are most pressing?

Which needs are most likely to be addressed effectively by an organisation's activities?

Step 2 - Set targets

Limit the number of headline outcomes

Consult with staff responsible for delivering results

Step 3 - Select outcome indicators

Avoid 'off-the-shelf' performance indicators

Be prepared to invest in new data and processes of performance management

Step 4 - Conduct outcome budgeting

Institute outcome indicators that allow comparison of progress across different areas

Create specialist teams to help departments clarify outcomes and develop indicators

Summary

Managing for outcomes is essential to service improvement in the contemporary public sector. This is more than a slogan or a 'culture of improvement'. Instead it involves a series of concrete and tightly connected reforms: clarifying what an organisation is supposed to be contributing to the quality of life of service recipients; setting a small number of clear targets that have been developed in consultation with delivery organisations; devising robust performance indicators and collecting valid and reliable data on outcomes; and allocating resources in line with the targets that have been set. None of these reforms taken in isolation is likely to make a substantial difference to efficiency and cost-effectiveness, but managing for outcomes is likely to work if they are all pursued together.



A social definition of efficiency

By Charles Cochrane, Secretary

CCSU would like the Government to embrace a social definition of efficiency. In particular, we would like to see the Government determine all the headcount reductions it proposes as part of its Efficiency Programme on objective evidence of what is needed to deliver public services for all members of society, and to use social, rather than solely market-based, measures of efficiency.

What is efficiency, and what do we propose?

In his 2004 review, Sir Peter Gershon stated that 'efficiency in the public sector involves making best use of the resources available for the provision of public services', and he went on to say that efficiency results from, among other things, 'reduced number of inputs (e.g. people or assets), while maintaining the same level of service provision', thereby making it clear that the priority would be to cut 'inputs', i.e. jobs.⁸ But the question of how efficiency should be measured is a matter for debate. In commenting on the Office for National Statistics project to revise how public sector productivity is measured, Guardian public services editor David Walker has questioned how public services can be measured, and how issues of quality can be built into such measurement: 'Say a GP spends an extra three minutes with each patient, chatting rather than diagnosing. There might be no measurable impact on the incidence of flu or cancer, but a chat can cut repeat visits if patients feel "better" as a result of the human interaction ... maybe because public services are so important in so many dimensions of our lives they cannot ever be measured and appraised as straightforwardly as a Tesco balance sheet.'⁹

Keele University academics Roger Seifert and Mike Ironside put forward an alternative view to Gershon. They suggest looking at efficiency over longer periods of time and considering social rather than market related definitions of efficiency. They point out the limitations of separate units of government improving their own efficiency. 'For example, a prison can be efficient in the narrow market related sense while being part of a prison system where rates of reoffending are increasing; schools may improve their own efficiency by expelling truants without improving the efficiency of the school system.'¹⁰

An example where narrow technical efficiency measures are in stark contradiction to the wider considerations of social efficiency and the true needs of society and in particular its most vulnerable members appears in the National Audit Office report, *Progress in improving government efficiency*.¹¹ The DWP reports efficiency savings from paying benefits directly into recipients' bank accounts rather than through the post office, and say that this improves service quality because they consider the new service to be safer since benefit recipients no longer have to carry significant levels of cash after collecting their benefits. But in our opinion the benefits must be weighed up against the disadvantages which include the risk of debt from being targeted for loans by the banks they are forced to use, and losing the safeguard for vulnerable or elderly people of getting out and about to the post office.

Why do we consider this change is needed?

Sir Peter Gershon said: 'To go further or faster than the savings set out in my Review during the period 2005-06 to 2007-08 would put at risk the delivery of public services'. We believe that service delivery has already been damaged by government cuts, and to go even further (as is proposed for the period 2008-2011) would be disastrous.

8 Peter Gershon *Releasing resources to the front line – Independent Review of Public Sector Efficiency* (London: HMSO, 2004).

9 *Guardian*, 11 October 2006.

11 Professor Roger Seifert and Mike Ironside, *The Case for Civil and Public Services: an Alternative Vision*, published by PCS 2005.

12 Comptroller and Auditor General, *Progress in improving government efficiency* (HC 802 2005-06).

The massive job cuts programme announced two years ago by the Chancellor of the Exchequer is increasing workload levels, causing backlogs and delays and worsening staff morale. Service quality is affected as pressure to meet performance targets inevitably means that corners are being cut. Benefit waiting times are up and access to public services restricted, with people forced to travel up to 30 miles to get face-to-face help or having to make phone calls to remote call centres.

Arbitrary job cuts by natural wastage and by relocation means the loss of invaluable expertise. Rather than posts being cut because they are deemed surplus to requirements they are lost when civil servants leave or retire, or feel forced to leave because relocations of work mean an impossible move.

The continued reliance on technology is a flawed strategy. The numerous IT failures are well-known, and the National Audit Office's report, *Progress in Improving Government Efficiency*, recognises the risks of dependence on Information and Communication Technology (ICT) as a problem in the Efficiency Programme.¹² We believe such failures to include the long-running chaos of the Customer Management System in Job Centre Plus, which is causing delays to claimants and which a Commons Work and Pensions Select Committee blamed, together with the Efficiency Programme, for the 'catastrophic failure' of the contact centres. They concluded: 'We have concerns about a number of aspects of the Efficiency Programme. Too much has been done too quickly, in our view, and services and programmes have suffered as a result. We therefore recommend that the pace of headcount reductions in JobCentre plus should be slowed...'¹³

Centralising services and providing services on a call centre basis instead of face-to-face is also risky. A Public Accounts Committee report published last year found that in 2004-05 over 20 million calls to the Department of Work and Pensions contact centres were going unanswered, and that in December 2005 less than half of calls to JobCentre Plus Direct were returned within 24 hours.¹⁴

The Child Poverty Action Group (CPAG) found that this change in the way services are delivered, carried out in the name of efficiency, had several major failings particularly for the most vulnerable members of society. The system relying on claimants having to make claims at a distance by phone did not make adequate provision for those with special needs, including language difficulties due to poor

literacy or limited knowledge of English, or those with physical and mental health disabilities. It ignored the fact that many claimants with low incomes do not have a landline phone and have to rely on mobile phones or no phone at all. The system relying on callbacks means that many have to pay a high price to pick up voicemail messages. There are examples of claims being lost and delayed, and claimants being denied crisis loans at local offices. The CPAG report concluded: '... claimants have paid a heavy price for the government's decision to deliver the benefits service by reducing staff and centralising records and delivery'.¹⁵

What are the benefits of the change we propose?

In our view, a socially efficient civil service benefits society, and a well-trained, well resourced and accountable civil service is essential for democracy and the economy. Civil servants and their unions have a role in reforming public services, and we would rather be involved in working to develop the best staffing strategy to deliver these crucial services than having to react to piecemeal cuts in resources.

How would this change be implemented?

CCSU unions have proposed a staffing system which would use an objective method to analyse what departments do and how many staff they need to do it. Unfortunately this has been rejected. Instead it has been suggested to us that if we come across problems in service delivery we should raise these and they would be investigated and dealt with. This is not joined-up government. We would like to see objective analysis of what is needed and what resources would deliver this most effectively, and for this to be separated from political expediency.

What do we recommend to make this happen?

The National Audit Office's first report on the Government's Efficiency Programme made it clear that departments did not sufficiently take account of quality of service in implementing the Efficiency Programme. Putting this right would be a useful start, but we believe that there should be a fundamental review of the whole approach to achieving efficiency, in a way that accepts a social definition of efficiency. It is essential that the unions are involved in this process.

12 Comptroller and Auditor General *Progress in Improving Government Efficiency* (HC 802, 2005-2006).

13 Work and Pensions Select Committee *The Efficiency Savings Programme in JobCentre Plus* (HC 834, 2005-06).

14 Public Accounts Committee *Department for Work and Pensions: Delivering effective services through contact centres* (HC 1034, 2005-06).

15 Child Poverty Action Group *JobCentre Plus: Changes to Service Delivery* (September 2006).

REFORM

REFORM

Efficiency through effective outsourcing

By Andrew Haldenby, Director

I would like to suggest a much greater use of outsourcing. The original review of Government efficiency under Sir Peter Gershon¹⁶ focused on implementing better administration within the public sector, with particular emphasis on the achievement of economies of scale. But there is considerable evidence that the outsourcing of public services production will deliver gains in both efficiency and outcomes.

Greater efficiencies are required

Overall the drive to government efficiency needs much greater momentum. The outcomes of the very large spending increases of this decade have been disappointing. For each of the three key indicators used by the Treasury in its recent assessment of public service outcomes – mortality rates from major diseases, crime and GCSE performance – the trend of performance has been unchanged by the addition of extra resources.¹⁷

The costs of public services have increased hugely; for example, the NHS now employs 300,000 more staff than in 1999. Because spending increases are set to slow sharply following 2008, the increases in costs pose a very significant dilemma. Some areas of the public sector, such as the police and universities, are likely to see real terms cuts in budget between 2008 and 2011. Clearly greater efficiency is required.

Outsourcing is here to stay

The principle of outsourcing – defined broadly as the delivery of Government policy objectives by non-public actors, funded by taxpayer resources – is now an accepted part of policy. In some areas a diversity of providers emerged before the current Government, with social care – where the for-profit and not-for-profit independent sectors now account for two-thirds of provision – being a prime example. But the current Government has taken on the policy across the public sector.

For example, the Department of Health's "five-year plan" expected 15 per cent of NHS care to be delivered by independent organisations by 2008.¹⁸ The Prime Minister recently set an increased target for 400 city academies, which are described as independent state schools.¹⁹ The Department for Work and Pensions has piloted the delivery of benefits by non-public sector organisations.²⁰

This direction of policy is integral with the new direction of Government policy on the public services. It is worth repeating at length the Prime Minister's words of October 2005 since they chart the shift of emphasis to an approach based on diversity and also consumer choice:

'Since 1997, there have been two stages of reform. In the first, we corrected the underinvestment and drove change from the centre... In the second stage, essentially begun in 2001, we added another dimension. We started to open the system up to new influences and introduced the beginnings of choice and contestability. We brought in the first wave

16 Peter Gershon *Releasing resources to the front line – Independent Review of Public Sector Efficiency* (London: HMSO, 2004).

17 HM Treasury *Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review* (London: HMSO, 2006).

18 Department of Health *NHS Improvement plan 2004: Putting people at the heart of public services* (London: HMSO, 2004).

19 Speech at the Specialist Schools and Academies Trust Conference, 30 November 2006.

20 N. Boys Smith *Reforming Welfare* (London: Reform, 2006).

of independent sector procurement in healthcare; choice in cardiac care and, bit by bit, into elective surgery... In schooling, specialist schools all have external sponsors, on a small scale but nonetheless important in focussing the specialism, whether business, science, languages, art or sport. City Academies are further along the spectrum, with the external partner fully engaged in the formation of the school... We are now at the crucial point where the reforms can be taken to their final stage... In both the NHS and in education, there will in one sense be a market. The patient and the parent will have much greater choice. But it will only be a market in the sense of consumer choice, not a market based on private purchasing power.²¹

Antipathy towards outsourcing hinders realisation of efficiencies

There should be considerable concern, however, about the progress of policy. In the NHS, for example, the passage of 2006 saw delay rather than acceleration in diversity of provision. A key programme of outsourcing – Independent Sector Treatment Centres – has been hindered rather than promoted by many NHS managers. In fact the local commitment to diversity of provision is so weak that the future of such providers is uncertain when the current block contracts end. Equally, the introduction of patient choice has been slower than planned. In 2006 every patient needing hospital treatment should have been offered a choice of up to five hospitals, yet in one survey, only 30 per cent recalled being offered any choice at all. A key mechanism underpinning diversity – payment by results – was also slowed. Looking at schools, there is also clear local resistance to city academies in some areas, and a lack of genuinely innovative bids.

For the NHS, Professor Nick Bosanquet et al. have characterised the position as follows:

'The antipathy towards tendering and using the independent sector at a local level is a serious worry. Managers do not see the independent sector as a partner in providing services. Where the independent sector has been used, it has tended to be viewed locally as a short term solution to a lack of a certain part of the service. The independent sector will only be able to contribute positively to the service and improve performance when there is enough competition to drive innovation and productivity.'²²

Evidence demonstrates value of outsourcing in increasing efficiency

There is strong evidence both in the UK and overseas that outsourcing will increase efficiency. In the American state of Maine, for example, schools run by non-state organisations but funded by local government have costs at 60 per cent of the level of state-run schools. In the UK, Independent Sector Treatment Centres specialising in cataracts have been able to treat up to eight times the numbers of patients per day as traditional NHS units.²³ In another sector, competition for prison management has delivered savings of 10-15 per cent on operating costs. On average, the cost per prisoner in private prisons has been 13 per cent lower than in comparable state-run prisons.²⁴

The key to the increased use of outsourcing lies with local managers – in particular those in Primary Care Trusts and local authority education officials. But one key contribution by central government may be to strengthen that management. In the case of the NHS, the quality of management – in particular financial management – remains poor.²⁵ The tendering of management and commissioning functions should make a real contribution.

It is sometimes suggested that 'reform' – based on choice and diversity – and 'efficiency' – based on annual, cashable gains – are rival means to the end of higher productivity and performance. The example of outsourcing shows that reform and efficiency can go together. It could be a central theme in the forthcoming Comprehensive Spending Review.

21 Speech at 10 Downing Street, 24 October 2005.

22 N. Bosanquet, H. De Zoete and A. Haldenby *NHS reform: the Empire strikes back* (London: Reform, 2007).

23 Department of Health *Treatment Centres: Delivering Faster, Quality Care and Choice for NHS Patients* (London: HMSO, 2005).

24 Home Office *Review of Comparative Costs and Performance of Privately Owned Prisons* (London: HMSO, 2000).

25 Health Select Committee *NHS Deficits* (London: HMSO, 2006).

Procurement by public bodies contrasted with private sector approaches to the purchase of contracted out services

By Alan Jones, Chief Executive

Introduction

Most of my career has been spent as a service provider in the intensely competitive transport and logistics industry. I have been involved in large numbers of contracting out decisions and this has enabled me to observe best practice procurement approaches used by numerous blue chip organisations. The work I am now doing with GSL involves providing services mainly for public bodies and this has brought into sharp focus some fundamental differences between the procurement approaches used by government agencies compared with those employed by companies in the private sector.

I have been a member of the MoD ministerial advisory board for defence procurement for nearly ten years and in addition organised the Cabinet Office Modernising Government Partnership Awards for Business Excellence. I have also been a director of the DTI services group board and my experience extends to helping the National Audit Office as well as a number of other bodies which include the European Foundation for Quality Management (EFQM) so hopefully all this enables me to make a few observations on government procurement policy that have come to light in the last twelve months.

Provision of essential information

The information received by contractors from public authorities when bidding for contracts is all too often incomplete and in some cases turns out to be inaccurate upon commencement of the work. For example accurate volumes of work to be undertaken and the timings when

it should be carried out are basic facts that ought to be known when a public sector body makes a contracting out decision.

Failure by authorities to provide up front complete and correct information can lead to operational disruption together with time consuming discussions as well as costly disputes between the parties. In the private sector considerable dialogue takes place between the customer and potential suppliers of services which usually results in accurate basic information being given before bids are requested.

I suggest more attention should be paid by public sector bodies to providing good quality information when statements of requirements are issued and this approach will lead to better value for money for the taxpayer.

Procurement personnel

We see plenty of evidence of interim managers and consultants being appointed to organise the contracting out of public sector services. The use of experienced consultants can provide benefits for the public sector and this often occurs when capable people brought in to procure services bring specialist knowledge of the procurement process.

Civil servants responsible for managing an activity that is to be contracted out may not have enough personal experience of procuring services and so interim executives or consultants can add considerable value in this situation. However the people brought in from outside to help manage the outsourcing process will in many cases not have the necessary specialist operational experience or depth of understanding of the work to be outsourced to make good choices between potential contractors of varying quality and price. Furthermore interim executives by definition do not take ongoing responsibility after an outsource transaction for delivery of the performance and value promised by potential contractors.

I suggest the solution is to consult at an early stage with potential contractors who do have the practical experience and can work in partnership to deliver optimised solutions for the public sector. My experience is that companies in the private sector consult widely with potential service providers when contemplating outsource decisions and this proven approach should be studied by government procurement professionals because it produces good results that include lower consultancy costs.

Expectations of immediate benefits

In the private sector it is normal to allow a period of grace for benefits to be delivered as a result of outsourcing services and yet we often see unrealistic expectations by some procurement professionals working for public bodies that immediate step changes will be made by contractors.

In many cases the staff employed to provide the outsourced service are transferred in from the public sector to the contractor under the Transfer of Undertakings (Protection of Employment) Regulation (TUPE) and inevitably it takes time to improve performance in these circumstances.

My recommendation is sufficient time should be given to contractors to stabilise what are often unstable operations and indeed that a period of settlement has to be allowed to bed in newly outsourced activities.

Penalties

Penalty regimes that we see proposed for contracts sometimes demonstrate little understanding of commercial realities and a few are plainly disproportionate to the value of the work to be performed which encourages the wrong type of behaviour. We have even seen some public bodies employ large numbers of staff who go to extreme lengths in 'hunting' for penalty payments and this approach does not provide good value for the tax payer.

The statements of requirements issued by public bodies often seek to impose unrealistic service levels and these are in many cases way in excess of those currently achieved by the in-house organisation. The difference in performance is not always taken into account when evaluating the respective bids and the problem which becomes an obstacle to the proposed outsourcing arrangement is compounded by imposition of penalties for failure to perform.

The impact of poor contract design and lack of clarity in the thought process underlying the procurement of services has far-reaching effects that include not only operational problems but also costly disputes down the line as well as missed opportunities for the public sector. The best contractors simply will not enter into contracts that include unrealistic service schedules and have inappropriate punitive penalty regimes.

5 Confronting obstacles to successful procurement

Key procurement problem

Incomplete and inaccurate contracting information provided to contractors by public authorities can lead to operational disruption, time consuming discussions and costly disputes.

Interim managers and consultants add value in public sector procurement but are not usually the best people to select contractors and may not take ongoing responsibility for delivery.

Unrealistic timescale expectations by some procurement professionals of immediate step changes following outsourcing.

Some penalty regimes proposed for contracts demonstrate little commercial understanding and can result in costly disputes.

Standardised contract terms are often inappropriate for the work to be contracted out which may result in aborted projects and waste of money.

Contractors are often required to assume responsibility for the risk of government policy changes.

Failure to charge local public sector bodies with the true cost of providing pensions makes private sector bids appear too high to local procurement officers.

Suggested remedy

More attention to be paid by public sector bodies to providing good quality information when statements of requirements are issued.

Consult at an early stage with potential contractors who have practical experience and are willing to work in partnership to deliver optimised solutions for the public sector.

Give contractors more time to stabilise 'unstable' operations, and allow period of settlement to 'bed in' outsourced activities.

Replace onerous penalty regimes with forums for discussion with contractors that arrive at reasonable incentives for delivery.

Make sure contract terms are suitable for services being outsourced and avoid relying on generic approaches.

Discuss impact of operational policy changes with contractors bearing risk before final decision is made.

Consider all the costs - including the true cost of public sector pensions - when choosing between in-house and contracted-out solutions.

Sensible private sector organisations that contract out services do not in my experience impose onerous penalty regimes and instead of penalties they provide forums for discussion with contractors that arrive at reasonable incentives to deliver best value for money.

Inappropriate contract terms

Public bodies when outsourcing services increasingly use standard PFI and other types of generic contracts. The standard agreements are frequently drafted by central government with a specific purpose in mind and this might be for example an outsourced building maintenance operation or a catering service. However the standard contracts are used by local contracting out authorities for other completely different activities and these could involve say the provision of a transport service. The standard contract terms are then inappropriate for the work to be contracted out and yet we have seen local public sector procurement teams refuse to adapt the agreements or accept amendments on the grounds that these represent central government policy. As a result the contracting out body can waste money on an expensive procurement project that has to be aborted. In one case we saw recently a potential public sector customer simply could not find a contractor to accept the inappropriate standard terms so was forced to retain the inefficient in house solution.

Risk transfer

Some public sector standard outsource contracts require contractors to take the risk of policy changes made by government departments and I believe this is an unreasonable requirement. Although contractors may not seek to influence policy it is desirable that the impact of operational policy changes should be discussed in advance and be made subject to the formal contract variation process.

Public sector bodies employing in-house solutions have to bear the cost of government policy changes and therefore it is reasonable to expect this should also be the case when contracted out arrangements are in place. For example the introduction of compulsory levels of pension scheme benefit will create significant costs for contractors providing dedicated services on behalf of the public sector and provision should be made in contracts for this expenditure that is imposed by government to be recovered from the customer.

Pensions

Our experience in tendering for and negotiating contracts involving transfer of staff under TUPE regulations has highlighted many anomalies in relation to pensions. We find that local public sector procurement staff usually have little or no understanding of the risks and real costs associated with government backed defined benefit pension schemes.

In addition procurement staff are failing to adhere to the Treasury's 'Fair Deal for Staff Pensions' guidelines and yet these are intended to set a standard for the protection of occupational pensions for public service staff transferred compulsorily to private sector partners. Unless the public sector procurement teams rigidly follow the guidelines there will be inconsistency in pricing by private sector contractors and in turn this leads to incorrect procurement decisions.

There are enormous liabilities involved in taking on responsibility for government backed defined benefit pension schemes and it is a common contractual requirement for contractors to shoulder the risks in most work performed for public sector organisations where it is necessary to transfer staff under the TUPE regulations.

Local public sector bodies use standard employer pension contribution rates issued by central departments at Westminster that are expressed as a percentage of pensionable pay and these rates are, in all the cases we have seen, insufficient to fund the defined benefit liabilities contained in government backed schemes. As an example the NHS commonly uses an employer contribution rate of 14 per cent and yet the true cost of providing the relevant pension benefits for employees is way in excess of this amount with the difference being reflected in a large scheme deficit that is not charged by central government to local hospital trusts.

A consequence of the failure to charge local public sector bodies with the true costs of providing pensions is that private sector bids appear to local procurement officers to be too high when compared with the cost of in-house solutions. Therefore contracting out opportunities, which can provide important service benefits together with value for money in many other ways, are lost to the public sector.

Conclusion

My feeling is the balance in outsourced service contracts between the public and private sectors has shifted too far in one direction and much more benefit can be obtained by government departments through enlightened approaches that create genuine partnerships as well as smart procurement processes.

Why make when you can buy?

By Brian Kingham, Chairman

A greater openness to seeking specialist expertise from outside government to deliver services ('buying, not making') would help central and local government realise real and rapid efficiencies. While parts of government are making progress in this area, we do not understand why others in the public sector continue to misemploy expensively trained staff to deliver non-core and near-to-core business activities, activities that can better be provided by professional support service providers sourced externally from the private and voluntary sectors. In large parts of the public sector still, professionals are delivering services that could better be delivered by well-trained and appropriately managed para-professionals, delivered through output-based service contracts with specialist providers.

This principle is accepted in some places within the public sector, but not in others. In schools for example, Classroom Assistants provide valuable support activity that allow teachers to teach. Likewise, Community Support Officers are now allowing Police Beat Officers to concentrate on the key tasks of deterring and preventing crime, and catching and convicting criminals. In our own business, the work of Custody Assistants in West Mercia, Warwickshire, Thames Valley and Sussex allow the respective constabularies to focus their operational activities on core policing business, rather than the back office routines of processing and managing detainees. Through existing partnering between the public and private sectors, we can demonstrate that service professionals have been enabled to devote more time to apply their core competencies and less on administrative and enabling tasks. As part of this, significant investment has been made in new equipment and processes, substantial efficiencies secured and customer satisfaction dramatically improved.

We believe that much more could be done by the Government to sponsor partnerships for the provision of support and near-to-core services in the criminal justice arena and elsewhere. We believe that these partnerships can deliver greater cost effectiveness and operational efficiency. In particular, we suggest the expansion of centrally procured common services that can be regionally contracted, but locally managed and accountable, similar to the existing Prisoner Escorting and Custody Service (PECS) and Electronic Monitoring contracts in the Home Office.

The argument presented here has been derived from our close knowledge of the criminal justice environment, and in particular from our experience of delivering secure services to the Home Office for more than a decade. However, we believe that the principle has wide applicability across all aspects of government business and is not confined merely to the criminal justice environment.

Why Change?

All government departments face the challenge of increasing their capacity, whilst doing the job better, for less money. This is certainly the case for criminal justice agencies.

The basic principles of partnering to deliver support and near-to-core services are based on:

- **Economics** – is the service being purchased good value for money and is it cheaper than the service it replaces?
- **Effectiveness** – will the service being purchased be at least as good as or if not better than the service it replaces?
- **Efficiency** – will the service being purchased contribute to making other efficiencies that help increase both capability and capacity?

Focus

Our experience is that partnering, whilst allowing the host organisation to do less (and relying on partners to provide the non-core yet complementary support activity), often allows it to produce more. By not having to worry about all of the big issues the host organisation can enjoy a greater focus and professionalism in delivering the fewer tasks (but more critical functions) it needs to undertake, while at the same time the supporting partner is allowed to develop its own focus and professionalism. The success of these relationships is built on mutual respect and confidence. Not only are there significant savings to be achieved, but the scope, thoroughness and operational efficiency of the new relationship is often of an order of magnitude not seen before, as both parties strive to focus on their respective tasks and to concentrate their resources on improving their own operational performance.

Complementing an Organisation's Strengths

A range of such partnerships already exist. For instance, in the PECS contracts established in 1996, subsequently adopted by the Scottish Executive, the procurement was organised nationally and let to contractors delivering on a regional basis but accountable locally to a range of customers, including Courts, Police Authorities and Prisons. The performance of the private sector in delivering the contract has been impressive. For an annual cost to the taxpayer of £130 million:

- there have been many fewer escapes and releases in error. Reliance have experienced two escapes in the last year, which is a ratio of 1:128,666 against a national target of 1:20,000;
- more prisoners have been delivered on time. We deliver 97 per cent of prisoners to court on time;
- savings in the region of 30 per cent per annum on the antecedent costs of this service;
- thousands of police and prison officers have been returned to front line duties; and
- conditions for prisoners in transit have been much improved.

We believe that the PECS contract is an excellent model for similar projects, where procurements could be managed centrally but delivered locally to meet the needs of Police Authorities, Criminal Justice Boards, Probation Boards, Youth Offending Teams and the Prison Service. For example, the 43 Police Authorities are responsible for organising their own arrangements for handling detained persons. When they decide to secure a partner to deliver the management of their custody provision each has to do so through their own separate procurement process, which reinvents the wheel each time and is expensive. The down side of each police authority doing its own thing for services that could easily be let centrally are:

- the costs of procurement for the police authorities are high;
- the costs of tendering for the contractor are high;
- there are no benefits from economies of scale; and
- police services tend not to share custodial capacity and there are examples of both over and under capacity caused by the present county boundaries.

We believe that there is a better way to achieve the outcomes desired. This is for the procurement of custody for the whole Police Services in England and Wales to be handled on a national basis, although delivered regionally, on the model of the PECS contracts, Electronic Monitoring and the Learning and Skills Council's (LSC) contracts for Prison Education.

Equally, this principle of national procurement for regional delivery could encompass a range of other activities in both Police and Probation Service, such as:

- detained persons transport (for Police, Probation and Prisons);
- non emergency number call centres;
- unpaid work – community sentences;
- forensic medical services;
- drug treatment services;
- recruitment, training and back office support for Police Community Support Officers;
- delivering the Resettle & Rehabilitate strand of Prolific and Persistent Offender Programme;
- record storage and archiving; and
- court security.

By centralising the procurement of these non-core/near-to-core and support services, delivering regionally whilst allowing accountability to be managed locally will:

- **Save Money.** We are convinced that substantial savings can be made in service delivery across a range of areas, but the opportunity to realise these savings is not being grasped. We know, for instance that the PECS regime costs considerably less than its antecedents. Our experience indicates that other savings are realisable. For example:
 - In June 2004 the Home Office funded a study of one English police force that demonstrated immediate savings of £3.6 million per annum without the need for initial investment, which equated to some 2.25 per cent of that force's annual budget.²⁶ If these findings were replicated across the whole of England and Wales, they would generate annual savings of between £150 million and £250 million.
 - Likewise, since 2002, Reliance has also been working with Thames Valley Police where they have provided the custody services solution, initially costing £2.5 million, through partnership. The police authority has saved a substantial sum so far and has been able to move 133 police officers back to the front-line.
- **Enhance Operational Delivery.** Partnering allows Police Authorities and Probation Boards to transfer resources to core activities, delivering real enhancements to operational performance and targets. We consider a still greater benefit to be the enhanced focus on their core and critical functions, by not including every activity within their own delivery structure. In Sussex, for example, the Police Authority partnered with Reliance in 2001 to deliver the management of its custody facilities as part of a 30-year Private Finance Initiative (PFI) project. The clear objective of redesigning services was to improve the custody process and release police officers for other duties. As a result of process efficiencies booking times were reduced to nine minutes. As a result, Reliance needed fewer officers

to supervise the centres and the police were able to re-assign 18 sergeants – until then managing the custody suites – back to the front-line. In total, 100 officers were released to uniformed duty as a result of the partnership. Managing the Interpreter and Forensic Medical Service has halved attendance times and saved hundreds of thousands of pounds in fees. It has also fostered innovation, such as the introduction of a comprehensive video database, presenting virtual Identity Parades on computer. This has eradicated the dependency on physical line-ups, saving both time and money. Equally, by installing CCTV in the custody suites with 24 hour recorded surveillance, complaints by prisoners against police have been considerably reduced a huge saving in time, trouble and mischievous complaints. The Home Office Police Performance Report in October 2006 praised Sussex for its Reliance-provided custody facilities, commenting that 'Innovative resourcing initiatives include the use of private finance initiative contracts to provide state-of-the-art detention facilities'.

- **Create Efficiencies.** The status quo ignores huge opportunities to add value way beyond the scope of single contracts, and to adapt these as wider circumstances dictate. Partnering can strengthen the capacity for change and the ability to innovate in achieving objectives. For example, Secure Transport is a service that is required for a range of detained persons within the criminal justice environment. It is required, for instance, by the police, subsequent to arrest and for movement to a custody centre. It is also required by the Prison Service to move prisoners on necessary journeys outside of prison. It is required for juvenile offenders, and it is required, extensively, by the Probation Service in support of the delivery of Accredited Programmes and Unpaid Work. We believe that real opportunities exist to deliver all these requirements through centrally procured relationships, provided regionally as in the PECS contract, but delivering (and accountable) to a variety of local customers. The diagram shows this approach.

26 The Surrey Police Mixed Economy Project – Review of Potential Private Sector Support Models, June 2004.

The Benefits of Change

This change would:

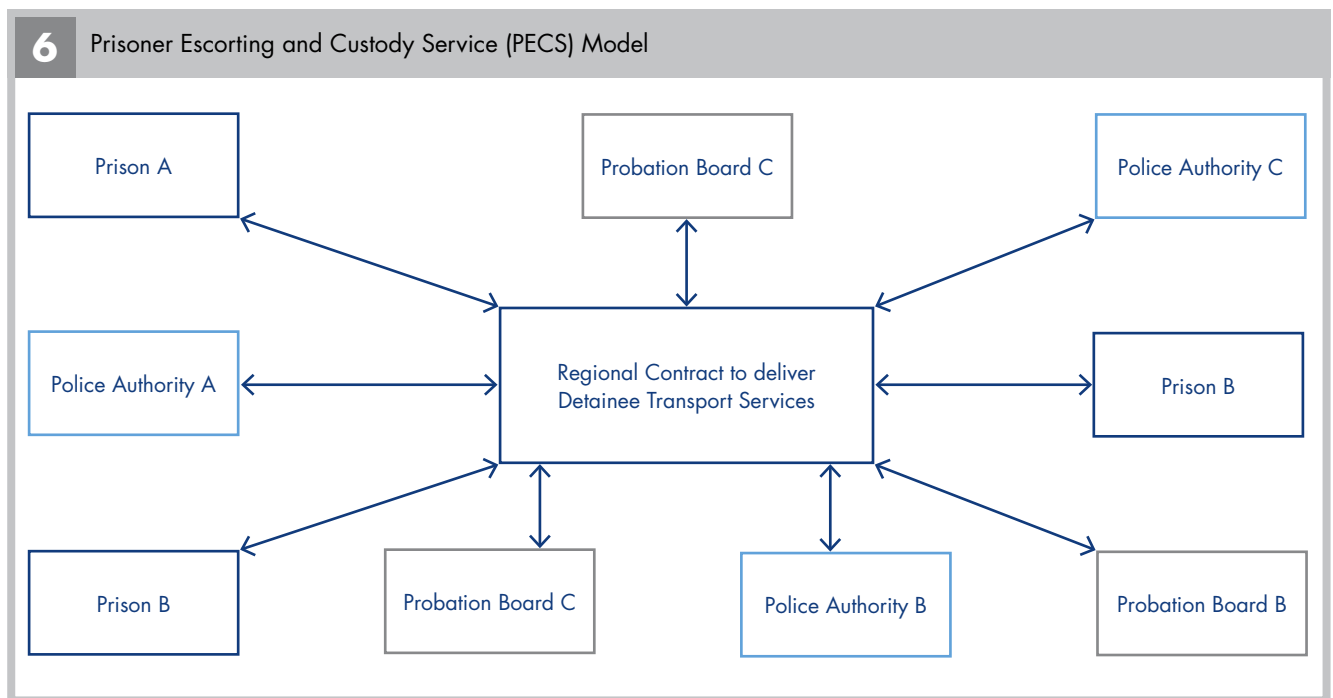
- reduce cost dramatically, by achieving process efficiencies and economies of scale;
- introduce best practice across whole service areas nationally;
- allow organisations to focus on their core business, allowing support and near-to-core activities to be provided under contract by specialist providers;
- allow the strengthening of management focus on the key drivers of effectiveness and encourage innovation and continuous improvement; and
- at an operational level these relationships act to transfer delivery risk to a specialist provider.

How could the change be implemented?

The key to achieving this is through effective central procurement, regional delivery and local accountability of support and near-to-core services. The model has already been proven through PECS, and should be replicated for other service areas across England and Wales.

Specific Recommendation

We recommend that departments right across government should initiate dialogue to identify the range of services that could be procured centrally but delivered regionally, using the successful PECS contracts as a model. To gain the most from the consultation private sector providers should be included in this process.



Role of performance dialogues in improving government efficiency

By Alastair Levy, Sharon McKeown,
Tim Roberts and Jules Seeley

Definition of the proposed change

Government efficiency could be transformed by the introduction of *truly effective performance dialogues* as part of a robust performance management system. By performance dialogues we mean regular, structured, carefully planned, face-to-face meetings between managers and their direct reports, in which they use concise performance data: to review each unit's performance; understand the root causes of any performance gaps and work out what to do about them; and agree prioritised plans of action, which will be reviewed in the next discussion.

Why performance dialogues are needed

In organisations the world over, people think that they have effective performance management systems. But our experience suggests that in many cases the process is ineffective; the data do not reflect the reality on the ground; the conversation does not get to the heart of what's happening and what needs to happen; and it does not involve effective joint problem-solving and coaching.

Bold efficiency targets, such as those introduced by the UK Government, significantly raise ambitions for improving performance. But they do not by themselves change day-to-day attitudes or management practices in the way that is needed to create a culture of continuous performance improvement.

In our view, performance dialogues are a better way of galvanising people to achieve that larger goal. They directly address shortcomings in how the public sector has historically managed its performance. And they build on two important public sector values. First, they offer a powerful way of motivating people to work more effectively which does not rely on financial incentives. Second, they build on the professional collegiality of the civil service, but in a way that is based on constructive challenge, personal accountability and transparency to bring difficult issues to the surface.

Performance dialogues can play a particularly important role in efficiency programmes, where there are risks that the link between high-level targets and realised savings gets broken. This disconnect can happen because plans are not adequately worked through (the pain is just shared equally) or have unrealistic hopes for savings in later years.

The benefits

Senior UK civil servant²⁷

“Well informed, data-driven, action-focused performance dialogues allowed a new level of insight into the way our business was running”.

In the public and private sectors, we have seen performance dialogues yield tangible improvements in outcomes and act as a powerful catalyst for cultural change. They introduce not just a new process, but new ways of thinking and behaving.

²⁷ Quotations are drawn from discussions with clients.

They increase transparency, and so help generate agreement on what really matters for performance and what needs to be done to improve it. Managers can probe meaningfully and constructively on challenges, difficult decisions, drivers of performance, necessary trade-offs and risks. In discussions on efficiency, for example, this means that savings plans, including the balance between realism and ambition, are effectively challenged, as are the existence of capabilities necessary to deliver change and the realisation of savings during a programme.

They reinforce accountability throughout the organisation – but do so in a way that makes discussion objective and dispassionate. Taking visible accountability for performance in front of peers can be a very powerful way to improve individuals' performance.

Site manager, UK public sector

“It's the first time in 30 years someone has made me feel held to account – and accountable – for my job”.

They address all dimensions of performance. They focus both on short-term outcomes and on the enablers of sustained performance improvement. They also often include functional staff (e.g. strategy, finance, IT, HR or communications) who can make significant contributions to problem-solving.

They change the way staff think and act by clarifying expectations of performance. For example, at one private-sector organisation, front-line teams had never been given targets in advance or discussed performance. Performance dialogues between each front-line manager and their team on daily targets and progress against them helped to change the team's understanding of their work and inspired them to want to do better.

They encourage collaboration within teams and across complex organisations. One front-line manager in a manufacturing company commented: *'We hadn't actually met our design rep until they started attending our reviews ... It has helped us to understand better where they are coming from and sort out some of our production issues more quickly'.*

Practicalities of how the change should be implemented

Value of dialogues

“One private sector company used dialogues to break a vicious cycle of middle managers concealing performance issues from their bosses for fear of their negative reactions. The company successfully trained reviewers and participants in the skills of constructive challenge and joint problem-solving”.

There are four principal enablers for introducing effective performance dialogues.

Commitment from the top. Performance dialogues will only be effective if senior leaders really want this to happen. Their commitment will also need to be sustained and renewed over time. In our experience, effective senior leaders will commit significant time and personal influence to make these dialogues effective.

Integration into the performance management system. You cannot just implement the performance dialogues on their own. They must be supported by a robust performance management system that includes clear objectives and metrics, clear accountabilities, and mechanisms to ensure proper follow up to agreed actions.

Sufficient time and repetition to embed effective dialogues in an organisation. Often the first few cycles can feel slightly unnatural. Where performance dialogues have had an impact it has typically been after an initial, detailed effort to assess the strengths and weaknesses of the existing performance management system, and careful piloting of a new approach. It frequently involves coaching of managers who lead reviews, to help them create the conditions for open, trust-based but rigorous challenge and to ask the questions that get to the heart of the issues being discussed.

A strong and committed team to make it all happen. An effective team is essential for designing and introducing the process for performance dialogues and supporting an ongoing rhythm of meetings. The team needs a solid understanding of, and a good network of relationships across, the organisation. Team members must be high performers themselves, in the right numbers and with the right skills.

Specific recommendations for change to occur

The essence of effective performance dialogues is simple; it is essential, however, to get the detailed design and execution right. There are six principal design features:

Rules of engagement. Before the meeting, the agenda, ‘rules of engagement’ (e.g. expectations on pre-reading), attendees for the meeting and their expected roles, and timing for sending out any materials should be communicated.

Middle manager, UK public sector

“The expectation and commitment to pre-reading of standard reports made the meeting much more effective than it used to be”.

Performance reports. It is important to have a clear, concise and consistent format for reports or scorecards that are used during performance dialogues. These are likely to include: commentary on performance, highlighting key issues, risks and opportunities; the right balance of leading and lagging data, focusing on key drivers of performance, including selected financial data; easily readable trend analysis; and clear comparison of actual data against targets. During the meeting, the discussion itself must be fact-based, ensuring that the words and the data are aligned.

Focus of conversations. The meeting must be designed to help managers provide the right balance of support and constructive challenge to their direct reports, in order to understand performance issues, ensure joint problem-solving of issues and motivate and develop the team. Meetings should have a strong focus on agreeing a prioritised set of actions, and ensuring that there are the accountabilities and capacity needed to deliver them.

Middle manager, UK public sector

“I thought it was going to be a scary process ... but it was actually very constructive and whilst I felt challenged, it was good learning for me”.

Set up. The way in which meetings are designed, down to the detail of the layout of the room, though simple in conception can have a disproportionate impact on the effectiveness of performance dialogues. For example, at the frontline in one government department, daily meetings lasted 15 minutes with the team standing around a ‘performance board’, a large whiteboard displaying key measures and daily targets. At the senior management level of the same organisation, monthly meetings were three hours long, with all managers sitting alongside their peers.

Senior manager, UK public sector

“It felt uncomfortable being in the hot seat but it needed to be that way – I really did feel held to account”.

Attendance. It is important to have the right people in the room. Especially in a collegiate culture such as the UK public sector, it is often very effective, for example, to have a group of peers together in the room – so that they can learn from each other, provide effective support and challenge, and motivate each other to perform better.

Middle manager, UK public sector

“It was good to do this together ... I learnt a lot from the others”.

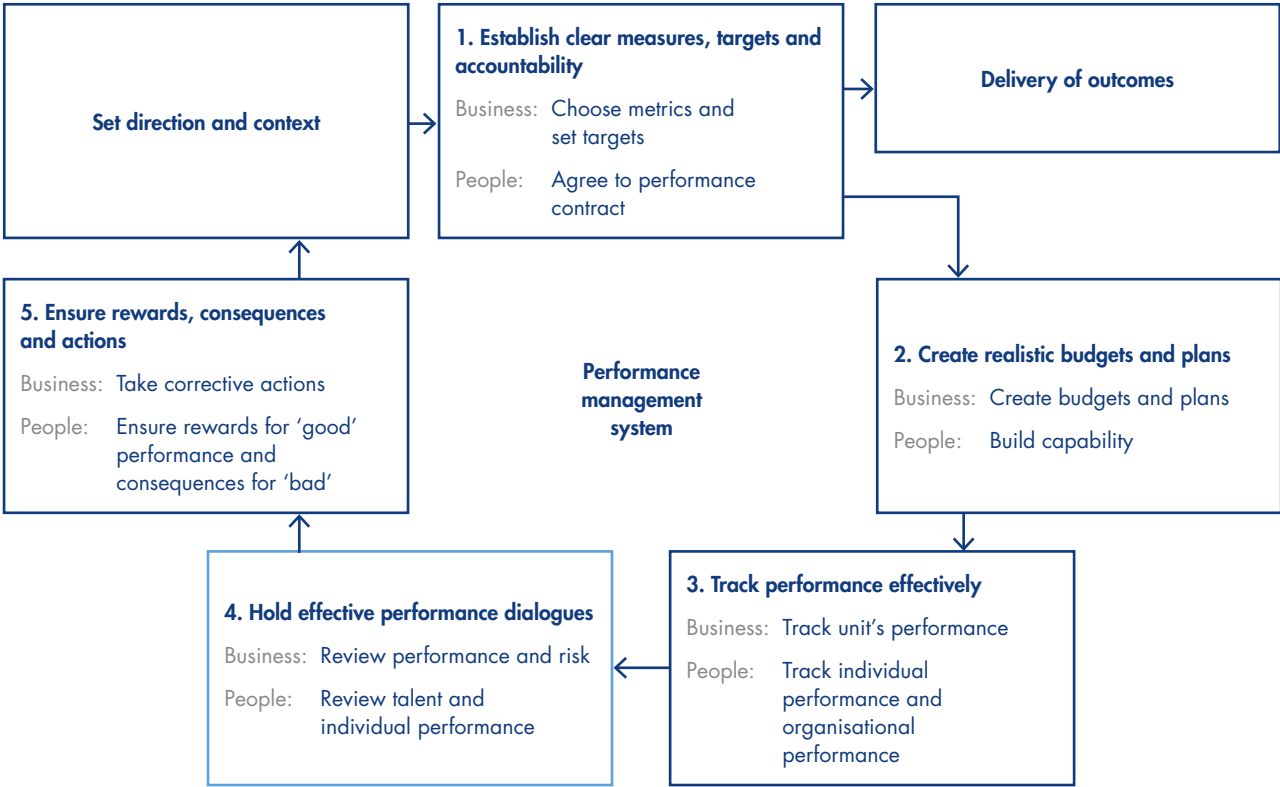
Follow up. After the meeting, agreed actions need to be circulated and then actively followed up, including making sure they are revisited at the next performance dialogue. Over time, this helps create a self-reinforcing cycle of transparency, accountability and performance improvement.

While the approach we have described for effective performance dialogues needs to be tailored to each organisation, there are three questions which we suggest will be helpful to ask when considering what actions you need to take:

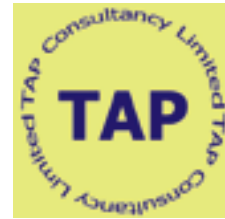
- Are your plans for overall efficiency gains worked through to specific and locally relevant plans and targets across the organisation?
- Do you understand what has really caused recent performance to be more or less successful than expected, in each area of your organisation?
- Do people come out of performance reviews feeling like they have had a ‘good workout’ – appropriately challenged but a clear sense of what to do next?

7 How performance dialogues form part of an integrated approach to performance management

An integrated system linking overall aspirations to delivery of objectives, where each process element integrates with and supports other process elements



Key:
□ Focus of opinion piece on Efficiency Programme



Gain-share systems and performance improvement culture

By David Reid

The challenge: to create a deep-rooted performance improvement culture at all levels in an organisation

In today's increasingly competitive world every type of organisation - whether it be public, private or voluntary - must continually drive its performance; but this will never be achieved without a performance improvement culture in which continuous striving for higher attainment is instilled into the very fabric of the organisation's work. A true performance culture must be founded on robust commitment towards improved performance from the bottom of the organisation upwards. To achieve this, those in the lower echelons need to be just as committed to a performance culture as senior management.

Without such a culture:

- performance improvement will be seen as a 'one-off' exercise;
- many performance improvement opportunities will be missed or implementation will be unnecessarily time-consuming and ultimately ineffective;
- senior management and middle managers will have to devote much more time than should be necessary to achieve successful implementation; and
- many performance improvement opportunities, particularly of a work practice nature, are unlikely to be addressed fully, and failure to deal with these can have significant ramifications for the bottom-line.

Why a strong 'bottom-up' commitment to performance improvement is so important

Looking back, most performance improvement programmes in the past have been of the 'top-down' variety, with senior executives identifying performance improvements and involving only a small number of managers when they consider it necessary. Through our consultancy work, we have repeatedly found that performance improvement programmes that rely on only the partial involvement of lower echelon staff face barriers to creating a deep-rooted performance improvement culture. Often, failure to improve performance or establish a sustainable performance improvement culture is ascribed solely to management inadequacy rather than recognising the inherent weakness of the 'top-down' approach.

Switching from a largely 'top-down' approach to one that genuinely involves lower echelon staff is the key to performance improvement success

Despite the inherent weakness of the 'top-down' mechanism, many senior executives are hesitant about switching over to a 'bottom-up' approach. They believe that it would be dangerous to involve more junior staff at the inception stage of a change programme, particularly if it involves headcount reductions or major organisational or work practice change. The prevailing view is that many of the less senior staff are uninterested in the organisation's success and would not fully understand the need for the change should it be explained to them.

However, it is our experience that staff at all levels will be committed to the success of the organisation where the organisational culture is one of involvement and participation. We have found that individuals lower down an organisation often have a much greater understanding of, and commitment to, an organisation than many

senior executives appreciate. The level of commitment engendered is largely dependent on managers devoting sufficient time to explain the need for continuous performance improvement to team members.

Once senior executives, and particularly those at middle management level, fully appreciate the very significant benefits that come from creating an involving and participative culture, they will never go back to the 'top-down' approach. They will discover a number of attractive advantages to this approach (Figure 8).

Creating a strong 'bottom-up' commitment to performance improvement

From our experience a deep-rooted performance improvement culture can be developed through four major reforms.

First, an activity based performance measurement model can be introduced that accurately records the cost and volume of each activity performed by every team, supported by an accurate end-to-end process flow chart for each activity. This model must be built from the 'bottom-up' and all team leaders and their team members must assume total ownership of all the cost numbers as well as each step in the flow of every process. From our experience, very few people at team leader level or below know the full cost of each activity they carry out or the interactions with other activities in the process flow. Furthermore, very few people at this level realise which activities are not adding value and without the detailed cost and process flow data, team leaders and their members will not have the information necessary to fully participate in the performance improvement drive of their organisation.

8 Benefits of an involving and participative culture

- 1 Good Practice becomes the norm in every area;
- 2 The bottom-line impact of capital investment programmes, whether they are of an IT nature or involve other types of capital spend, will dramatically increase;
- 3 The amount of time senior executives, but particularly middle managers, have to devote to change programmes will significantly decline;
- 4 The speed of implementation will surprise everyone;
- 5 Absenteeism will become a problem of the past; and
- 6 Many performance improvement opportunities of which senior and middle management were previously unaware will be identified.

Training and facilitation support can be provided at team level so that every team leader and a significant percentage of their team members become skilled in identifying the potential for, and implementing, performance improvement.

A gain-share system that is focused on the 'bottom-line' and is both non-inflationary and team-based can be introduced to improve performance. Gain-share systems reward every team as well as their team leaders and immediate managers for twelve months following the implementation of the performance improvement opportunity they have developed. The reward would be based on the monthly 'bottom-line' results of the performance improvement concerned. At the end of the twelve months, teams would be incentivised to identify further performance improvement opportunities in order to sustain or increase the amount of their gain-share reward. Without a gain-share system, many performance improvement opportunities would not be successfully addressed, particularly if they involved eliminating work practices or reducing the cost of sickness absence.

A six-monthly revolving performance improvement identification and implementation discipline, which would require every team to dedicate a set period of time every sixth months to identifying additional performance improvement opportunities in their area, could be established. It may well become progressively harder to improve performance over each six-monthly cycle as the more straightforward ideas with the greatest impact get used up and teams have to consider less obvious ways of driving performance improvements. However, as the marketplace adapts and new technologies are developed, we should be confident that opportunities to identify further performance improvements will never dry-up.

Going forward: the potential of a 'bottom-up' performance improvement culture for government efficiency

Only by uniting all employees towards the goal of ever-improving performance can a genuine culture of performance improvement be instilled into an organisation. As it seeks to realise efficiency savings of £21.5 billion per annum by 2008, the Government should take note of the true potential of a 'bottom-up' performance improvement culture. By recognising that an efficient civil service depends just as much on the efforts and attitude of the front-line practitioner or administrator as it does on the innovation and ingenuity of the Whitehall-based senior civil servant, the Government can take a significant step forward in its pursuit of a genuine culture of performance improvement and efficiency to take it well beyond 2008.



Sustainable efficiency in the public sector

By Ann Rossiter, Director

Introduction

Since its publication in July 2004, the Gershon Review has been the primary text for those interested in public sector efficiency. The potential savings it identifies are significant, and it has resulted in some progress. However, the National Audit Office and others have expressed concern that while the Gershon Review will produce some cost savings, it will not embed efficiency in the civil service, and it may adversely affect output.²⁸

Are these concerns well founded? Gershon may succeed in making the civil service smaller, but will civil servants become more efficient?

Under Gershon, efficiency is established as a function of monitoring and targets. In this framework, efficiency will suffer when management attention is focused on other ends; and the difficulty of enforcing efficient behaviour against individuals' own interests will ultimately limit overall efficiency. This raises the concern that under a Gershon model, where savings targets are more measurable than output targets, output could suffer for the sake of meeting administratively imposed efficiency targets. The NAO's concerns about the Gershon Review therefore reflect fundamental limitations and difficulties arising from an efficiency drive based on measurement and targets.

Alternatives

Do alternatives exist to managerially driven efficiency? Certainly well-managed organisations tend to pay close attention to issues around organisational culture and employee incentives when seeking to drive up productivity. While we have to be wary of drawing direct comparisons between the public and private sectors, one lesson the public sector must adopt if efficiency is to become routine practice is that 'incentives matter'. Effective organisations of whatever sort provide workers with some return on increased effort (financial or otherwise) and also tend to have effective mechanisms in place for dealing with poor performance. Despite the new civil service reform agenda, which aims to increase performance management, the link between effort and reward still requires improvement, especially at the lower levels of employment.²⁹ At the organisational level of the civil service, resource allocation remains tied to resource use, rather than to success. Attempts to drive efficiency through targets and monitoring are running against the grain of embedded incentive structures.

The use of incentives within organisations is closely tied to responses to risk. The culture of the civil service is one which gives few rewards for those who seek to innovate, something which necessarily involves some element of risk. However this is not the case when it comes to failure. The threat of redundancy is limited for those who avoid risk but high for those who attempt it. Risk aversion is also manifest in highly bureaucratic procedures for promotion. In other words, the response to risk taking in the civil service is hugely skewed. So much so that risk aversion has become a cultural feature of the civil service, strictly limiting the possibility of making progress through taking well-managed risks. Stifling innovation in this way further inhibits efficiency efforts. Greater job flexibility will be necessary if efficiency is to become routine in the civil service.

²⁸ Comptroller and Auditor General, *Progress in improving government efficiency* (HC 802, 2006-2006).
²⁹ Cabinet Office, *Senior Civil Service: Performance Management and Reward Principles* (March 2006).

Adapting these lessons to the public sector

Performance related pay (PRP) has a chequered history in the public sector partly because it has not always been introduced in a way that takes proper account of cultural and other conditions within public services.³⁰ However, civil servants will respond to the opportunity to earn a return on their own increased effort. Linking improved department performance, including improved efficiency, to individual rewards is an important factor.

How might this work in practice?

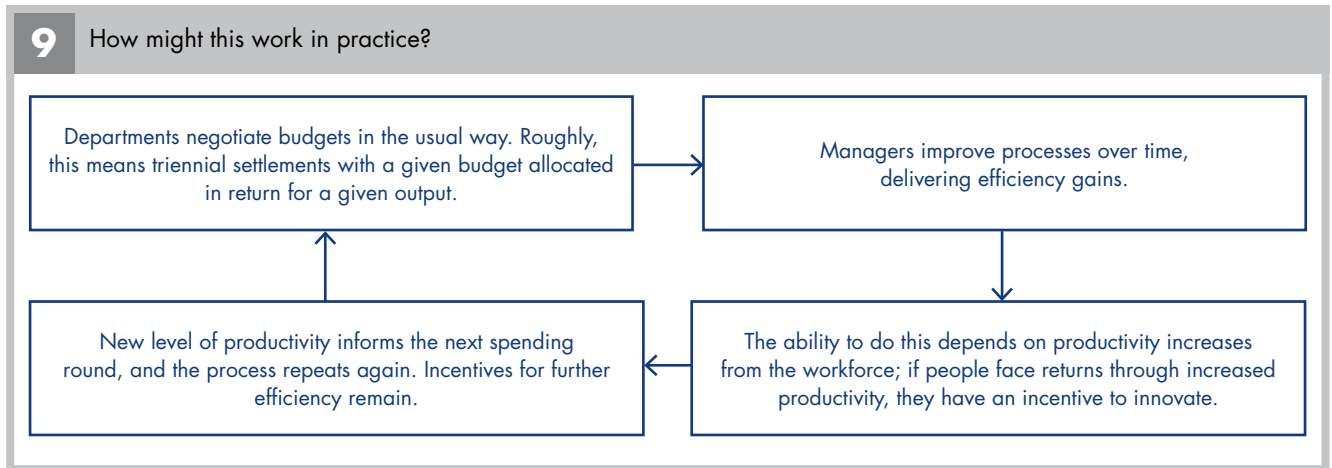
Of course this system would require increased job flexibility in the civil service. Flexibility – which allows managers to promote and fire workers in an effort to maximise output – is hugely preferable to the current system of increasing numbers year on year, followed by a cull, organised with the limited information available to very senior managers. Under our proposed system, efficiency targets would be abandoned. Instead, a percentage of the gains achieved would be passed through departments to individuals, if managers and workers can cooperate to achieve efficiencies.

Flexibility provides a means for managers to reward effort. Allowing civil servants to appropriate part of the efficiency they generate would prevent the current tendency to

retain posts, even when they cease to contribute to overall output. It would also ensure that all levels of the civil service have an incentive to work towards the efficiency of all its operations.

This is in contrast to the existing system in the civil service: a risk-averse culture, compounded by job duplication, has reduced individual responsibility. At its worst, such an environment allows employees to shy away from concrete decisions and avoid output accountability. In the absence of clear motivation to do otherwise, there is a strong human tendency to exhibit such behaviour – hence the lengths bureaucracies go to oversee their officers. Making resource allocation dependent on efficiency, instead of inefficiency, will create incentives for senior and junior civil servants to work together to devise better processes.

Over time, devising better processes will become harder – there will be less obvious waste and duplication to remove. Efficiency will then require innovation, and with innovation comes risk. If resource allocation does become a function of efficiency, future civil servants will face an environment where risk is necessary for improvement in their conditions and resources. Changing the culture of the risk averse civil service will take time and cannot be done by exhortation alone. We must change the environment in which civil servants operate if we are to change behaviour.



30 Cabinet Office, *Guide to the Centre of Government – Part III: Modernising Agenda, Civil Service Reform.*

Incentives and change: public sector evidence

Could such a responsible, driven culture ever find purchase in the public sector? There is strong emerging evidence that it can. Several parts of the civil service now operate as trading funds; they remain part of the public sector but are increasingly market driven in their pursuit of output, efficiency and individual responsibility. Crucial to their proven successes has been their power to reinvest resources within the organisation, creating an incentive for continual improvement.

The Treasury expounds the importance of the autonomy which trading funds appreciate: they can reinvest their gains over a long term timeframe.³¹ Trading funds highlight that it is possible to improve efficiency through responsible risk taking, where departments, as well as individuals, have opportunities to make educated investments and uncertain, yet potentially rewarding, decisions.

The Treasury also finds that trading funds, due to greater focus on performance and efficient output, experience an institutional culture change toward a customer-oriented, value-driven and quality-focused mentality³² – proving that culture change is possible with the right incentives and management structures. If risk is to be treated rationally, MPs, media and the Treasury will have to cease such misplaced criticisms as were recently levelled at the Met Office by the House of Commons Defence Select Committee.³³

Conclusion

This proposal argues for the implementation of an improved incentive structure throughout the civil service, as a means to bring continuous improvement into public sector business practices. In well-managed private sector organisations, production processes tend to become more efficient over time. However, the traditional system of resource allocation and the culture of risk aversion have prevented this from happening in the civil service.

This system of resource allocation must change. Without incentives for people to work harder, efficiency in the civil service will always be subject to the limitations of bureaucratic oversight, and risk taking will remain alien.

Our aim is to suggest how a dynamic – rather than a small – civil service can be created. Many efficiency programmes propose administrative consolidation, but this method fails to achieve long-lasting improvement. Instead, we believe appropriate incentives at all levels of the civil service are necessary to obtain sustainable efficiency, and that civil servants could thrive on responsibility and flexibility if faced with appropriate rewards and risks.³⁴

31 *Guide to the Establishment and Operation of Trading Funds*, HM Treasury 2004.

32 *Guide to the Establishment and Operation of Trading Funds*, HM Treasury 2004.

33 S. A. Mathieson, 'Stormy Weather', *The Guardian*, 1 June 2006.

34 The author would like to thank Alex Karalis Isaac and Kurt Mueller for their assistance.

Gershon, Efficiency and Public Value

By Professor Colin Talbot, Professor of Public Policy And Management, Manchester Business School and Director, The Herbert Simon Institute, University Of Manchester

Why was the Efficiency Programme needed?

The drive for efficiency in public services is nothing new. The US founded its first 'Bureau of Efficiency' in 1916. UK governments have had numerous efficiency drives over the years, perhaps the most celebrated of which were the Efficiency Scrutinies of the early 1980s. We seem to have these periodic bouts of waste-busting in government. So why was Gershon deemed necessary and why now?

On one level it seems extraordinary that it was needed. The Government had consolidated some policies (e.g. resource accounting and budgeting - RAB) and vastly extended others (e.g. output and performance measurement for departments) which had actually begun before 1997. Given this combination of RAB, the supposed zero-based Comprehensive Spending Review (CSR) of 1998, the Spending Reviews of 2000 and 2002, the new split between capital and current spending, various purchasing initiatives, and, of course, the introduction of Public Service Agreements (PSAs), it is hard to understand why a £21.5 billion efficiency drive should be necessary. Shouldn't all these new systems and initiatives have already driven inefficiencies out of the system?

The launch of the Programme was partly fuelled by data emerging from the Office of National Statistics and the Atkinson Review about falls in productivity, especially in the NHS. But such an explanation is clearly insufficient. There were wider considerations at work.

These wider considerations related to the broader policy objective of the Government around the growing consensus on the amount of national wealth to devote to public services (hovering around 42 per cent of GDP) and as far as possible stabilising public finances. The general perception – fostered as much by the Government itself as by its opponents – was that government was spending hugely more on public services than in the past. This was only partly true, in so far as more was being spent on direct service provision (due to less being spent on transfers, interest and debt repayment). Around 42 per cent of GDP is the forty year average for public spending – in the 1980's we spent far more. Nevertheless, in the context of the unprecedented low level of spending in the late 1990s (when it dropped to 37 per cent of GDP in 1999-00) the rise in public spending, and the fact that more of it was going to services, seemed and was substantial.

The public had largely been persuaded to go along with both this spending level and the resulting tax increases to fund it. But the Government promised spending plus reform of public services – indeed the whole CSR/PSA process was billed as a way of achieving this. By 2003/4 it was clear that the reform process was not as successful as had been hoped. Public perception of, and compliance with, higher spending on services was at best fragile. And it was also clear that the rapid increase in spending since 1999 was coming to an end. The only way to release much more money for service improvements was to find it within the system.

In this context the whole Gershon initiative has to be seen as having two inter-related objectives – to make actual, substantial, efficiency savings and 'releasing resources to the frontline' (its official title) but also, and crucially, ensuring the trust and legitimacy of the public in public services. The concept of 'Public Value' has been used to capture this dual approach of efficiency plus legitimacy. But before we turn to that, let's look at what the current round of efficiency activity has produced in terms of straightforward savings.

Efficiency: looking behind the rhetoric

First, it is important to put the scale of the Gershon initiative into perspective. In the UK in the previous two-and-a-half decades we have had several initiatives which claimed substantial efficiency gains would result, including but not confined to: Efficiency Scrutinies; Financial Management Initiative; 'Next Steps' agencies; Competing for Quality; and RAB. Not all of these specified the level of efficiency savings expected but three did: Efficiency Scrutinies; 'Next Steps' agencies and Competing for Quality all claimed to achieve about £0.5 billion in savings.³⁵ Even allowing for inflation, these are small amounts compared to Gershon's £21.5 billion target. Gershon is thus hugely ambitious.

Second, the level of detail provided in the original Gershon report about how this was going to be achieved was fairly scant. Compared to, for example, the Grace Commission's 1983 report in the USA, which ran to 47 volumes and contained 2,478 recommendations, Gershon's 60 page report was concise to say the least. Brevity is not necessarily a problem but the report leaves some unanswered questions. Just to take a few examples:

- Why, if the target for departments was to come up with 2.5 per cent per annum savings over three years (i.e. approximately 7.5 per cent cumulatively) do the final figures vary so much? Cabinet Office pledged only 1.2 per cent for the whole three years whilst DEFRA was expected to produce 17.4 per cent. Local government (12.6 per cent), the Chancellor's departments (11 per cent), Work and Pensions (11.9 per cent), Culture, Media and Sport (15.3 per cent), Defence (8.5 per cent), the Home Office (13.2 per cent) and Education (12.4 per cent) were all expected to be above the 7.5 per cent target whilst all the others were at or substantially below. No explanation for these variations has ever been offered.

- Gershon is split into 6 'work streams', one of which is 'productive working'. This involves changing the working practices, skills mix, and workforce profiles of parts of the public services employing hundreds of thousands of people. It is especially reliant on education and health, which are expected to save £1.29 billion and £3.35 billion each from this reform, 86 per cent of the total savings in this work stream. Yet there is hardly any discussion about how such a monumental change programme is to be achieved and, crucially, measured.

It would be easy to go through the whole report identifying such problematic areas.

If information was scant in the declaration of intent that the Gershon Report embodied, information on what has been achieved is even more difficult to pin down. As the Gershon programme has progressed and larger claims have been made about its success, smaller amounts of information have been made available centrally to check what is actually happening. At the latest meeting of the Treasury Select Committee which quizzed Treasury officials on this (December 2006) the official line was effectively 'go and find out for yourselves by asking each individual department'.

The National Audit Office's first report on Gershon was sufficiently concerned to say that the figures being cited as savings could only be regarded as provisional. There are whole areas of supposed 'savings' where there is no robust methodology for assessing savings – e.g. productive working – and many of the savings have not been properly checked before they were announced.

³⁵ Incidentally, for the only efficiency drive for which we have accurate figures – Efficiency Scrutinies – we know that only about 50 percent of the efficiency savings they identified were ever realised. It should also be noted that Gershon makes no attempt to draw lessons from previous efficiency programmes and in a number of areas repeats previous mistakes.

Winning the efficiency battle whilst losing the public value war?

The culture of secrecy, obfuscation, lack of audit and accountability for the Gershon programme is fundamentally undermining its credibility. Few external analysts take the Government's claimed savings seriously. Few doubt that real gains have been made, but most suspect these have been exaggerated and massaged to produce more positive results than have actually been achieved.

This is a self-defeating policy. If the Government has made only half the efficiency gains it claims it would probably be the biggest single achievement in this field in UK history.

More crucially the 'games' perceived to be being played with Gershon figures fundamentally undermine trust and legitimacy in not only these figures, but government reporting more widely. Similar problems have been identified by National Audit Office in reporting of PSA target outturns. If a crucial aim of Gershon was not just to save money but to help gain credibility and consent for the expanded public domain represented by increased spending on public services, it is in serious danger of not just failing but actually producing negative 'Public Value'. There is no direct evidence about the effect on public perceptions of these 'games', but we do know there is a wide gap between the public's personal experience of public services (which, overall, is fairly positive) and their perception of how well they are doing nationally (which, overall, is more negative).

The paradox of the Efficiency Programme may therefore be that the Government has actually made the biggest round of efficiency savings ever achieved (although less than they claim) and at the same time further undermined Public Value through a combination of their original exaggerated claims and their later lack of transparency and accountability.

JOHN TIZARD

Turn on the tap!

By John Tizard, Director of Government & Business Engagement, The Capita Group Plc (writing in a personal capacity)

When asked what one initiative could drive sustainable efficiency across the public sector, I believe that the answer is 'turn on the TAP' - transparency, accountability and performance.³⁶

This trinity is the key to achieving sustainable efficiency and effectiveness. They enable those engaged in policy development, scrutiny and audit, commissioning or operational delivery to know what they are doing; the impact of their contribution; what it costs – in pecuniary and opportunity costs terms; and how it compares with others. For the public sector, they also enable the electorate to hold politicians, institutions and individuals to account. With increasing choice-based public services, accountability to customers and other stakeholders is growing in importance.

Transparency

Leaders in the public sector – be they commissioners or providers - should articulate very clearly their vision for the contribution their institution or service makes to the wider public good. This often requires a narrative explaining the contribution of every employee and partner involved in the enterprise. The narrative can tell all stakeholders what to expect from the organisation, and how this complements other public sector initiatives to achieve even higher level public goals. This narrative should be underpinned by measurable outcome targets.

Such measures need to be easily understandable by the range of stakeholders including service users, the general public – the taxpayers and voters – staff and partner organisations. Such comparisons can be readily made with similar organisations in the public, voluntary and business sectors domestically and internationally. These comparisons would embrace outputs, outcomes and inputs.

Financial transparency is essential. Comparisons should be possible between different kinds of organisations which undertake similar activities but which produce very different outcomes. There can be comparisons between similar bodies such as between schools in respect of examination results. There can also be comparisons between different kinds of organisation on for example support services such as payroll administration costs between a hospital and a manufacturing company.

There will be occasions when public bodies may decide not to adopt the most efficient allocation of resource or delivery model because this would undermine the pursuit of some wider public policy goal. When such decisions are taken there should be a clear public and transparent process with clarity and explanation as to why such a choice has been made.

Business has to survive in a competitive and often global market, and consequently is constantly benchmarking its performance. The same could apply to the public sector where ideally this information will be publicly available.

When companies are contracted to deliver public services there should be maximum transparency and scrutiny, with minimal information withheld.

³⁶ John Tizard has a range of stakes in the Government Efficiency debate. In addition to his present position as Director of Government & Business Engagement at The Capita Group PLC, Mr Tizard was previously an Executive Advisor to the Confederation of British Industry's Public Services Strategy Board and a county council leader.

10 The form of transparency in public service commission and delivery described above will have several benefits

- 1 It enables self evaluation of performance;
- 2 It introduces and promotes contestability between organisations and between different service commissioning and delivery models;
- 3 It exposes underperformance and inefficiency;
- 4 It can encourage contestability with incentives to match or better the best performance in others;
- 5 Politicians and the public – whether as taxpayers, customers and/or members of society - are able to take a considered view on performance leading where appropriate to choice over which service to engage and who to hold to account politically;
- 6 It can inform spending reviews and other resource allocation exercises, and help to inform policy decisions.

Accountability

The public sector in many ways is strong on accountability especially the accountability of politicians to Parliament, local government scrutiny and the electorate. There are several organisations and statutory arrangements including the NAO and Audit Commission, and the various inspectorates which contribute to accountability processes. Business – especially quoted companies – also faces rigorous accountabilities with formal reporting to shareholders twice a year. Business is often also under external statutory regulation.

There is an opportunity to strengthen and widen public sector accountability processes so that every employee in an organisation is accountable for his or her performance and contribution to the overall organisational outputs and resultant outcomes.

Public sector accountability should not be confined to probity issues important as these are. There is a need to build on the processes already in place to hold institutions and their leaders – political and managerial – to account for performance, use of resources, employment practices, engagement with the community, environmental practices and above all service outcomes. Accountability for service outcomes is as important for an agency involved in commissioning or policy development as it is for one managing service delivery.

The reality is that every pound spent inefficiently on underperforming or high cost support services is a pound not available for spending on priority services such as education, health or security. Managers and leaders responsible for such inefficiencies should be held to account.

Equally managers or others who do not actively consider service delivery models which would result in either reduced costs and/or improved quality, should account for their decisions.

There should be a consequence for those who do not manage, commission or procure effectively to achieve the best value for the community. Companies and voluntary organisations that are contracted to develop or provide public services, whether through traditional outsourcing contracts or more contemporary partnering arrangements should be held to account contractually for their performance. This accountability can be wider than relating to service levels but can also address issues such as employment practices, supply chain management and control, environmental practices, their own corporate governance practices and their corporate responsibility record. These requirements are consistent with procurement regulations. Such providers should along with their clients, be subject to parliamentary and local authority scrutiny, and independent inspection and audit as appropriate.

There is a strong case for ensuring that consumer and public interest considerations drive all professional standards and service regulation. This would enhance public accountability and build greater trust in public services, as well as pragmatically aligning standards and targets with customer needs and aspirations.

The public sector has always made much of accountability and rightly so. There is a need to modernise accountability arrangements as another means of driving public service reform and efficiency. However, accountability arrangements must not lead to excessive risk aversion and should facilitate innovation, experimentation and entrepreneurialism.

Performance

No one would argue that performance is not important and that the public sector, like business, should always seek to maximise its performance. However, in many circumstances there would be benefit from improving performance measurement – including those for costs – and holding politicians, managers and individual employees to account for their performance and that of their institutions through fair, but rigorous, performance management arrangements.

Understandably there is some concern that attempts by government to introduce performance management by setting national targets has on occasion skewed outcome requirements, and caused managers and staff to focus on the target rather than the outcomes that matter for service users. There is also some concern that there have been too many targets.

11 Effective performance management

Effective performance management needs to be:

- 1 transparent;
- 2 easily understood by all stakeholders;
- 3 non-discriminatory – impacting on all levels and hierarchies of employees and equitable for employees irrespective of gender, ethnicity, disability, ability etc.;
- 4 able to hold to account individuals only for those issues over which they have either direct control and/or effective influence;
- 5 supportive and positive for employees, and linked to development programmes and remuneration packages;
- 6 designed to measure the performance of individuals against their own targets and their contribution to those of their agency;
- 7 based on challenging and measurable but achievable targets for institutions, teams and individuals; and
- 8 complemented and not undermined by external regulation, inspection and audit requirements or by short term political demands.

There is a need to balance national targets aimed at achieving consistent key high level outcomes whilst allowing for local discretion and responsiveness to service users and local communities. However, concerns about national targets must not be an excuse for not pressing ahead with a comprehensive approach to performance management across the public sector and those agencies which it engages. Services and agencies which coast should give rise to similar concerns as to those that under perform. This means that the right balance has to be struck between national and local targets rather than an abandonment of nationally set targets. Some form of ‘public service balanced score card’ is required to balance conflicting pressures and demands.

Performance management can be supportive for the participants and linked to personal development, training and promotion programmes. However, there is no long term benefit for a public service, its customers, its employees or individual employees from failing to address serious serial under-performance by individuals. Employment policy, conditions and practices have to support not hinder performance management.

Transparency, accountability and performance are complementary. They are essential to modern government and its efficiency and effectiveness. There is evidence that the public sector is developing and implementing some imaginative and robust arrangements to ensure performance management and greater accountability for people and institutions. This trend will continue. The public sector faces many complex issues but it has to be effective and efficient whether it is commissioner, provider, regulator or policy maker. The immediate requirement is *to turn on the TAP!*