getting more for less
efficiency in the public sector

JAMIE BARTLETT

DEMOS

First published in 2009

Magdalen House, 136 Tooley Street
London, SE1 2TU, UK

ISBN 978-1-906693-21-3

Series design by modernactivity
Typestting by Chat Noir Design, Charente
Printed by 1st Byte, London

Set in Gotham Rounded

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acknowledgements

First, thanks must go to the Social Enterprise Coalition for sponsoring this work, which has been produced as part of the Social Enterprise Coalition's national mainstreaming partnership, funded by the European Social Fund under the Equal Community Initiative Programme. I would also like to thank in particular the steering group for this project whose members provided helpful feedback and guidance at various points in the project: Ceri Jones, Akhil Patel, Lukasz Bohdan, Jide Olagundoye, Robert Prideaux, Jenny Harrow and Emma Jones.

A number of people also provided useful comments and guidance on early drafts of the work and agreed to be interviewed: Mark Upton from the Department for Communities and Local Government, Ken Cole, Craig Griffin, Simon Parker, George Leahy, Sean Rafferty, Amelia Cookson, Richard Kennedy and Colin Crooks.

Finally, from Demos, I am grateful to Richard Reeves, Julia Margo and Peter Harrington for taking time out to help, and to Susannah Wight for copy-editing.

Jamie Bartlett
July 2009

introduction

Combining efficiency (doing things right) with effectiveness (doing the right things) is a duty for government.[1] In the current climate, this debate takes on new significance. For the next decade the most urgent public policy question will be: how can public services achieve more for less — providing services that meet people's needs, while costing less?

Cuts in public expenditure are coming. The 2009 budget signalled real term freezes (an increase of 0.7 per cent) in spending with immediate effect. According to the Institute for Fiscal Studies, total departmental spending will need to remain frozen (and for many departments fall) for the period 2011–2014.[2] The real question is: where will public spending be cut and on what basis will these decisions be made?

The natural tendency will be for the government to continue what it is doing, only more cheaply: by reducing unit costs in procurement; by cutting up-front investment for long-term change; or, even worse, by 'salami slicing' — which means making across-the-board percentage cuts in departmental budgets.

These strategies might secure initial savings, but will make things more expensive in the long term.[3] No matter how 'efficient' you make a public service in monetary terms, if it does not solve the problem it is intended to, or does not achieve the desired outcomes, it is a poor use of public money. More importantly, it will also end up costing more, because either unhappy citizens who are not getting what they want will make repeated demands of the service, or the cost will simply be pushed elsewhere. If housing benefit administration cuts the costs of processing claims, but gets half of them wrong, the result will be a huge increase in queries to resolve the initial errors. Or the local authority might cut the cost of providing older people's residential services by 15 per cent, but simply end up pushing more people into expensive NHS care because residential services are not what people need to keep them healthy and safe.

There is an alternative. The way to make savings in the public sector is to make sure it is effective. Effective services are personalised — driven by people's needs, they take aim at the cause of problems rather than the consequences and they are delivered collaboratively. Services driven by this logic result in better outcomes for citizens, a better quality of service and happier staff.[4]

Ultimately, this saves money, too. Personalising services might take time to engage with the public, but it allows public servants to develop a better understanding of a social problem, and therefore to take more effective action, which avoids repeated follow-ups in other public services when things are not sorted out. It also offers a new way to target public spending more efficiently and engage the enthusiasm and passion of the public as resources in achieving public benefit. Preventive services — reducing or solving a problem before it arises or gets too serious — might appear an additional outlay, but ultimately costs less in the long run. And collaboration between different parts of the public sector and private and third sector providers takes a lot of coordination, but is worth it if the extra talking results in more coherent project delivery and services.

Social enterprises are central to achieving this vision. Social enterprises are businesses trading for social or environmental purposes whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by shareholder profits. They are increasingly working collaboratively with local authorities and developing services that are effective at meeting or solving complex problems. They have considerable experience in highlighting users' needs and providing new service models to meet those needs. They can offer small-scale services adapted to an individual, although there are a number of very large social enterprises which are involved in direct service delivery: the social enterprise Sunderland Home Care Associates finds work for almost 200 disadvantaged local residents while supplying care to over 500 elderly and disabled people. It is entirely employee owned and has a turnover of £1.75 million.

When it comes to public policy, efficiency gets a bad press. It is perceived as cold and inhuman. Efficiency, we imagine, is objective, statistical and neutral. In reality, efficiency is a contested term. There is no agreed definition of what really constitutes an 'efficient' service. Everything depends on what we choose to measure, and this requires judgements and choices about what we prioritise.

The current climate offers a real opportunity to transform the way services are delivered. The savings on offer from focusing on providing effective services might take a while to accumulate — and in some cases might even result in extra initial costs. But, counter-intuitively, the size and scale of the cuts that are coming in public spending offer an opportunity to think in the long term. To invest now in projects that makes long-term savings suddenly makes more sense when public spending deficits will not be cleared for a decade.

So start with effectiveness — get things right. Efficiency will follow.

1 can better public services be cheaper?

The landscape for public service delivery is changing. The government is committed to greater citizen involvement, frontline freedom and better strategic leadership in serving the public than ever before.[5] Personalised, preventive and collaborative services are key to this reform. There is recognition that today's challenges cannot be met solely through vertical lines of accountability for the delivery of clearly defined outputs within segmented portfolios and departments. This emerging consensus is eroding the 'new public management' of the 1980s, which prioritised tight linear accountability, compulsory competitive tendering and market-based reform.

The delivery of these aspirations falls to local authorities and local bodies, such as primary care trusts. They are responsible for providing directly or indirectly many key public services and play an increasingly important role in achieving positive outcomes for their communities. As of April 2009, all local areas are assessed on 16 core statutory priorities and 30 selected indicators that reflect local priorities. Local authorities and their partners are now required to deliver sustainable community strategies and local area agreements, which set out the priorities for a local area agreement between key local statutory partners, led by the local authority and central government. These outcomes will be measured each year through a reporting system called comprehensive area agreements (CAAs), which encourage a greater focus on community outcomes as a measure of local area performance.

In achieving these aims, local government tends to commission services to external partners who they think will be better able to deliver them. This means that public sector organisations need to adopt an approach that encompasses sustainability principles, balancing the need to identify cost savings against the contribution that procurement can make to local economic regeneration, environmental and social sustainability.

There is ample evidence that reforms based around these principles hold great potential to improve the way services are delivered. They have demonstrably delivered better outcomes across a range of indicators, have been welcomed by frontline staff and often produce interesting new ways of delivery.[6]

However, despite these benefits, there is a concern that these reforms could end up costing more. Advocates of personal budgets admit that they might not work out any cheaper initially, while those who deliver preventive services often complain that they cannot demonstrate their cost-effectiveness in ways that commissioners find acceptable, and so they seem to cost more and are not funded as a result. Delivering services along these lines can be difficult and getting it right can be time consuming.[7]

Value for money

Ensuring efficiency — getting the most for the least — is a major component of all public spending decisions. Efficiency is measured and understood slightly differently at central and local levels. When local authorities commission services to external partners, they use the concept of 'value for money' (VfM). VfM takes into account the mix of quality, cost, resource use, fitness for purpose, timeliness and convenience to judge whether or not, when taken together, a good or service constitutes value. In other words, pure cost is just an element of the public spending decisions that are made. Local authorities are under a legal duty to secure best value through a combination of economy, efficiency and effectiveness (the 'three Es').

Despite having a broad conception of value, concerns have been raised that in practice VfM still prioritises short-term savings. The Audit Commission's report on local government commissioning from the voluntary sector found that many commissioners were simply relying on price comparisons to assess bidders for service contracts.[8] The London Centre of Procurement Excellence reviewed 192 public bodies and found that almost half claimed to be using whole-life cost models, which take into account the full costs and benefits of a contract, rather than just its initial cost savings. But in practice none were willing or able to demonstrate their model or how it was used in the procurement process.[9] Despite the fact that VfM should be about more than just money, most commissioners still admit to using price as the comparator between tenders.[10] This comes from the twin pressures of the current financial climate and the requirement to make savings specified by central government's efficiency drive.

Gershon II

Local authorities also need to demonstrate their efficiency to the Treasury, ultimately, as do other government departments. In very general terms, the Treasury prioritises cash savings over broader notions of value. This is driven by a far ranging efficiency drive: the Gershon review (2005–07). The Gershon review was the largest efficiency review ever undertaken, and put efficiency at the top of the public sector agenda. The aim was explicitly not to reconfigure frontline services beyond increasing the productive time of professionals. Efficiency gains were defined not just in terms of the amount of cash saved, but also in terms of productivity. In other words, a Gershon saving gets not only 'more-for-less' but 'more-for-the-same' or 'a lot more-for-a-little-more'. The Gershon review *did* secure considerable savings — mainly through job cuts — estimated to be around £20 billion up to 2007.[11]

The Gershon approach has not always had a benign impact on frontline public service delivery. Having analysed the Gershon review alongside work from the Office for National Statistics on productivity, a team of researchers from Cranfield University concluded that the thrust of recent government policy had been to prioritise measures of efficiency over measures of quality.[12] This concern has been echoed by the National Audit Office, which noted in its second major review of the efficiency programme:

Most of our sample projects measure efficiencies based on a reduction in the cost of inputs. In order to demonstrate that true efficiencies have been achieved, measurement methodologies should contain measures of quality and output that show these have been maintained despite the reduction in input costs.[13]

In addition, many staff themselves are concerned that efficiencies gained will bring about reductions in service quality — it being seen in a negative rather than positive way.[14] This in itself can becomes a self-fulfilling prophecy, with many members of staff feeling cynical about the whole programme.[15]

The Gershon review is now finished, but the efficiency drive continues unabated with 'Gershon II', which hopes to make a further £30 billion worth of savings by 2011, of which £4.9 billion (£1.6 billion year on year) has to be secured by local authorities.[16] These are 'cashable' savings year on year for the next three years. Social and environmental efficiencies are not allowed,[17] which means that the saving has to be made through actual cash reductions in the spend, or productivity increases for the same money, rather than through improved effectiveness.

Given the squeeze, local and central government are searching for new ways to secure efficiencies. The gains secured under the Gershon review tended to be from traditional saving sources: procurement ‘improvement’, staff cuts and/or IT savings — what we might call low hanging fruit.[18] These savings are running out. Indeed, Gershon II and the Public Value Programme recognise that savings also depend on ‘a continual effort to find smarter ways of doing business and in taking wider policy decisions’.[19] Where might they be found?

2 three routes to efficiency

This chapter considers three new types of reform that can transform service delivery and sets out how and why they can save money.

Personalisation through personal budgets

Gavin from Oldham was diagnosed with multiple sclerosis four years ago. After two years of his local authority paying for him to use his expensive local day care centre, he was offered a 'personal budget'. Gavin's needs are assessed by the local authority, which then gives him a cash budget to meet those needs. With help from his friends, Gavin writes out his own care plan designed to help him achieve his goals in life. Once the plan is approved by the local authority, Gavin commissions his services from whatever the market offers him. Rather than going to the day care centre, Gavin uses the money to pay Norma, who visits him to help with ironing and cleaning. This frees Gavin's wife Karen to look after Gavin's intimate care, something he wouldn't want anyone else to do. For less money, Gavin is now happier, healthier, more active and is starting his own business.

Personal budgets in social care are an excellent example of personalised services in practice. Personalised services are services that are tailored and suited to fit the needs of the individual. They deliver personalised, lasting solutions to people's needs at lower cost than traditional, inflexible and top-down approaches, by mobilising the intelligence of service users to devise better solutions. They are not restricted to social care services, but have potential application in a number of other public services.

Savings are made when people use personalised services because money is targeted more effectively at people's needs, which increases allocative efficiency. Rather than providing a standard package of money and services, when local authorities use personalised approaches, people spend only as much as is necessary to meet their needs, thereby eliminating waste. This saves money because in social care — and indeed other services — there is often no consistent relationship between a person's needs and the public resources spent on them. When people come through the social care system, they are often pre-assigned to a range of services, which ends up being more expensive. The rigidity often results in people getting *more* than they need because it is all that is available.[20] At present, the purchasing of many public services is done through local authority commissioners who buy what a local authority area needs in terms of health or social care for two or three years at a time. Although this brings large economies of scale, the resulting inflexibility turns out to be expensive. When local authorities buy services in blocks, much of the money tends to go on expensive institutional care like residential homes, and this often traps people in a cycle of dependency or isolation, with little or no say over what they receive. This leads to 'Parkinson's Law': that demand will always increase to match supply.

Personalisation also requires service providers to listen carefully to the needs of the people they serve, driving innovation and helping to harness the capacity of service users, their families and friends to help themselves. In many cases, individuals using the service also have a far better knowledge of their condition than professionals, and so can design a service that is more tailored to their needs. One personal budget user with respiratory problems used to spend three months of the year in hospital. When she received her personal budget, the first thing she did was buy an air conditioning unit that allowed her to stay in her own home, and as a result visited the local primary care trust far less frequently.[21] It is inefficient to direct people towards the use of segregated resources that then limit the contribution they can make — personalisation can motivate individuals who can then contribute their time and effort.

Box 1

Saving money by giving people control

Simon from West Sussex has autistic spectrum disorder and a severe learning disability. Simon had spent years in residential homes at a cost of £80,600 a year, which was paid for by the local authority. In 2007 Simon went on to a personal budget, which he was able to control and manage with the help of friends and family. When anyone is offered a personal budget, the first step is to have a needs assessment, which works out what the applicant is entitled to receive. Each person gets a point score that reflects his or her needs, which translates into cash, and the same system is applied to everyone. When Simon's needs were assessed, it was determined that he would be able to meet his needs for roughly half the cost of being placed in a residential home, which tend to be extremely expensive.

With control over his own budget, Simon had the incentive to work the money he had harder. He decided to move into a house with a friend. He now goes out far more, sees friends and family more often, is more physically active — he trampolines — and he organises trips to Centre Parc's holiday villages and other activities using local services that are available. Simon is happier and more stable than before. This was achieved with an efficiency saving of around 50 per cent, which would dwarf any short-term efficiency saving that might have been secured by reducing the unit costs of his place in the residential home.

By giving people personal budgets and the opportunity to choose their own services, it encourages greater competition among providers, and can stimulate entry into the market by new, more efficient service providers. One suggestive piece of research in this area was the development of a voucher market for therapists in Denver, Colorado. This led to a decrease in the hourly costs of therapy services from $41.61 to $27.44 (an efficiency of 34 per cent). This was caused primarily by people only using their vouchers when they really wanted support, which cut out the over-capacity that tends to be built into service-focused systems.[22]

This is why emerging evidence suggests that personalising services to meet the needs of social care users does not just result in better outcomes, but can deliver cashable savings for the public sector of 5–10 per cent, which amounts to £1–2 billion a year across the whole of the sector,[23] although in the transition period some of this is likely to be offset by an increase in transaction costs.

Personalised services like this could transform local public services used by millions of people, with budgets worth tens of billions of pounds. From older people to ex-offenders, welfare to work, maternity to youth services and mental health to long-term health conditions, self-directed services enable people to create solutions that work for them and as a result deliver better value for money for the taxpayer. Findings from pilots for the report *Budget Holding Lead Professional*, for example, show that a version of personal budgets in children services is promising.[24]

For personalised services to result in genuine efficiency gains, however, two things need to be in place. First, individuals need to have genuine choice and control over the types of services they receive, and assistance to be able to make informed choices to that end. Service users will need the skills and confidence to navigate the market place, switching providers if they can get a better offer. This takes some time and additional investment.

Second, there needs to be a varied and vibrant supply side, which means a diverse market, made up of large, small, private and social enterprises and other third sector providers competing fairly with each other. For the true benefits of personalised services to shine through, people need to be able to access and use services that are not always the services traditionally delivered by the state. A diverse supply side will ensure there is greater choice, which can better respond to users' needs while driving down costs through greater competition.

Choice is meaningless without some competition. At the moment many public service areas are dominated by a small number of large providers — in social care the profitability of large-scale providers has increased over the last decade.[25] Where there isn't a vibrant supply side, local authorities will need to use their commissioning power to help develop and stimulate local markets to that end. A shift towards more personal services will drive local institutions away from a model of purchasing and providing to one where commissioning is used to stimulate private markets to deliver innovative public services — from market maker to market stimulator and market shaper — which can intervene strategically to grow underdeveloped areas of private and third sector supply. There are, indeed, already a number of local authorities that are experimenting with various forms of commissioning to stimulate and grow small providers to respond to changes in demand as people take greater control of their services, including pump prime funding of social enterprises and user led organisations, although there is still a lot to be done.[26]

Prevention

Preventive services are those where investment is made early in order to avoid paying more in the future. If you deal with, or minimise, a problem at its root, it tends to be cheaper than responding to the problem at crisis point, at which stage it is generally more expensive. In the NHS, healthy eating campaigns and regular public health checks are rapidly becoming the cutting edge of reform, although still in their infancy. In many other services, too, preventive services make perfect sense.[27]

There is often confusion over what preventive services actually are, because there are at least two distinct types. Some preventive services are long-term or 'down-stream', like healthy eating campaigns or early intervention in childhood. These generate very long-term savings because they are designed to lessen the general burden on the state throughout an individual's lifetime. There are also short-term, or 'up-stream', more immediate preventive services, which are targeted at particular groups with a clear and immediate benefit, for example, preventing people from becoming homeless, or investing in services that reduce the number of older people who fall and require hospital treatment. Sometimes this can be about solving a problem entirely, other times it is about minimising or delaying a problem and improving people's quality of life. This is usually for people with given dependency, disability or ill health, and the example is injury preventive strategies, such as fall prevention technology.

A good example of upstream efficiency comes from homelessness. A decade ago, a PhD student, Denis Culhane, put together a database to track who was coming in and out of a local homelessness shelter and discovered that most people in shelters were transient. But around 10 per cent were chronically homeless, living in shelters for years at a time, often with multiple needs. Culhane added all the hospital bills, substance-abuse-treatment costs, doctors' fees and other expenses, and found that these individuals were costing a considerable amount of money. Boston Health Care for the Homeless Program did the maths by tracking 119 chronically homeless people for five years in and around Boston: between them they cost the state at least $19 million (over £10 million) a year in medical bills alone. No one had any idea of this cost, because no one had ever tried to work it out. All the shelters and hospital services in Boston were responding efficiently to a problem, but not sorting out the problem at its core.[28]

The city of Denver took Boston's lead and decided to provide an apartment for each chronically homeless person. They worked out that providing an apartment and support for a chronically homeless person costs about a third of what he or she would cost if they lived on the street. Even though there was an initial 'spike' in costs — investing up-front — this resulted in a huge efficiency gain that dwarfed any gains that Denver might have made by securing slightly cheaper shelters. Similar calculations of upstream savings have been made in adolescent mental health services and truancy and school exclusion: every £1 spent by The Learning Challenge, a small charity based in the north east of England, produces £11.60 in savings for other parts of the public sector.[29]

The potential savings from preventive work could be equally compelling in many other parts of the public sector. For instance, the Chartered Institute of Housing has shown that housing associations can realise significant efficiency gains by preventing their tenants becoming homeless. The cost of a failed housing association tenancy in terms of lost rent, court costs and interventions by other organisations, such as the local authority and mental health services, total between £4,000 and £10,500 per case. If the largest 100 associations prevented the failure of an additional ten tenancies a year, this could save the public sector up to £10 million. It would therefore be an efficient use of public money for a local authority to subsidise the housing associations to help prevent these tenants becoming homeless. Other studies show that greater investment in third sector organisations with a proven record at preventing exclusion from school through home support could lead to annual savings of up to £90 million, spread across health and police authorities.[30] Efficiency can come from solving and minimising, rather than managing.

Working out the potential savings to be made from preventive services is difficult. For example, a recent review of interventions into alcohol use found that very few made any attempt to record anything about economic efficiency, concluding that there is ‘a current lack of economic evaluation studies in the field of prevention’.[31]

The difficulty is that service providers cannot always *prove*, for example, that it was their healthy eating campaigns that was the decisive factor in reducing diabetes. Many small organisations do not have the capacity to measure their impact effectively. And because evidence of the long-term nature of prevention or early intervention does not accrue overnight, commissioners might not always have sufficient evidence to be convinced that spending money today will save it in the long run. Indeed, in many cases there will be a spending ‘spike’, where heavy intervention costs more initially. Perhaps most importantly of all it can be difficult to know where savings are accrued, because they tend to focus on helping to resolve overlapping social problems that cost money in various places; for example, homelessness costs money to the health service, the local police services, shelter services, and so on. Finally, there are technical methodological problems, such as choosing a discount rate for a particular future savings. As a result there is a general under-investment in preventive programmes that could save a fortune.[32]

Box 2 **Saving money across the board**

GreenWorks is a social enterprise that produces and sells recycled, used and second-hand office furniture, and undertakes old office furniture collection services. Since its formation in 2000, GreenWorks has diverted 20,000 tonnes of furniture from landfill, created over 80 jobs and saved charitable organisations around £2.5 million in obtaining their office furniture.

The public value that GreenWorks offers is clear. It protects the environment through diverting used office furniture from landfill sites to recycling and resale, which reduces the country's carbon footprint. GreenWorks also offers a 15 per cent discount on recycled furniture to any registered charity, which lowers costs for these organisations, allowing it to spend the excess on other resources. Finally, it creates employment specifically for the disadvantaged or long-term unemployed (mainly homeless). Approximately half of its current employees fall into this bracket.

So how can we cost this public benefit? Reducing the country's carbon footprint is a positive social goal — and can be costed. The government has set out a 'social cost of carbon', currently £26.50 per tonne. At that rate, GreenWorks has saved around £50,000. However, it is not clear how that cost saving would accrue directly to the public purse. Equally, helping reduce charities' overheads is a positive social good but the direct saving to the public purse is unclear.

However, targeting employment opportunities at the long-term unemployed and homeless does offer a clear saving to public money. GreenWorks has estimated that each homeless person that the organisation has helped back into work has saved the public sector £21,463, through savings to temporary hostel accommodation, decreased healthcare costs and economic output (including lost tax and National Insurance contributions). On this basis, GreenWorks has saved the public purse over £400,000.

The potential of efficiency savings from preventive services can only be fully realised if two things are in place. First, efficiencies in preventive services must be calculated by using what is known as 'counter-factual' data. In other words, working out what you would have to spend if you *do not* invest in prevention. This is the only way to understand the value of preventive services, because their *raison d'être* is, after all, to prevent people needing other services.

Second, because the savings coming from preventive services tend to be spread across a range of public bodies, cross-sectoral savings need to be taken into account in calculations. Denver's homelessness department invested up-front to help keep homeless people off the streets, but much of the resulting efficiencies fell to local hospitals. This requires service providers and local authorities to take a more joined-up approach to measuring efficiency that can help inform wiser investment and commissioning decisions.

Collaboration

Collaboration or 'partnering' happens when different bodies work together to provide public services. The local government white paper *Strong and Prosperous Communities* places heavy emphasis on partnership working as a route to efficiency.[33] The ideal is: 'councils continuing to lead their communities by effective partnership working, increasingly working across boundaries in collaboration with other councils and partnerships to deliver better, more efficient services'.[34] There is widespread acceptance of collaboration among the local government community, including its potential to realise efficiencies.[35]

In the past, collaboration in local government tended to focus on sharing back-office services, for example by creating large regional centres for tax collection. The efficiency gains from this kind of working are fairly obvious: councils can share the cost of one large centre rather than each running their own service. Another more recent model of collaboration involves regional partnering for front-office services. Pooling budgets and creating shared services reduces duplication and has the potential to improve efficiency. A good example of this is Warwickshire Direct Partnership, where six local authorities jointly procured a system to deal with customers.[36]

Models of collaboration that are more complex and dynamic are the next step in public service reform. Local strategic partnerships, the focus of the local government reform agenda, are multi-agency partnerships, which often include third sector and private sector organisations working alongside local authorities. This collaboration promotes new approaches to efficiency that are less about streamlining individual processes and more about service redesign. For example, a new strategy for reducing teenage pregnancy could arise from collaboration between agencies responsible for health, social services and education, resulting in a coordinated approach that considers in detail the causes and effects of the problem, and draws on the expertise and resources of all the partners.[37] Indeed, local authorities are moving in this direction. Since 2008 local area agreements have been funded through a 'single pot', and since 2009 the comprehensive area assessment assesses the VfM of local services.[38]

This can save money because it takes on board the expertise of a range of organisations and is tailor made for a local area. Working together to solve complex social problems can generate significant efficiency gains by focusing previously disparate resources on outcomes for whole communities that agencies individually can't realise, and by focusing on the VfM of achieving outcomes, organisations can better target their efforts. A multi-agency approach attempts to solve problems rather than manage them. The general view is that accruing efficiencies out of partnerships is the 'next phase' of the agenda and success in this area will not be forthcoming for most authorities for a number of years.[39]

Box 3

Saving money by linking up services

Partnerships for older people projects (POPPs) are projects run jointly by local authorities and private and third sector organisations across 29 pilot sites. The aim is to create better partnership working across local organisations to provide person-centred and integrated responses for older people. Over half of all POPPs are being run with third sector organisations. POPP sites have made effective use of a wide range of resources, services and skills available in the third sector and have created a more mixed economy of service provision support for older people locally.

Since their inauguration, 100,000 people have used POPPs, and the programme has been evaluated by a team of academics. By bringing together a number of services to create more person-centred services, users of POPPs have reported improved quality of life indicators in a range of areas. In order to test their cost-effectiveness, the review team looked at three questions.

First, they investigated whether there was a difference in the use of hospital emergency bed days between the POPP sites and areas without a POPP, using a 'difference in difference' analysis. This was considered to be the primary saver from POPP programmes. For every £1 spent on POPPs approximately 73 pence is saved on the use of hospital bed-days, which accrued to the local primary care trust.

Second the researchers looked at the health related and quality of life changes of participants, which were then compared against the National Institute of Clinical Excellence (NICE) guidance on the cost of achieving outcome improvements through clinical means. This looks at the cost of a project and the changes seen in the health-related quality of live. NICE gives guidance as to whether any particular improvement could be considered cost-effective. On this measure POPPs were value for money.

Finally, the review considered whether there had been a change in costs of the type and extent of services used by individuals before and after the POPP project. Here, users of POPP services used A&E less than they had, spent less time in hospital, but used social workers, community nurses and GPs slightly more. Overall there was a mean cost reduction of £410 per person studied per year.

The challenge now for POPPs, as with all other collaborative services, is to work out where the benefits accrue and decide which agencies should contribute how much.

However, it is difficult to calculate such savings easily. The Audit Commission has found that small-scale strategic partnerships for single services such as highway maintenance resulted in clear and measurable efficiency gains; their study concluded that it is far more difficult to prove savings in partnerships which cover a range of services.[40]

Looking at added value from collaboration is problematic. There is, according to an OPM survey, insufficient data to develop accurate baselines to track efficiencies in relation to partnership working.[41] However, there are some anecdotal cases where this potential is hinted at. For example, the 'one stop shop' for information has now brought on board local partners such as the Citizens Advice Bureau and local credit unions to provide financial and legal advice. This partnership has resulted in savings of around £600,000.[42]

For such efficiency gains to be realised, there needs to be a change in the way that partnerships work. The new landscape of local service delivery points to a different kind of model. Traditional partnerships have involved a very linear form of contracting or performance monitoring. The commissioner sets goals, provides managers with the freedom to meet those goals, and then links payment to delivery. Citizens benefit because, in theory at least, the service improves. Accountability is assumed to operate through central government inspections and the electoral system, but the prime relationship is that between commissioner and deliverer, with the public and other agencies seldom involved. Efficiency in this model is about the way that an individual service delivers the outputs that the commissioner wants — how much it costs to produce a particular level of improvement in recycling levels, for instance.

However, partnerships of the future will need to work on different principles. Councils seeking to deliver place-shaping outcomes for their local area will need to broker collaboration between different parts of the public sector, and bring private and third-sector organisations together to work on problems too. In this model, efficiency has to be sought not just within an individual service, but through whole area efficiency, where outcomes are achieved for less.

This new landscape puts a premium on the ability of local authorities to manage a much wider range of relationships than in the past. Rather than just delivering service-level agreements, it seems likely that they will increasingly be asked to find new ways to work with other providers and citizens themselves to identify and deliver new kinds of service. This in turn requires local authority commissioners to rethink the targets they set for performance management, as well as giving more freedom about how those target are met.

Bringing it together

There are three reasons why these approaches generate long-term, sustainable efficiencies. First, putting additional resources into solving problems rather than managing them works out cheaper in the long run, even if it means there is an initial spike in costs. Focusing on achieving positive outcomes for people is one way this can be achieved. This should result in a reduction in what John Seddon calls this avoiding ‘failure demand’.[43] Failure demand is when a problem does not get sorted out the first time, and an agency ends up dealing repeatedly with the same problem. The Varney report found one ‘typical’ example of someone who had to contact the government 44 times following a bereavement[44] and consultants working in local authorities have found that 80 per cent of their customer contact work has been dealing with failure demand, although little work has clarified exactly the level of efficiencies that could be gained.[45] Involving service providers and people who use services closely in commissioning processes helps reduce failure demand because it ensures that services are driven by the wishes and needs of the people who use them.

Second, the public sector is a complex system. There is no point generating efficiencies in one part of the sector if it means passing costs on to another part. True efficiency comes from looking at the system as a whole, recognising what the public sector is trying to achieve and using the fewest resources possible to do that. This in turn reduces the amount of back-office and administrative functions.

Third, by tailoring services closely to match people's needs, a service can be available more cheaply. The success of public services depends on meeting diverse and complex needs. But standardised block commissioning, although benefitting from economies of scale, has a tendency towards high-cost, institutional solutions, which are expensive and often inappropriate. The result is wastage, an un-lean, slack system characterised by Parkinson's Law as departments spend their budgets each year to justify a similar budget the following one. Giving service users more direct control over what they receive will mean that people only get what they need and what they want — not whatever is available — and with a vibrant and competitive market, the costs of the service should also fall.

3 getting more for less

Challenges

There are a number of technical tools and methods to measure the non-economic value of public policy decisions such as social value, blended returns, triple bottom lines and public value. They have already begun to make a limited impact on spending decisions.[46] However, in light of the twin pressures of recession and the efficiency drive, these non-economic values will be pushed into the background. The potential efficiency gains discussed in this paper are more specific, focusing on concrete financial savings to the public sector. They are of immediate relevance but present three specific challenges.

Feasibility

The first challenge relates to feasibility. Although it is relatively simple to measure and agree on a unit cost measurement of a given output, agreeing on the financial value of reducing unemployment among homeless people, for example, is much harder. Currently there are a number of small pockets of good practice and anecdotal evidence, but no systematic, agreed way to calculate financial savings that might accrue for collaborative, preventive or personalised services. This is of course understandable: the Treasury and local authorities are the guardians of public money, and in some instances it is difficult to expect these agencies to accept 10 or 20 year horizons for efficiency savings as robust enough. This is especially true for down-stream preventive services, where there are additional methodological problems in attributing effect.

Preventive services need to be discounted and views on this can differ. Indeed, preventive services need to be targeted, otherwise there is the danger of providing services to people who do not really need them, which wouldn't be a saving at all. In the worst case, resources could be taken away from services for people with real and immediate needs. Wherever savings or benefits accrue to institutions or departments that do not pay for them, a similar problem occurs. If an intervention to reduce falls in the home is initiated and reduces demand on NHS hospital beds, then this 'slack' (unused resources) needs to be removed. However, removing slack from services can be difficult and controversial. At the very least, it will take considerable close partnership and coordination among partners.

The current architecture of the VfM model and reporting requirements under Gershon II

The second challenge is the current architecture of the VfM model and the reporting requirements under Gershon II. Under the VfM model used by local authorities, despite considerable flexibility, counter-factual data is not used to judge long-term savings, and commissioners do not consider likely cross-departmental savings when making decisions about cost-effectiveness. In addition, improved outcomes in people's lives do not tend to be the basis for investment. This removes the incentives to consider commissioning services that could generate real savings in other sectors. As Ben Rogers, the former head of policy at Haringey council, has argued, commissioners are often seeking business as usual — only better.[47] For example, where social care service users use a personal budget to get a service that is more tailored to their needs, they tend to use NHS critical services less, but these savings are lost to the system. Other structural issues are potentially even more problematic. When some budgets sit with local authorities, others with central departments and others with various local agencies, it is very difficult to overcome these problems.

The reporting requirements under Gershon II do not allow for environmental or social benefits accrued to count as efficiency gains, which results in funding tending to follow lowest unit cost providers — even when these could quite easily be demonstrated. Cross-departmental savings are also not permissible, and improvements in outcomes do not count as efficiency gains, because under the current guidance only 'cashable' savings apply.[48]

Capacity

The final challenge is capacity. Despite considerable resources dedicated to it, it is difficult to find officials in local government who can re-engineer business processes, reconfigure procurement and have sufficient business and financial acumen to deliver on the efficiency agenda in new ways, including through new creative commissioning.[49] This is understandable. Commissioning is an extremely difficult and important role — and commissioners play a key role in deciding the local mix of services, but it is certainly a position that is undervalued. According to the Office of Public Management, this lack of capacity is the biggest barrier to achieving efficiencies within the local government sector.[50] The capacity problem cuts both ways, because service provider organisations cannot always produce convincing business cases when seeking public money as they do not have the skills required to demonstrate the VfM of their services in a way that is acceptable to local authority commissioners. In the short term, this results in potentially efficient services not being commissioned, or being cut. In the longer term, it means there could be a general tendency in central government to under-invest in projects that can generate savings and positive outcomes.

Ways forward

Realising the potential efficiencies set out here is not easy. The way that budgetary and reporting structures operate means that commissioners are often forced to think in the short term. There is not a recognised set of prices or costs that is inclusive of all the additional values that result in the provision of public services and in some cases little evidence to make careful, informed decisions.[51]

Short-term changes

These recommendations are aimed at service providers, local authority commissioners and central government policy makers. There are a number of short-term changes that can help overcome some of these immediate barriers.

For service providers

Service providers — especially social enterprises and third sector organisations — need to professionalise their business cases while being creative about demonstrating their added value. When service provider organisations tender bids to deliver services, they put forward a business case to justify the use of public money and set out how VfM will be achieved. These cases need to be robust, but they also can be imaginative.

One good example is of a consortium that successfully applied for a mental health contract worth £2 million. They showed the full wider economic benefits of their bid by fully costing how improved psychological wellbeing could be measured (self-reporting) and translated this cash saving (reduced frequency of GP contact at £127 an hour; reduced frequency of police custody at £363 per night; lost economic output if economically inactive at £230 per week, and so on).[52] Similarly, a recent report by the University of Hull[53] argued that it is possible to assess the ‘value added’ by social enterprise, through a detailed study of specific social enterprises and their local circumstances.

At present, such cases are the exception, not the rule. There is not always the data available to make strong cases — and few organisations have the know-how to make strong business cases on this basis, even if they were.[54] In the context of public sector transformation, more assistance needs to be given to provider organisations to do so. One example is the course ‘Selling added value: unlocking the potential of social enterprise’, funded by the Learning and Skills Council and European Social Fund, run by the Social Enterprise Support Centre. This teaches people how to calculate the value added of their social enterprise, including costing the benefits their services can accrue in ways that the buyer would recognise as valid. Such training should be scaled up and spread more generally, with a focus on calculating cashable savings.

For commissioners and service providers

As budgets are squeezed, it is vital to remember that the VfM model offers considerable scope for commissioning to focus on the return on investment, rather than performance against budget. There are two ways in particular that VfM model local authorities commissioning through the VfM can apply this broader notion of value:

- Include cross-departmental savings. Commissioners can take into account the likely savings a service will make in other parts of the public sector, and commissioners should look for specific places where such cross-sector savings can inform smarter joint commissioning. Cross-departmental savings are difficult to calculate and usually take place at the level of commissioning. One way to inform joint commissioning is through ‘difference in difference’ analysis where a small data set can be used to estimate how much a particular service can save another part of the sector (see the annex for details). This could feasibly be applied in areas where services have clear benefits in other areas: youth services and criminal justice, adult social care and health care, and housing and work and pensions, for example.

- Local authority commissioners can make greater use of counter-factual data in order to reflect the true value of preventive and personalised services. It is difficult to measure something that has been prevented, but approximate impacts can be developed to inform commissioning decisions. Using counter-factual data is an acceptable way to justify the use of public money. Commissioners should encourage and welcome providers who demonstrate savings effectively through this method, by offering clear guidance on what constitutes acceptable counter-factual calculations in certain sectors.

For central government and efficiency reporting
Local authorities should be asked to report efficiency savings under Gershon II in a way that encompasses VfM principles. At present, only the local authority or agency that makes a saving is allowed to report that as an efficiency gain (if they are even aware of them). This acts as a disincentive to commission services where cross-sector savings are likely. Efficiency savings accruing to other departments as a result of an investment or commissioning decision should, where possible to calculate, be reportable by the commissioning department. Until that changes, however, local authority efficiency reporting officers can be more imaginative with the scale and extent of departments with which they can work to report jointly on partnership efficiencies, by using some of the calculation methods set out above and seeking joint funding for projects where cross-departmental savings can be achieved. However, this should only be done when cross-departmental savings are clear, obviously costable and when agencies can demonstrate where those savings have resulted in reducing the spend elsewhere through decommissioning or reprovisioning. For that to work there needs to be a feedback loop to work out where money can be clawed back and redundant or underused services cut.

Counter-factual data should be used more often by local authorities when reporting to their efficiency targets. Counter-factual data is permissible under the current guidance ‘if clearly defined’, and amortisation of costs is permitted under the guidance too.[55] However, very few — if any — local authorities have yet applied this method,[56] partly because they are not clear how this should be done. There are a range of methods that can be employed to calculate the savings from preventive services, which would almost certainly be permissible under Gershon II (see annex). By developing counter-factual reporting methods, local authorities and other agencies would have the incentive and tried and tested methods to invest more in preventive services

For commissioners, local authorities and politicians
Decommissioning or reprovisioning is inevitable. This means cutting existing programmes that are redundant or under-used because of new delivery models — including jobs. In social care, for example, service users with personal budgets are managing and organising their own care, meaning the administrative role of local authority back-office staff might be reduced. In some cases, such as where personal budgets are employed, the spending decisions of individual service users result in decommissioning or reprovisioning, and local authorities should not prop up old providers that are not giving people what they want. Closing down a residential care home might be politically unpopular for a local politician, but the case has to be made to close it down all the same. As the *Lyons Inquiry into Local Government* made clear: 'Local government must have confidence in itself if it is to make difficult decisions, take responsibility for doing less, and take and manage risks.'[57] If ministers, local politicians and local authorities do not change obsolete programmes then the mass of central expenditure and programmes will accumulate. Programmes that are not performing must be reviewed, questioned, transformed or stopped.[58]

Long-term changes

In the longer term, public services need to be built around people — their aspirations and their needs — not around existing services or institutional structures. As the Varney report pointed out, 'citizens who need various services are left to join up the various islands'.[59] This has to change.

Redefine the role of government
Whichever party wins the next general election will face years of net public debt and will be forced to limit public spending. If the Treasury decides to curb public spending by salami slicing (setting across the board percentage target reductions for each department), effective programmes are likely be cut, staff and the public will become disenchanted, and ultimately minimal savings will be achieved. A more effective approach would be to review every single programme and department, and ask each to demonstrate

how far it contributes to the public interest, and whether government or an external body, or both in partnership, can deliver it best. Programmes that cannot pass the test would be cut in their entirety. Those that pass the test would be left in their entirety.

This approach has already been tried. In 1992 Canada was running a deficit of 9.1 per cent of GDP, and debt was 70 per cent of GDP and rising. The government tried 22 rounds of efficiency drives and across-the-board cuts, but this did not work. In 1993 the new government reviewed all spending. Every programme had to pass five tests:

- Was it core to Canadian society?
- If so, does government need to do it?
- Can local government do it?
- How can we do it better?
- Can we afford it?

The Cabinet Office ran the process: a neutral arbiter between Treasury and departments. Whole programmes that did not pass these tests were shut down in their entirety. Cuts were not evenly spread, as some departments saved up to 50 per cent (Transport), while for other programmes spending was protected, sometimes increased: benefits for elderly went up 15 per cent. With this approach, the GDP deficit was reversed in three years, and there were no strikes, no tax rises and no ministerial fallouts. All this, despite a cut in spending of 10 per cent and firing 23 per cent of public sector work force.

Count improvements in outcomes as efficiency gains

Improvements in people's outcomes should be counted as efficiency gains. Getting better outcomes for people is the litmus test for how public sector performance is measured. If for the same resources a local authority can produce an innovative new service, which improves people's lives, this *is* an efficiency gain because it is essentially improved performance for the same spend. However, under Gershon II, only 'cashable' savings are permissible. It is possible to calculate such efficiencies in a robust manner. Local authorities can estimate how much it would cost to achieve similar improvements in outcomes using other means, for example, by following the methods used for the Local Exercise Action Pilots (LEAPs).

LEAPs are locally run pilot programmes to test and evaluate new ways of encouraging people to take up more physical activity. Measuring their cost efficiency is difficult. Leeds Metropolitan University was commissioned to do this and needed data. Those involved in the project made the assumption that as people become more active the risk of things like stroke and colon cancer decreases and they estimated how much that would save the NHS. They then estimated the likely increases in life expectancy and calculated how much a similar increase would cost if it were achieved using medical interventions advised by NICE guidelines. The evaluation team estimated that the pilots would lead to future savings to the NHS of between £770 and £4,900 per participant.[60] Despite methodological difficulties, calculating whether an improved outcome is efficient is possible.

Create a new role for commissioners

The historic approach to commissioning is focused on the purchasing of public services, based around lowest unit costs as the prime indicator of value, block contracting, operational commissions and linear performance monitoring. However, this approach needs to change to one where commissioning is used to stimulate private markets to deliver innovative public services, moving from market maker to market stimulator and market shaper. This means that commissioners will need a new set of skills, and new commissioning strategies and frameworks. Commissioning is a crucial job, and those involved should be recognised with remuneration, career paths and training to reflect their central role in shaping local services. They need to become:

- market stimulators who can encourage market provision in complex areas
- intelligence gatherers who map local demand and highlight gaps
- innovators who rethink traditional delivery approaches and bring in the public to help inform decisions
- market managers who intervene strategically to grow underdeveloped areas of private and third sector supply

- advisers who help people commission their own services where personal budgets are being employed and look for new ways for citizens themselves to take control over service delivery.

Creating a more diverse market supply of providers that can deliver a wide range of services can be achieved with a small amount of direct government expenditure by non-grant investment through leveraging of funds through external partners or direct tools such as loan guarantees, direct loans and equity capital. One good example of this is the Department of Health funded Social Enterprise Investment Fund, which funds start-up and longer-term investment in social enterprises.

This approach can be supplemented by a more flexible approach to the way monitoring works. In particular, commissioning to external partners and rewards should be built around the achievement of outcomes, with greater autonomy and freedom over the means that service providers can achieve them.

Build an evidence base

There is a dearth of evidence about the efficiency of third-sector providers, much of it being anecdotal and hypothetical.[61] In the context of public service transformation, local authorities should conduct a small number of in-depth pilot cases. Many public services are dominated by what is known as the 'power law' — a small number of complex cases that are often responsible for a high proportion of their costs. Typical cases involve those not in education, employment or training (NEETs); young offenders; families at risk; people who are homelessness; and drug and alcohol users. In these cases, high investment in preventive solutions tailored around an individual's needs is likely to yield large efficiencies. As with homelessness in the US, careful work should be done to track and calculate the true cross-departmental costs of power-law cases, which should then lead to appropriate sector-specific guidance on measurement and costing. These could then act as exemplar projects and methodologies, which could be used elsewhere.

Align business cycles

If true collaboration is to take place and be delivered through local area agreements, business cycles need to be fully and properly aligned. Different partners currently operating under these agreements operate within different performance frameworks. When a local area agreement is agreed, the different partners (usually a mix of third-sector and private companies) have different timescales with the local authorities for agreeing goals and allocating resources. Unless those are coordinated it will be difficult to align resources efficiently to agreed shared priorities.

conclusion

Local and central government are both engaged in a search for new ways to secure efficiencies. The imperative now is to get more for less. But salami slicing, or standardised across the board percentage cutbacks, would be a false economy. Real savings will come from giving people more control over their services, helping them avoid dependency on the state, and giving them what they want through greater collaborative working.

Services that effectively meet the needs of people who use them — making them people-led rather than structure-led — can motivate individuals to produce better outcomes for less money. Investing in prevention offers the opportunity to find imaginative ways to solve or minimize problems, not manage them. Collaborating more across sectors with a range of partners can result in services that tackle a problem in a better way than any one service alone could. This is not an easy ask for central or local government. The way that departmental and budgetary structures work means that spending decisions are forced to be short term. As many of the savings set out here will accrue across several departments, and over several years, they are very difficult to achieve without imaginative joint working.

Efficiency comes from solving problems not managing them. Getting things right, and getting them right first time, always works out cheaper. Rather than being efficient in one department or one sector, the prize is efficiency across the public sector as a whole. The government now faces a range of complex issues and needs radical solutions to tackle these problems. But the state alone cannot deliver these things: it needs to draw in the expertise, skills and resources of a wide range of different providers if it is to achieve better services for less money.

Efficiency and VfM should not be dispensed with. The guardianship of public money is a central concern of government. However, what we choose to measure matters — major transformations in history have often involved new ways of measurement and reporting that allow societies to recognise and release new forms of value.[62]

It is unavoidable that there will be cuts in public spending over the next four to five years, even if the Gershon II targets are met.[63] In this context, it is vital now that government puts in place the framework for ensuring a sustainable solution for these new forms of delivery to yield benefits over the coming years. Any cuts should not be made by cutting innovative programmes, or reverting to simple lowest-unit-cost measures of value, or salami slicing, but instead be based on deep consideration of sustainable and whole sector potential savings: by making services more effective and removing resulting slack from the system.

The current economic crisis should be seen not as an excuse to avoid pushing forward with reforms to make public services more effective, but instead as an opportunity to grasp these new possibilities.

annex: two ways to calculate efficiency

'Difference in difference' and cross-sectoral savings
Difference in difference is a commonly used empirical estimation technique in economics. This can be employed by commissioners to measure the cost-saving implications of any given intervention that has likely cross-sectoral effects.

It allows an exploration of the effect of an intervention on the target group before the intervention and after the intervention. To prove how far any changes were the direct result of an intervention, changes are measured against a control group where the intervention had not taken place.

To carry out a difference in difference analysis for the Partnership for Older People Project (POPP) sites, the evaluators explored the differences of activity and subsequent costs around emergency bed-days and a number of other areas that were likely to be affected by the intervention. This activity was measured before and after the start of the POPP programme. The evaluators issued a standardised questionnaire, which asked participants and the control group how often over the last three months they had:

- visited a hospital
- visited a GP
- phoned the surgery
- received home services
- seen a social worker
- used drop-in and community centres.

Each service use was costed and the mean difference recorded, then a simple economic regression was run against these data to estimate how much money an intervention had saved across a range of other services.

Across a wide range of services — including preventive services — local authority commissioners can conduct similar short-term indicative difference in difference analyses to calculate likely savings that can inform joint-commissioning decisions. However, this model does not save money by itself, because the savings made in other departments need to be clawed back from those departments whose services become underused as a result. However, it can provide the basis of more informed commissioning decisions and estimates of the true potential savings of things like preventive services.

Methods to calculate the cost-effectiveness of quality of life improvements

The impact of POPPs were also measured through something known as 'EQ-5D'. This is a descriptive system of health-related quality of life, which looks across five domains: mobility, self-care, usual activities, pain/discomfort and anxiety/depression.

This information is collected through self-reporting: simple questionnaires of participants who took part in the programme. The method is used to ascertain whether or not any changes in health-related quality of life were the direct result of the POPP project, rather than some other external factor.

To do this, the evaluators created a proxy group by looking at a similar sample group from the British Household Panel Survey (BHPS). The BHPS is the most complete available survey in the UK and allows us to track individuals across different time points. The evaluators ensured that the demographics and service use of the proxy group were similar to those of the POPP users.

Running a statistical analysis on these data isolates where the improvements in health-related quality of life were the result of the POPP intervention. By tracking the changes in the quality of life of the POPP participants against the changes (or not) in the quality of life of non-participants, the evaluators could more accurately determine the impact of the POPPs.

To determine how far this could be translated into a cost saving, evaluators used something called the incremental cost-effectiveness ratio. This corresponds to the ratio between the variations of the costs and of the quality of life associated with any therapeutic or well-being intervention and compares the results with a threshold of £30,000, matching the upper threshold adopted by NICE. In other words, it is a way of showing how much an improvement in health-related quality of life might cost through other means and is a way to cost outcome improvements accurately.

A similar tool could be used for a number of social and health care interventions — and potentially in other areas of service delivery where quality of life is an important element of public policy.

notes

1 See www.nao.org.uk/efficiency/defining.htm. Efficiency is about how well an organisation uses its resources to secure maximum output for minimum input. Effectiveness, however, judges how well the desired outcomes of a particular policy decision are achieved.

2 Crawford and Tetlow, *Green Budgets 2009*.

3 Interview with Ken Cole, private consultant.

4 IBSEN, *Evaluation of the Individual Budget Pilot Site*; OPM, *Local Government Efficiency*; Le Grand, *The Other Invisible Hand*.

5 Cabinet Office, *Excellence and Fairness*.

6 Leadbeater et al, *Making it Personal*; Bradwell and Marr, *Making the Most of Collaboration*; Centre for Social Justice, *Getting in Early*.

7 Interview with finance officer in Essex County Council.

8 See Audit Commission, *Hearts and Minds*. However, the CLG also ran an internal survey in 2005, which suggested that local authorities most often looked at quality as the key component of value in commissioning.

9 See London Centre of Excellence, www.rcoe.gov.uk/rce/core/page.do?pageId=10106 (accessed 17 Dec 2007).

10 NEF, *Measuring Value*.

11 See HM Treasury, *2004 Spending Review*.

12 Micheli et al, 'Public sector performance'.

13 NAO, *The Efficiency Programme*.

14 OPM, *Local Government Efficiency*.

15 SERCO, *Shared Services as a Long-term Solution for Local Government*.

16 These figures were revised upwards in the 2009 budget.

17 Much of this critique of the Gershon review is informed by NEF, *Unintended Consequences*.

18 OPM, *Local Government Efficiency*; CLG, *Annual Efficiency Statements 2007–8*.

19 See www.hm-treasury.gov.uk/media/A/3/bud08_chapter5.pdf (accessed 21 Jul 2009).

20 See In Control, *A Report on In Control's First Phase*.

21 Leadbeater et al, *Making it Personal*.

22 See In Control, 'The Economics of Self Directed Support', at www.socialcare.csip.org.uk/index.cfm?pid=68&catalogueContentID=119 (accessed 21 Jul 2009).

23 Leadbeater et al, *Making it Personal*; IBSEN, *Evaluation of the Individual Budget Pilot Sites*; In Control, *A Report on In Control's Second Phase*.

24 OPM, *Budget Holding Lead Professionals*.

25 See In Control, 'The Economics of Self Directed Support', at www.socialcare.csip.org.uk/index.cfm?pid=68&catalogueContentID=119 (accessed 21 Jul 2009).

26 See, for example, CSIP, *Micro Markets Project*.

27 In Control, *A Report on In Control's Second Phase*; Centre for Social Justice, *Getting in Early*.

28 Gladwell, 'Million dollar Murray'.

29 Brookes et al, *Misspent Youth*.

30 Ibid.

31 NICE, *School Based Interventions on Alcohol*.

32 Interview with Ken Cole, private consultant; interview with Treasury official.

33 CLG, *Strong and Prosperous Communities*.

34 CLG, *National Improvement and Efficiency Strategy*.

35 OPM, *Local Government Efficiency*.

36 See www.wolp.org.uk/.

37 CLG, *Local Strategic Partnerships and Teenage Pregnancy*.

38 See www.idea.gov.uk/idk/core/page.do?pageId=7895725 (accessed 21 Jul 2009).

39 OPM, *Local Government Efficiency*.

40 Audit Commission, *For Better, for Worse*.

41 OPM, *Local Government Efficiency*.

42 See www.wolp.org.uk/about-us/about.htm.

43 Seddon, *Systems Thinking in the Public Sector*.

44 Varney, *Service Transformation*.

45 Seddon, J, Evidence to Select Committee on Public Administration.

46 NEF, *Measuring Value*; Nicholls, *Why Measuring and Communicating Social Value Can Help Social Enterprises Become More Competitive*.

47 Rogers, 'Innovation made easy'.

48 Under the current reporting requirements, departments are not able to declare savings that have been accrued to other departments as a result of their own investment or resources. While the other department can, it will tend towards lower investment in programmes that will create cross-departmental savings.

49 Work Foundation, *Efficiency Efficiency Efficiency*.

50 OPM, *Local Government Efficiency*.

51 Nicholls, *Why Measuring and Communicating Social Value Can Help Social Enterprises Become More Competitive*.

52 NEF, *Measuring Value*.

53 Haughton and Hart, *Assessing the Economic and Social Impact of Social Enterprise*.

54 Interview with Ken Cole.

55 CLG, *Measuring and Reporting Value for Money Gains*. Amortisation is building in up-front costs to the efficiency saving if it accrues over a number of years, although it is not exactly clear from the guidance how that would be applied.

56 Interview with Communities and Local Government official.

57 Lyons, *Lyons Inquiry into Local Government*.

58 Filkin, 'Better outcomes, better value'.

59 Varney, *Service Transformation*.

60 Department of Health, *Learning From Leap*.

61 House of Commons, Public Administration Select Committee Report, *Third Sector*.

62 Nicholls, *Why Measuring and Communicating Social Value Can Help Social Enterprises Become More Competitive*.

63 Crawford and Tetlow, *Green Budgets 2009*.

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For the next decade the most urgent question facing government will be how public services can meet people's needs, while costing less.

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Jamie Bartlett is a senior researcher at Demos.

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ISBN 978-1-906693-21-3 £5