

Improving public sector efficiency



Prepared for the Auditor General for Scotland and the Accounts Commission
February 2010



Auditor General for Scotland

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- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
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Contents

Summary Page 2

Our report

Summary of key messages
Page 3

Recommendations
Page 4

Introduction Page 5

The Scottish public sector is facing the tightest squeeze on budgets since devolution

The current economic climate means that two per cent efficiency savings will not be enough
Page 6

Part 1. Progress in delivering efficiency savings Page 8

Key messages

There has been limited progress in implementing Audit Scotland's previous recommendations

The Efficient Government Programme aims to release £1.6 billion in efficiency savings by 2011
Page 9

The Scottish Government reported efficiency savings of £839 million against a target of £534 million in 2008/09

Central government bodies reported efficiency savings of £249 million
Page 12

Health reported efficiency savings of £332 million

Local authorities reported total efficiency savings of £258 million
Page 13

Relying on non-recurring savings is not a sustainable option for the future
Page 14

£254 million savings were reported from better purchasing and asset management and from shared services, but further savings can be made
Page 15

Part 2. Delivering a more efficient and productive public sector Page 17

Key messages

A fundamental review of public services is needed in the current economic climate

There needs to be a better link between efficiency, productivity and outcomes
Page 18

A priority-based approach to budgeting and spending is needed
Page 20

Better collaboration and joint working are needed
Page 23

Appendix 1. Study methodology Page 29

Appendix 2. Membership of the project advisory group Page 31

Summary



The need for public bodies to improve productivity and efficiency in public services is becoming ever greater.



Our report

1. The public sector must continually strive to improve efficiency. This report provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gives an update on how the Scottish Government and public bodies have addressed the recommendations made in our 2006 report about the previous efficiency programme.¹

2. We conclude that public bodies need to build on the achievements of the Programme by taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. We make recommendations accordingly for the Scottish Government and the wider public sector.

3. This report is organised into a further three parts:

- The need for future efficiency savings in the Scottish public sector (Introduction)
- Reported progress in delivering efficiency savings (Part 1)
- Delivering a more efficient and productive public sector (Part 2).

The methodology for this study is summarised in Appendix 1.

4. Looking ahead, the public spending context is changing significantly and the need for public bodies to improve productivity and efficiency in public services is becoming ever greater.

5. We have not attempted to validate independently the reported efficiency savings because the information to support reported savings is not

complete or consistent. To help the public sector become more efficient through improving productivity and making savings, we have highlighted some examples of developing good practice. We have also produced a good practice checklist to supplement this report, available on our website at www.audit-scotland.gov.uk. The aim of the checklist is to help leaders in public bodies check and challenge their approach and ultimately support better productivity and efficiency.

Summary of key messages

- The public sector has reported £839 million of efficiency savings in the first year of the Efficient Government Programme. This is 57 per cent higher than the £534 million target. Of the reported savings, £254 million (30 per cent) have been delivered through better purchasing, better asset management and shared services, but there is still scope to increase savings from these areas.
- Improving the efficiency and productivity of existing services is always important and the public sector should continue to do this. However, planning for two per cent efficiency savings each year will not be sufficient to bridge the gap between projected future spending and future funding.
- The scale of the financial challenges facing the Scottish public sector means that a new approach is needed that fundamentally reviews priorities and the delivery of services.
- Although public bodies have overall cost information, they still do not have sufficient information on unit costs and costs related to activity and quality of services. This information is needed to demonstrate improvements in efficiency and productivity and to provide assurance that the savings reported through the Programme are being delivered. The public sector needs to understand better the relationship between the costs, volume and quality of services to get improvements in productivity and reductions in cost.
- In seeking efficiencies, some public bodies – around a fifth of councils and a third of NHS bodies – have relied on non-recurring savings such as asset sales. It is reasonable to take advantage of opportunities like this as part of longer-term service planning and restructuring, but relying on one-off savings in the short term is not a sustainable option for the future.
- While there is a significant amount of joint working, for example between health and social care, there is a continuing need for more and better coordination between public sector organisations to improve productivity and safeguard the quality of service delivery. Better coordination could provide more consistency in reporting efficiency savings and allow better sharing of good practice.

Recommendations

The Scottish Government and public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured

- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer-term strategy
- report efficiency savings consistently.

The Scottish Government should:

- collate and share good practice on initiatives to improve efficiency and productivity across the public sector
- challenge the use of non-recurring savings reported by public bodies
- develop clear guidance on how to measure and report savings from the three priority areas of better purchasing, better asset management and shared services to ensure there is no double-counting.

Introduction



The current economic climate means that two per cent efficiency savings will not be enough.



The Scottish public sector is facing the tightest squeeze on budgets since devolution

6. From mid-2008 until the end of 2009, the UK's economy was in recession.² The full effects of the recession are not yet known but it is clear there will be major implications for the public sector.

7. The Scottish Government's budget for 2009/10 is £34.7 billion, with around £29 billion of this being the Departmental Expenditure Limit (DEL). The 2007 Spending Review sets out how this will be spent.^{3, 4, 5} The current financial year, 2009/10, is likely to be the peak year for public spending for some time to come. The Scottish Government's 2010/11 DEL budget shows a real-term reduction of 0.9 per cent.⁶ By 2013/14, the Scottish budget could be between seven and 13 per cent lower than 2009/10 in real terms.⁷

The current economic climate means that two per cent efficiency savings will not be enough

8. The public sector continually strives to be more efficient. Two national programmes, the 2005–08 Efficient Government Initiative (the Initiative) and the 2008–11 Efficient Government Programme (the Programme) have encouraged the public sector to make efficiency savings by providing guidance and setting targets. Public bodies reported £1.8 billion savings through the 2005–08 Initiative and aim to deliver a further £1.6 billion savings through the 2008–11 Programme.⁸

9. While there is recognition across the Scottish public sector that there are serious financial challenges ahead, making efficiency savings will become increasingly difficult. Public bodies' budgets will come under increasing pressure because less funding is available at the same time as demand for some services is increasing. Also, given the high proportion of fixed or committed costs in most budgets, it is not clear whether the public sector can continue to deliver two per cent efficiency savings on a cumulative basis beyond 2011 without redesigning services.

10. As part of our work on *Scotland's public finances: preparing for the future* we reviewed and analysed public spending profiles and compared this to recent projections for the Scottish budget, across three scenarios.⁹ This highlighted an increasing gap between budget and spending of between £1.2 billion and £2.9 billion by 2013/14, should spending continue at its current level (Exhibit 1).¹⁰

11. Based on our analysis, continuing to make two per cent efficiency savings will not be enough to bridge the gap between projected spending and funding, but larger savings will take time to deliver. This is because salaries and pensions, goods and services and the running costs of buildings and equipment make up most of public sector costs. Capital costs also make up a significant element of public spending. New thinking is required to find savings in these areas.

12. Without examining options, such as more flexible deployment of staff and reduced staffing levels, rationalising the assets used and seeking alternative ways of delivering services, public bodies may not be able to reduce their costs while maintaining the levels and quality of front-line services. To meet the challenges presented by the current economic climate a more fundamental approach is needed.

² A recession is a period during which economic output declines, usually only being termed a recession after two or more quarters of negative growth. However, sustained below trend growth is often also viewed as recessionary. Although the UK economy is now officially out of recession, forecasts predict a slow recovery in 2010, with only modest growth likely.

³ The Departmental Expenditure Limit (DEL) accounts for the majority of Scottish Government funding and covers programme and running costs.

⁴ Spending plans were originally outlined in the *Scottish Budget Spending Review 2007* and have been updated annually.

⁵ *Scotland's public finances: preparing for the future*, Audit Scotland, November 2009.

⁶ *Scottish Budget: Draft Budget 2010-11*, Scottish Government, September 2009.

⁷ *Briefing Note*, Centre for Public Policy for Regions, April 2009.

⁸ *Efficient Government: efficiency outturn report for 2008-09*, Scottish Government, November 2009.

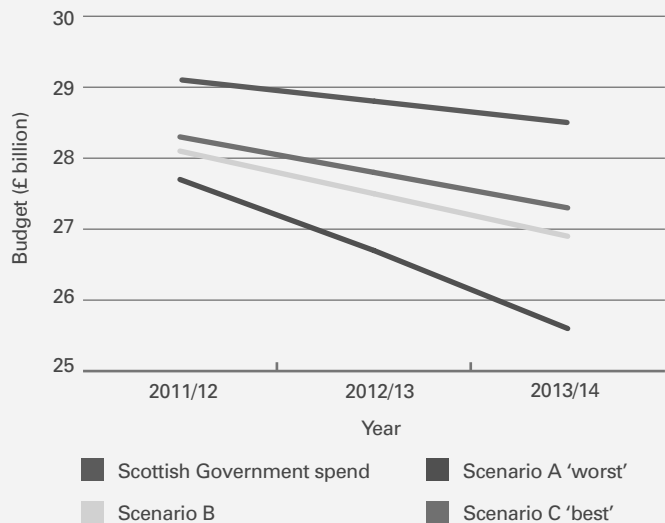
⁹ *Briefing Note*, Centre for Public Policy for Regions, April 2009.

¹⁰ *Scotland's public finances: preparing for the future*, Audit Scotland, November 2009.

Exhibit 1

Projections of Scottish Government spending and budgets to 2013/14 in real terms

Projected budget reductions will result in a significant gap emerging should the Scottish Government's spending plans continue on the same basis beyond 2011.



Note: Scottish Government spend includes staff costs, spending on goods and services, capital projects and charges. The assumptions we have used are: staff costs will increase by 1.5 per cent and capital charges will increase by 11 per cent each year. Other spending is assumed to remain at current levels. All figures have been adjusted for the effects of inflation using HM Treasury forecasts – *UK Budget 2009*, HM Treasury, April 2009.

Source: Audit Scotland/Centre for Public Policy for Regions

Part 1. Progress in delivering efficiency savings



Reporting of efficiency savings is not supported with performance information setting out the quality and levels of services provided.



Key messages

- Although public bodies have some cost information they still do not have the supporting evidence on unit costs, activity and quality needed to provide assurance about the savings reported through the Programme.
- The Scottish Government reported efficiency savings of £839 million in 2008/09. This is equivalent to 3.1 per cent against a target of two per cent.
- Individually and collectively, the three main parts of the public sector – central government, health and local authorities – reported savings above their targets. But for individual public bodies there are significant variations in the level of savings reported.
- Some public bodies have used non-recurring savings to meet their savings targets. This may be appropriate in the short term, but non-recurring savings are better as part of a wider strategy to ensure the delivery of services is sustainable in the future.
- The public sector has reported £254 million of savings from better procurement, asset management and shared services, but further savings can be made in these areas.

13. This part of the report comments on progress made in implementing Audit Scotland's previous recommendations and reported savings in the first year (2008/09) of the Programme.

There has been limited progress in implementing Audit Scotland's previous recommendations

14. In December 2006, Audit Scotland published a progress report on the Initiative.¹¹ This found that the public sector was responding well in embedding the Initiative into day-to-day business and that it was delivering efficiency savings that would not otherwise have been achieved. However, the report also made nine recommendations aimed at ensuring the Initiative was adequately supported, including compiling baselines and measures to demonstrate the impact of efficiency savings on quality of service.

15. These recommendations remain relevant as they relate to improving the processes and supporting systems for efficiency savings. While the recommendations in our 2006 report were directed at the Scottish Executive, we have assessed both the Scottish Government's response and, from our fieldwork, public bodies' actions (Exhibit 2, overleaf).¹²

16. Overall, the Scottish Government has made some progress in implementing our recommendations. The Government responded to some of our recommendations by issuing revised guidance. But it is not clear that this is always being followed by the wider public sector. For example, the Scottish Government has updated the guidance to specify that firm baselines are needed to identify the level of efficiency saving achieved and that robust monitoring arrangements are to be in place. However, in the sample of 15 public bodies that we reviewed (Appendix 1) we found that baselines were in place for costs but not for activity and quality; performance measures were not routinely being used; and reporting of

efficiency savings was not supported by performance information on the quantity and quality of services provided. Most public bodies are using existing processes and systems to measure efficiency savings that, for the most part, were not designed for the purpose. There is therefore a risk that reported efficiency savings might actually be cuts in service because it is not clear if they have resulted in fewer or poorer quality services being provided.

17. In addition, there are inconsistencies in the savings reported against the Programme and elsewhere. In part, this is attributable to public bodies reporting time-releasing savings locally, which do not count towards the Programme.¹³ Reporting different savings figures, both individually and collectively, leads to confusion.

18. Taking into account the limited progress made in implementing our 2006 recommendations, significant weaknesses in the information available and inconsistencies in reporting, Audit Scotland is not able to provide assurance on reported efficiency savings. We therefore refer to 'reported' savings throughout this report.

The Efficient Government Programme aims to release £1.6 billion in efficiency savings by 2011

19. In developing its budget for 2008/09 to 2010/11, the Scottish Government established the Programme, which aims to deliver £1.6 billion efficiency savings over the three years to 2011. This is equivalent to just over £500 million each year.¹⁴ The Scottish Government set each of its portfolios an annual target of two per cent cash-releasing efficiency savings to achieve the overall target.¹⁵

¹¹ *The Efficient Government Initiative: a progress report*, Audit Scotland, December 2006.

¹² Prior to September 2007, the Scottish Administration was referred to as the Scottish Executive. It is now called the Scottish Government. When dealing with the earlier period this report refers to the Scottish Executive but in all other instances to the Scottish Government.

¹³ Time-releasing savings are when a public body delivers the same quantity but a better quality of service from the same resource or when it delivers a greater quantity of service of the same quality from the same resource.








¹⁴ Based on two per cent annual savings of 2007/08 DEL.

¹⁵ Cash-releasing savings are when the same quantity and quality of services are delivered for less money.

Exhibit 2

Progress against recommendations in Audit Scotland's 2006 progress report

There has been limited progress in implementing the recommendations made in 2006

Key	 Implemented	 Partially implemented	 Limited progress
2006 report recommendations	Progress update: Scottish Government	Progress update: Public bodies	
The Scottish Executive should:			
1. Ensure that the Efficient Government Delivery Division (EGDD) is maintained with an appropriate level of resources and skills to drive forward the initiative and to monitor its progress.	 In 2006, the EGDD comprised four portfolio managers plus administrative support. In March 2009, it was restructured and is now part of the Efficiency and Transformational Government Division (the Division). The section currently has two and a half full-time equivalent members of staff.		
2. Continue to develop information on good practice in delivering efficiencies and disseminate this to all parts of the public sector.	 In April 2008, as part of the Efficiency Government Programme 2008–11, the Scottish Government produced the Efficiency Process and Guidance document. This sets out the principles underpinning the Programme and provides guidance and information on the monitoring process. As part of the guidance for the Programme, the Scottish Government committed to highlight examples of good practice online. To date, this has not happened.	 Public bodies are using the Scottish Government's guidance to identify and report efficiency savings. There is evidence of some bodies informally sharing good practice examples. The Scottish Government Health Directorates have established an improvement and support team, to, among other things, share good practice across the health sector. COSLA has produced annual guidance for councils on how to report efficiency savings. COSLA and the Improvement Service have also hosted a workshop, attended by representatives of most councils, to discuss and share reporting practice. The workshop provided guidance on how to deliver efficiencies from shared services and Customer First initiatives.	
3. Continue to improve openness and transparency in the monitoring of progress: <ul style="list-style-type: none">Review the definition of efficiency savings in Efficiency Technical Notes, especially for new efficiency projects which are developed.	 Following the publication of Audit Scotland's progress report and comments from the Scottish Parliament's Finance Committee, the Scottish Executive revised and updated the template used for developing Efficiency Technical Notes. The revised template places greater emphasis on measuring efficiency savings and demonstrating the effect on services.		

2006 report recommendations	Progress update: Scottish Government	Progress update: Public bodies
<ul style="list-style-type: none"> Further analyse the information used to compile baselines against which efficiency savings are to be monitored, especially for new efficiency projects which are developed. 	<ul style="list-style-type: none"> ○ Programme guidance sets out the need for firm baselines but it does not state the need for both financial and non-financial baselines. The guidance sets out the overall high-level financial baseline, based on the Scottish Government's 2007-08 Departmental Expenditure Limit. 	<ul style="list-style-type: none"> ● Baselines for activity and quality are not in place and are not used to monitor progress against efficiency savings.
<ul style="list-style-type: none"> Improve the standard of measures available to demonstrate the impact of efficiency savings on the quality of services delivered. 	<ul style="list-style-type: none"> ○ Programme guidance requires directors general to ensure that all efficiencies have robust monitoring arrangements and supporting evidence in place. However, as the Government is using the 2007/08 budget as the baseline to measure all efficiency savings, public bodies are focusing on measuring financial data. 	<ul style="list-style-type: none"> ○ We found variations across the public sector and within public bodies on their understanding and monitoring of how costs differ with changes in activity. In 2007, the Improvement Service published 25 efficiency measures. The measures were designed to improve the consistency of how efficiency gains were reported and to help councils maintain quality of service delivery. However, a survey in March 2008 found that only four councils were using these measures.
<ul style="list-style-type: none"> Review and, if necessary, clarify circumstances in which the costs of developments should be offset against efficiency savings. 	<ul style="list-style-type: none"> ✓ The treatment of development costs is set out in the programme guidance. In addition, the Division responds to requests from public bodies for advice and support. 	
<ul style="list-style-type: none"> Ensure that all reported efficiency savings are calculated using suitably robust methodologies. 	<ul style="list-style-type: none"> ● Programme guidance sets out information on definitions and baselines, including the netting-off of costs and the importance of measuring quality. It also states that the Division is responsible for verifying the delivery of efficiency savings and challenging reported efficiency savings. The Division has performed a challenge role to ensure that reported efficiency savings are in line with the programme guidance. However, the Division does not validate reported savings. 	<ul style="list-style-type: none"> ● Programme guidance states that each director general is responsible for ensuring that there are robust arrangements for monitoring, measuring and reporting all reported efficiency savings within their portfolio. We found the reported efficiency savings are not supported by performance information setting out the quality and levels of services provided. There is a risk that public bodies are reporting efficiency savings which are actually cuts in service as they have adversely affected the quality or level of service provided.
<ul style="list-style-type: none"> Further develop robust information to support clear audit trails to provide assurance on reported savings. 	<ul style="list-style-type: none"> ○ Programme guidance states that supporting evidence must be available for all reported efficiency savings and that evidence is adequate to withstand external audit. 	<ul style="list-style-type: none"> ● We found that audit trails were not in place for all reported efficiency savings. There is a wide variation in practice across the public sector, with many bodies still developing ways to improve the accuracy and consistency of reporting against savings targets.

Scotland's 200 public bodies are responsible for delivering the majority of these savings, although not all have been set a two per cent target.

20. Under the Programme, the public sector can make both recurring (or ongoing) cash-releasing savings that reduce costs on a permanent basis, such as better purchasing; and non-recurring (or one-off) savings, for example from the sale of surplus land and buildings. Each year, the Scottish Government portfolios develop and publish plans to demonstrate how they will deliver their efficiency savings targets.^{16, 17}

The Scottish Government reported efficiency savings of £839 million against a target of £534 million in 2008/09

21. In November 2009, the Scottish Government reported total efficiency savings of £839 million in the first year of the Programme – £305 million (57 per cent) more than the annual target.¹⁸ This included savings from across the public sector:

- £249 million from central government, including the Scottish Government.
- £332 million from the health and wellbeing portfolio – £204 million is directly attributable to NHS bodies. The remaining £128 million reported savings are from a range of activities including improved drugs prescribing and the affordable housing investment programme.
- £258 million from local authorities.

22. The Scottish Government reports savings for each of its seven portfolios. For the eighth (local government) portfolio, COSLA submits a combined efficiency return

on behalf of all local authorities. For all portfolios reported savings were in excess of their targets. The health and wellbeing and local government portfolios together reported the largest share of savings, around £590 million or 70 per cent of the total – in line with their share of the Scottish budget (68 per cent) (Exhibit 3).

23. The Scottish Government has plans currently in place to deliver £1.1 billion of savings by the end of 2009/10, increasing to £1.6 billion by 2010/11. However, its efficiency outturn report states that there is a shortfall in plans for savings in 2010/11 as some areas have not yet fully identified where they expect to make efficiency savings for that year. The shortfall is offset by planned savings above target in other areas. But it is important that all areas complete their efficiency plans as soon as possible

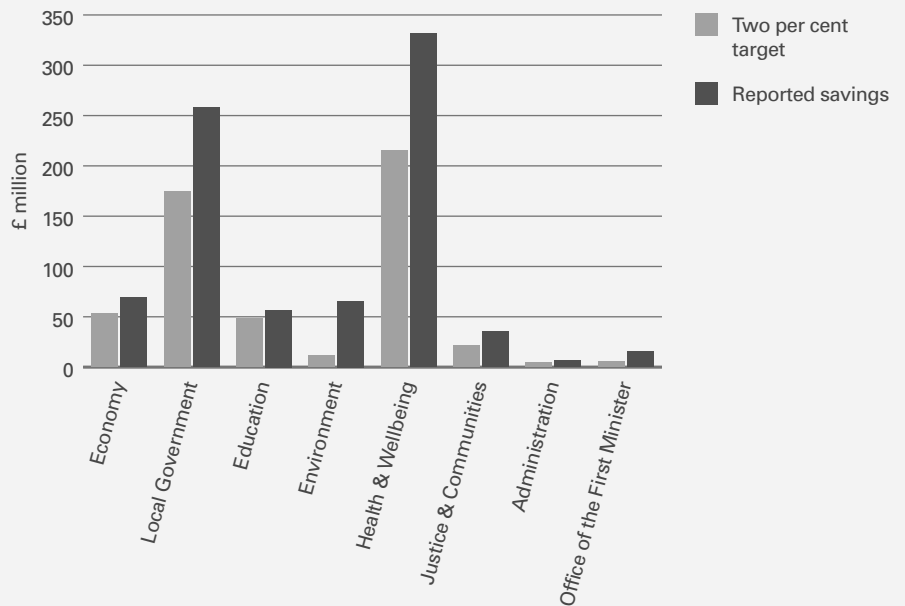
to maximise the savings target and help protect front-line services in the current economic climate.

Central government bodies reported efficiency savings of £249 million

24. Central government reported efficiency savings of £249 million. This comprises the total savings from the economy, education, environment, justice and communities, administration and office of the First Minister portfolios. While each of these portfolios reported efficiency savings in excess of their targets, there was variation in the levels of savings reported across portfolios. For example, £66 million savings reported in the environment portfolio exceeded its £12 million target by almost five times; while similar savings of £57 million were reported in the

Exhibit 3

Reported efficiency savings against targets for portfolios, 2008/09
All portfolios reported efficiency savings of more than two per cent.



Source: Audit Scotland from figures supplied by the Scottish Government

16 *Efficiency Delivery Plans 2008–11; March 2008*, Scottish Government, March 2008.
 17 *Efficiency Delivery Plans 2008–11; April 2009*, Scottish Government, April 2009.
 18 *Efficient Government: efficiency outturn report for 2008/09*, Scottish Government, November 2009.

education portfolio, this was much closer to its £48 million target (17 per cent more) (Exhibit 3).

25. Most projects within portfolios reported more savings than planned. For example, the Scottish Funding Council reported savings, including colleges and higher education institutions, of £38.7 million against plans of £32 million; and Gaelic development bodies reported £8.6 million, against plans of £1.2 million, through a combination of shared services, co-location and changes in working practices.

Health reported efficiency savings of £332 million

26. The health and wellbeing portfolio reported efficiency savings of £332 million in 2008/09. These savings include efficiencies reported by individual NHS bodies, improved drug purchasing, improved prescribing and savings made through the affordable housing investment programme.

NHS bodies reported savings of £204 million, £50 million more than the target

27. The Scottish Government Health Directorates developed a combined efficiency plan for all NHS bodies setting out a target, based on two per cent of DEL, to deliver £154 million cash-releasing efficiency savings in 2008/09. Each NHS body set out how it planned to deliver its share of the target in its local delivery plan.

28. In total, NHS bodies reported £204 million of efficiency savings in 2008/09. Collectively they reported £161 million of recurring savings and £43 million of non-recurring savings.

29. While NHS bodies had to deliver a collective target of two per cent efficiency savings, the level of reported savings varied across the 22 NHS bodies from

1.9 per cent to nine per cent. All but one NHS body, NHS Lothian, reported efficiency savings of at least two per cent (Exhibit 4). However, some NHS bodies, including NHS Greater Glasgow and Clyde, Highland and Tayside, planned and reported more savings than required under the Programme to help them break-even.

Local authorities reported total efficiency savings of £258 million

Collectively, local authorities reported £83 million more than the two per cent savings target

30. In March 2008, the Convention of Scottish Local Authorities (COSLA) set out local authorities' commitment to deliver collective efficiency savings of £175 million, which is equivalent to two per cent of their 2007/08 core funding from the Scottish

Government.^{19, 20} This collective target includes all 32 councils and 16 police and fire joint boards.

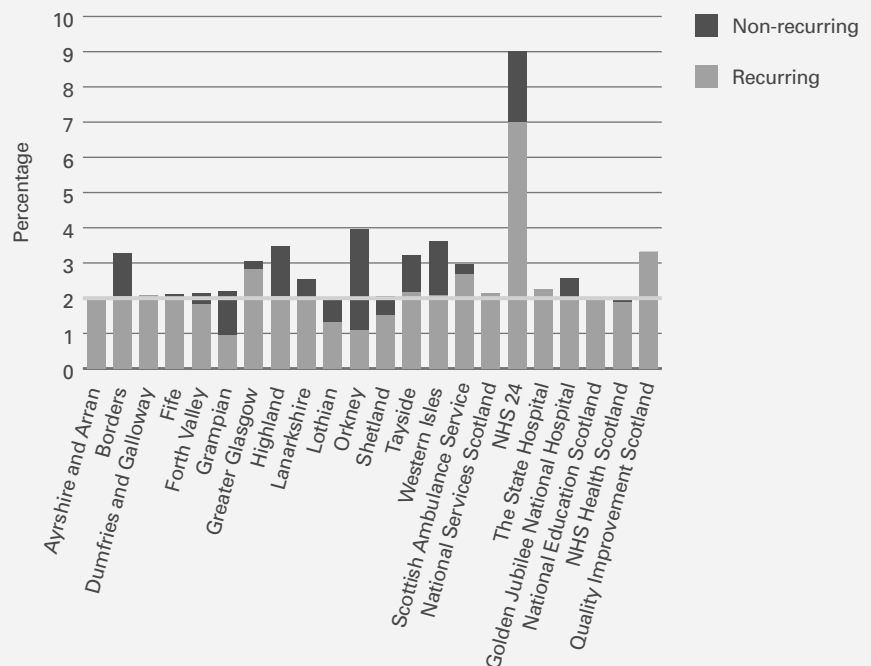
31. Although the collective savings target for local authorities is based on two per cent (in line with the rest of the public sector), core funding from the Government is only part of councils' income. This funding accounts for around three-quarters of councils' total income. Councils also receive significant levels of income from additional sources, such as council tax.

32. Local authorities set their own targets for efficiency savings, which may be more or less than two per cent, and report their savings in local efficiency statements. This means that local authorities need to work together to deliver efficiency savings

Exhibit 4

NHS bodies' reported efficiency savings against targets, 2008/09

NHS bodies reported savings ranging from 1.9 per cent to 9 per cent of their budget.



Source: Audit Scotland from figures supplied by the Scottish Government

19 Core funding given by central government to local government for delivering its core functions. It consists of the Revenue Support Grant (RSG), ring-fenced and other specific grants and non-domestic rate income. It is commonly called Aggregate External Finance.
 20 *Efficiency Delivery Plans 2008-11*, Scottish Government, March 2008. Based on 2007/08 total Aggregate External Finance.

and meet the collective target. This needs effective planning, coordination and monitoring to ensure that all 32 councils' and the 16 police and fire boards' savings targets add up to the overall target of £175 million. COSLA's guidance on preparing their efficiency statements asks local authorities to set out efficiency targets for the next financial year but COSLA does not collate in-year progress against the overall annual target.²¹ There are risks in this approach as it is not clear at any point in the year if local authorities are on track to meet the collective target or whether corrective action needs to be taken before the year-end.

33. COSLA reported that, collectively, local authorities had made £258 million of savings in 2008/09 – £83 million (47 per cent) above the target. The majority of these savings, £238 million, were recurring savings and a further £20 million were non-recurring. The total local authority savings include £29 million reported by police boards and £5.8 million reported by fire boards.

34. It is unclear whether the savings reported by councils are comparable. Guidance provided to councils by both the Scottish Government and COSLA is not prescriptive, which means that savings may not be calculated or reported consistently. As in other sectors, councils' efficiency statements are not independently validated, which means that we cannot place reliance on the reported savings.

Savings reported by councils vary significantly

35. Although individual councils were not set a two per cent savings target, we have calculated their 2008/09 reported savings as a percentage of their 2007/08 funding allocation from the Scottish Government. We have also calculated the reported savings as a percentage of each council's total income.^{22, 23}

36. However, each council's circumstances vary and the level of savings reported may reflect this. For example, some councils may need to make a higher level of savings in the short term to meet financial challenges, while others may have long-term plans in place that set smaller levels of savings each year. It is therefore difficult to compare on a like-for-like basis.

37. The level of efficiency savings reported by each council as a percentage of their 2007/08 funding allocation varies significantly, from 0.7 per cent to 5.3 per cent. Of the 32 councils, 17 reported efficiency savings of more than two per cent, with four of these councils reporting more than three per cent. One council reported exactly two per cent savings and 14 reported savings of less than two per cent.

38. Councils reported savings ranging from 0.3 per cent to 2.3 per cent of their total income. Of the 32 councils, only one reported efficiency savings greater than two per cent; 19 reported savings of more than one per cent; two reported savings of one per cent; 11 reported savings of less than one per cent, with two of these reporting savings of less than 0.5 per cent.

39. In the current economic circumstances, it is likely that many councils will need to reduce their costs over the next few years to match reductions in the budget available. Consequently, most councils will need to significantly increase the level of savings they make.

Relying on non-recurring savings is not a sustainable option for the future

40. The Programme allows non-recurring efficiency savings to count towards the two per cent target and many public bodies are reporting

such savings. These savings are one-off in nature, for example the sale of surplus assets and underspends because of staff vacancies.

41. Most NHS bodies reported sufficient recurring savings to meet their two per cent savings target. The level of non-recurring savings for each body ranged from £20,000 to £8 million. Seven NHS bodies reported £15 million of non-recurring savings and relied on these to meet their target. Twelve NHS bodies reported significant percentages of non-recurring savings at between 22 per cent and 72 per cent of their total savings.

42. Twelve councils collectively reported £14 million of non-recurring savings. Six councils reported significant percentages of non-recurring savings at between 20 per cent and 48 per cent of their total savings.

43. In reporting efficiency savings central government bodies do not distinguish between recurring and non-recurring savings.

44. Making one-off savings is reasonable when it is planned as part of a wider strategy. For example, some public bodies, as part of their estates strategies, are rationalising their estates by selling some land and buildings and developing new facilities that meet current and future service needs. As part of these strategies bodies may plan to use some of the proceeds from the sale of surplus land and buildings (wholly or partly) to pay for new developments.

45. However, there are risks for those bodies that are using non-recurring savings to meet savings targets or achieve financial balance. This may be at the expense of improving the efficiency and effectiveness of services in the longer term and is not a sustainable approach.

²¹ *Efficient Government Reporting: Framework for Local Authorities in Scotland*, COSLA, March 2009.

²² Councils' published annual efficiency statements.

²³ Individual Aggregate External Finance allocations for each authority are from Scottish Government financial circulars issued to local authorities. *Finance Circular No. 1/2007*, Scottish Executive, February 2007.

£254 million savings were reported from better purchasing and asset management and from shared services, but further savings can be made

46. The Scottish Government has identified three priority areas where public bodies should focus their attention on making savings. These are better asset management, better purchasing and shared services. However, it has not set targets for these areas. The previous Initiative had five priority areas. In addition to the current three priorities it also included streamlining bureaucracy and managing absence.

47. The NHS in Scotland continues to target workforce modernisation as a priority and has reported £32.5 million of time-releasing savings in 2008/09 through reducing absence.²⁴ Salary, pension and related employer costs for the whole public sector amount to £18.8 billion (around 52 per cent of expenditure) and this is an area where savings may need to be made in the future.

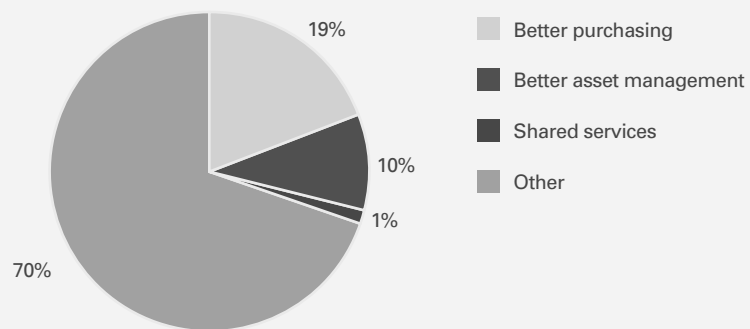
48. The Scottish Government compiles savings information for each of the three priority areas, based on data submitted by public bodies. However, it recognises that there can be some overlap between these areas. Consequently, public bodies may categorise similar savings against different areas, which means there is a risk of double counting or inconsistencies in reported savings. The Scottish Government therefore states that savings against each area should be taken as an indicative, not definitive, level of reported savings.

49. Almost a third (£254 million) of the total reported efficiency savings was from better purchasing, better asset management and shared services (Exhibit 5). The reported savings for each area were:

Exhibit 5

2008/09 reported efficiency savings, highlighting savings reported against priority areas

The three priority areas account for 30 per cent of all reported efficiency savings in 2008/09.



Source: Audit Scotland from figures supplied by the Scottish Government

- £160 million from better purchasing
- £82 million from better asset management
- £12 million as a result of shared services projects.

The public sector reported £160 million of savings from better purchasing

50. In July 2009, Audit Scotland published a high-level assessment of the effect of the Scottish Government's programme to improve how the public sector buys goods and services.²⁵ The review looked at the savings and the additional wider benefits delivered by the Public Procurement Reform Programme. At that time, the reform programme had made significant progress putting in place the processes, guidance and structures needed to improve public sector purchasing. However, some parts had been delivered later than planned and it was not clear that the reform programme had achieved the level of improvement and impact the Scottish Government had sought at the outset. For example, best practice

indicators were not yet in place, which was delaying the consistent measurement and reporting of savings from better purchasing. The report also found that savings were being achieved but more slowly than expected.

51. In 2008/09, the Scottish Government reported £160 million of efficiency savings through better purchasing.²⁶ Of this total:

- central government reported £58 million savings (36 per cent). This has more than doubled from £28 million reported in 2007/08
- NHS reported savings of £70 million (44 per cent), which is in line with 2007/08 savings
- local authorities reported savings of £32 million (20 per cent), which is almost half of the £59 million reported in 2007/08.

52. It might be expected that savings would be broadly in proportion to spending but there is no apparent relationship between the value of purchasing spending and the value of

²⁴ *NHSScotland efficiency and productivity programme – delivery framework*, Scottish Government, June 2009.

²⁵ *Improving public sector purchasing*, Audit Scotland, July 2009.

²⁶ *Efficient Government: efficiency outturn report for 2008/09*, Scottish Government, November 2009.

reported savings. For example, local authorities account for around half of total spending on goods and services but their reported savings make up only a fifth of total purchasing savings. This may be because of slower take-up of collaborative contracts than in the NHS.²⁷ A number of councils have insufficient information to identify spending on goods and services across collaborative contracts, non-collaborative contracts and one-off contracts. Most councils have relatively high levels of expenditure on goods and services (up to 85 per cent) that are not part of established contracts.²⁸

£82 million of savings were reported from better asset management

53. The public sector spends a significant amount on its fixed assets, such as land, buildings and equipment. Good asset management – including making better use of under-used assets, sharing the use of assets with partner organisations and disposing of surplus assets – is therefore critical to public bodies becoming more efficient.

54. In 2009, Audit Scotland published two reports on asset management in the NHS and local government.^{29, 30} These reports made a number of recommendations to the Scottish Government and public bodies, including recommending that work on asset management should be coordinated across the Scottish Government and that good practice is shared across the public sector.

55. As part of the Programme, Scottish Government portfolios are expected to identify any possible savings from their estate, for example through reducing maintenance and lease costs, obtaining better energy deals and from the disposal of surplus land and buildings.

56. In 2008/09, the Scottish Government reported £82 million of efficiency savings from better asset management. Three portfolios – economy, environment and local government, reported the majority of these savings (82 per cent). However, the level of savings reported by portfolios does not differentiate between recurring and non-recurring savings.

Slow progress has been made in achieving savings from shared services

57. In 2004, the Scottish Executive highlighted that sharing support services, such as human resources, finance and accounting, and information technology, had the potential to generate substantial efficiency savings. The Executive stated savings could be achieved through enhanced economies of scale, greater standardisation and the adoption of best practice.³¹ While acknowledging that some development of shared services was already happening in the public sector, the Executive felt that more could be done to deliver greater savings in this area. The Executive wanted to see public bodies engaging in joint support service arrangements within and across sectors.

58. The Accounts Commission's overview reports of local authorities have highlighted that shared services have the potential to contribute to more efficient and effective public services.³² While recognising that councils are participating in a number of national and locally led shared services projects, the Accounts Commission noted that overall progress with shared services initiatives had been slow. It reported that shared services remain a key challenge, particularly in light of the

continuing financial pressures facing the public sector. Local authorities reported efficiency savings of £3.8 million from shared services projects in 2008/09.

59. In December 2009, Sir John Arbuthnott published his report on the *Clyde Valley Review*.³³ The report sets out the findings of his review of joint working and shared services by the eight local authorities in the Clyde Valley Community Planning Partnership. The report highlighted that there are few significant shared services initiatives in Scotland, particularly in front-line services.

60. Audit Scotland's 2008/09 overview report of NHS performance highlighted that progress with shared support services has been slower than anticipated.³⁴ At the time of the 2005–08 Initiative it was anticipated that the development of shared services in the NHS would generate savings of £10 million each year. The NHS reported just under £3 million savings from shared services in 2007/08, and £5 million in 2008/09.

61. In 2008/09, the central government sector reported £3 million savings from shared services. Central government bodies are continuing to develop shared service arrangements. One example is the Scotland's Environmental and Rural Services (SEARS) project. This partnership of nine public sector organisations aims to streamline land managers' contacts with public bodies by providing a single point of contact for land managers.³⁵ Joint training among the SEARS partners has allowed staff to carry out inspections and provide advice on behalf of the other organisations, reducing the overall number of visits that land managers receive.

27 Collaborative contracts with suppliers are based on public bodies joining together to buy particular goods or services.

28 *Councils' annual audit reports, 2008/09.*

29 *Asset management in the NHS, Audit Scotland, January 2009.*

30 *Asset management in local government, Audit Scotland, May 2009.*

31 *Building a Better Scotland Efficient Government – Securing Efficiency, Effectiveness and Productivity, Scottish Executive, November 2004.*

32 *Overview of local authority audits 2008, Audit Scotland, February 2009; Overview of local authority audits 2009, Audit Scotland, February 2010.*

33 *Clyde Valley Review, Sir John Arbuthnott, December 2009.*

34 *Overview of the NHS in Scotland's performance in 2008/09, Audit Scotland, December 2009.*

35 The nine organisations involved in the SEARS project are: Animal Health, the two national park authorities, the Crofters' Commission, the Deer Commission for Scotland, Forestry Commission Scotland, Scottish Environment Protection Agency, Scottish Natural Heritage and the Scottish Government's Rural Payments and Inspections Directorate.

Part 2. Delivering a more efficient and productive public sector



Strong leadership is required and difficult decisions will need to be made about what services are delivered, and how.



Key messages

- The current target of two per cent efficiency savings will not be sufficient to bridge the gap between projected future spending and funding. The public sector should continue to improve efficiency and productivity of current services but it also needs to review fundamentally how public services will be delivered in the future.
- The public sector needs more accurate and up-to-date information on unit costs, activity and quality. It needs to understand better how it uses resources in the delivery of services if it is to increase productivity without affecting the quality of services.
- Further opportunities exist for savings to be made through more collaboration and joint working. In addition, service users and front-line staff have an important role to play in redesigning services to deliver savings and improve quality.
- There is a need for a more joined up and coordinated approach across the public sector. This is necessary to improve productivity and safeguard the quality of systems of service delivery that require joined-up working, for example between health and social care. Better coordination would allow better sharing of good practice and more effectively facilitate whole system working.

A fundamental review of public services is needed in the current economic climate

62. The public sector has reported significant efficiency savings over the last few years but this was achieved at a time when there was real growth in budgets (of around five per cent each year). There is recognition across the public sector that there are serious financial challenges ahead over the next few years. Public bodies will find making efficiency savings more difficult as budgets reduce, demand for services increases, and there is less room for manoeuvre in how money is spent.

63. The public sector needs to take a more fundamental approach and plan for this now. In his recent report, the Auditor General raised a number of key questions that the public sector needs to address in planning for the financial challenges ahead.³⁶

64. This fundamental approach should include three elements:

- improving productivity, efficiency and outcomes
- priority-based budgeting and spending
- better collaboration and joint working.

65. In this part of the report, we have identified some good practice examples from our fieldwork, which demonstrate some but not all of the elements outlined above. For example, some demonstrate examples of redesigning or reshaping services and engaging staff and users, but few have calculated the related costs or attributed savings to these changes.

There needs to be a better link between efficiency, productivity and outcomes

66. Effective management information is needed to control costs, make difficult decisions about competing priorities and support performance improvement. Public bodies also need to be able to demonstrate that efficiency savings have not resulted in a cut in services delivered (either the level or quality). To do this, public bodies need to have good information on costs, activity, productivity and quality of services and demonstrate how these are linked.

67. Audit Scotland has previously reported that NHS bodies do not have sufficient financial and performance information with which to manage their services.^{37, 38, 39} The Accounts Commission's overview of council Best Value reviews reported that there was limited understanding of the impact of efficiency savings on staff and service delivery, and that performance management was an area where all councils could improve.⁴⁰

68. As part of this review, we found that public bodies are generally aware of the total cost of their services and budgets are monitored regularly. However, we found variations across the public sector and within public bodies on understanding unit costs and monitoring how costs differ with changes in activity. We found that public bodies are primarily using financial information to report progress against efficiency savings targets, but this is not linked to relevant performance information that sets out the quality and levels of services provided. There is a risk that public bodies may be reporting efficiency savings which have actually resulted in a cut in services.

³⁶ *Scotland's public finances: preparing for the future*, Audit Scotland, November 2009.

³⁷ *Managing long-term conditions*, Audit Scotland, August 2007.

³⁸ *Overview of the NHS in Scotland's performance 2008/09*, Audit Scotland, December 2009.

³⁹ *Asset management in the NHS*, Audit Scotland, January 2009.

⁴⁰ *Making an impact: An overview of the audits of Best Value and Community Planning 2004-09*, Audit Scotland, October 2009.

Baseline cost information is in place but better baseline information is needed on activity levels and the quality of services

69. We found that all the 15 bodies reviewed as part of this study have baseline information on costs but they do not have unit cost information to help them measure improvements in productivity against a baseline. The extent to which bodies have baseline information on their activity, productivity and quality of services also varies. Three of these bodies (Scottish Natural Heritage, East Ayrshire Council and West Lothian Council) use baseline information on outputs and outcomes for all of their planned savings programmes. NHS Greater Glasgow and Clyde and NHS Lothian use baseline information on quality and service levels for most of their planned savings programmes. However, the remaining ten bodies do not consistently have baseline information on activity and quality, nor are baselines used consistently across all planned savings programmes.

Better information is needed on the productivity of public services

70. Achieving many of the outcomes in the Scottish Government's National Performance Framework will be long term and dependent on the delivery of efficient and high-quality services.⁴¹ To help achieve these outcomes and ensure services are delivered efficiently and effectively, there needs to be a sound understanding of how productivity is measured. A change in productivity is measured by examining the ratio of change in the quantity and quality of the service delivered (outputs), compared to the cost of providing the services (inputs) (Exhibit 6).

71. Public bodies in Scotland need a better understanding of their current use of resources if they are to increase productivity without affecting the quality of services. They must have accurate and up-to-date information about how much they spend on delivering services and whether they do this economically, efficiently and effectively. This is particularly important during a period of tight resources when the need to make efficiency savings is critical.

Benchmarking can help identify potential efficiency savings

72. Over the last decade, Audit Scotland has highlighted variations in service performance in our national performance audit reports. Robust information is needed, particularly on the costs, efficiency and productivity of services, to allow the public sector to measure its performance and identify areas for improvement.

73. Benchmarking within and across the public sector can be a powerful management tool to support the delivery of efficiency programmes.⁴² Benchmarking allows public bodies to assess the performance of front-line services and support functions compared with similar organisations. It also enables bodies to learn good practice from other areas of the public sector, identify and overcome potential difficulties and barriers, and allows significant differences in practices to be highlighted and investigated.

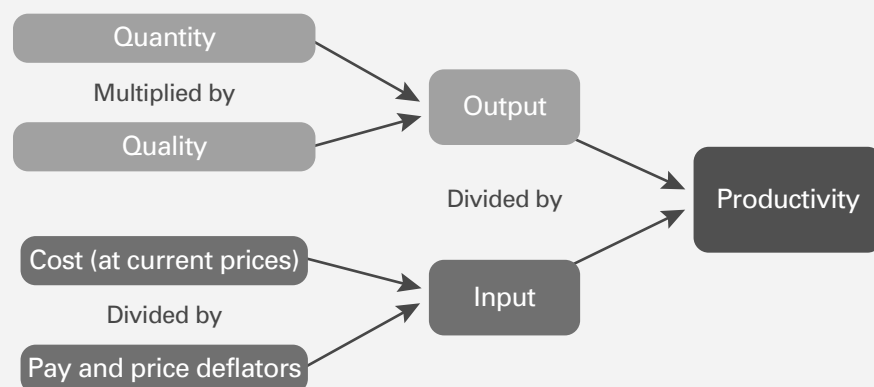
74. In May 2007, Audit Scotland, along with the other UK audit agencies and KPMG, developed and published a set of performance indicators for corporate services.⁴³ The UK public sector audit agencies share the Scottish Government's view that there is potential for significant efficiency savings in the provision of corporate services across the public sector, enabling more resources to be redirected into front-line services. Corporate services can make a critical contribution to the wider value for money performance of public sector bodies.

75. The set of performance indicators aims to help the public sector understand, compare and demonstrate the value for money performance of their corporate services in five core functions: finance, human resources, information and communication technology, estates management and procurement. The indicators have been designed to

Exhibit 6

Components of productivity change

Productivity is about comparing the cost of providing a service with the number and quality of services provided.



Source: Office of National Statistics

⁴¹ *Scottish Budget Spending Review 2007*, Scottish Government, November 2007.

⁴² Benchmarking of a service can involve: comparisons of policies, outputs and outcomes; comparisons of organisational structures and processes; and comparisons of costs and activity levels.

⁴³ *Value For Money in public sector corporate services – A joint project by the UK public sector audit agencies*, Audit Scotland, Audit Commission, National Audit Office, Northern Ireland Audit Office and Wales Audit Office, May 2007.

ensure that all those who choose to gather the data will be able to assess their own value for money performance and compare their results with other public sector bodies in the UK.

76. The Scottish Government is currently undertaking a study to benchmark corporate services within central government. The study aims to enable bodies to benchmark support services, improve efficiency and effectiveness and identify areas of good practice.⁴⁴ In its first year the study has collected a comprehensive set of baseline indicators from 38 participating organisations (including the Scottish Government, executive agencies and non-departmental public bodies). The Scottish Government intends to widen the study to 60 central government bodies.

77. However, overall our review found little evidence of a comprehensive approach to benchmarking either between or within different areas of the public sector, despite these developments in corporate services. Although all of the councils and NHS bodies reviewed had completed some benchmarking exercises in some areas, further work is needed to develop benchmarking programmes that cover all of their services. While it is difficult for central government bodies to benchmark because of the nature of their business, similar bodies often exist in other UK countries that could be benchmarked against.

The public sector needs to continually review its services

78. Some public bodies are using systems thinking methods, such as the Lean improvement approach, to streamline the way they provide services by stripping out unnecessary or avoidable steps.⁴⁵ This can lead to better services that may save money. This approach is also useful in engaging front-line staff who are well placed to identify better ways of working.

79. In the health sector, NHS Lothian has used the Lean approach for some services, which has delivered some improvements. In a submission to the Scottish Parliament's Health and Sport Committee, NHS Lothian reported that its Lean in Lothian programme had cost around £1 million in additional consultancy and training costs and delivered some £4 million of efficiency savings over three years (Case study 1).⁴⁶

A priority-based approach to budgeting and spending is needed

80. The Scottish public sector is facing difficult decisions in the current economic climate. It needs to adopt a priority-based approach to budgeting and spending, considering competing priorities and deciding where to target the limited funds available. More work needs to be done to demonstrate a clear link between priorities, budgets and the performance of services.

Case study 1 – NHS Lothian Lean in Lothian programme

The Lean in Lothian programme was launched in 2006 and provides front-line staff with time, training and management support to make changes in how they do things.

Twelve redesign projects were delivered during 2008/09, leading to a number of improved outcomes, including:

- a ten per cent reduction in Scottish Ambulance Service accident and emergency turnaround times
- an improvement in the information flow of cancer services, leading to the achievement of a 62-day cancer waiting time target in 96 per cent of cases at the year-end, compared with 92 per cent previously.

A review of the 2008/09 projects confirmed that improvements during 2007/08 have been sustained. Other developments during 2008/09 included changes in booking operating theatres and increasing the number of hand surgery operations that can be performed by 110 cases a year.

In a submission to the Scottish Parliament's Health and Sport Committee in September 2009, NHS Lothian reported some £4 million of efficiency savings through the projects undertaken. These include productivity savings valued at almost £1 million from improved discharge procedures, £0.4 million productivity savings through improved administration in the psychology department and some £0.3 million cash savings from shorter waiting times for CAT scanning.

NHS Lothian has recently introduced its new 5x5x5 programme. During 2009/10, the programme will focus on NHS Lothian's five most pressing problems, with five multidisciplinary teams of five people set up to address these. Each team has been allocated £50,000 to source solutions to the problems.

Source: Audit Scotland

⁴⁴ *Efficiency and Reform Fund Final Report*, Scottish Government, June 2009.

⁴⁵ Lean is an improvement approach, developed by Toyota, that aims to reduce waste in the production process by focusing on areas where activities consume resources but do not add value from the customer's perspective.

⁴⁶ *NHS Lothian Briefing on Efficiency Savings*, NHS Lothian, September 2009.

81. A priority-based approach to budgeting means that key decision-makers in Scotland's public sector need to:

- identify the money available
- clearly demonstrate how services contribute to national objectives and outcomes
- review each policy and service and decide if it delivers value for money, identifying which:
 - are absolutely essential to delivering outcomes and are already being delivered as efficiently and effectively as possible

- should continue but need to be redesigned or reshaped to deliver them more efficiently and effectively
- could stop without affecting public services and outcomes.

82. This needs strong leadership across the public sector, as hard choices will need to be made. We have previously reported on the need for strong, effective leadership. Most recently, the overview of Best Value audits from 2004–09 reported that effective political and managerial leadership is central to good performance. It stated that strong leadership is required and difficult

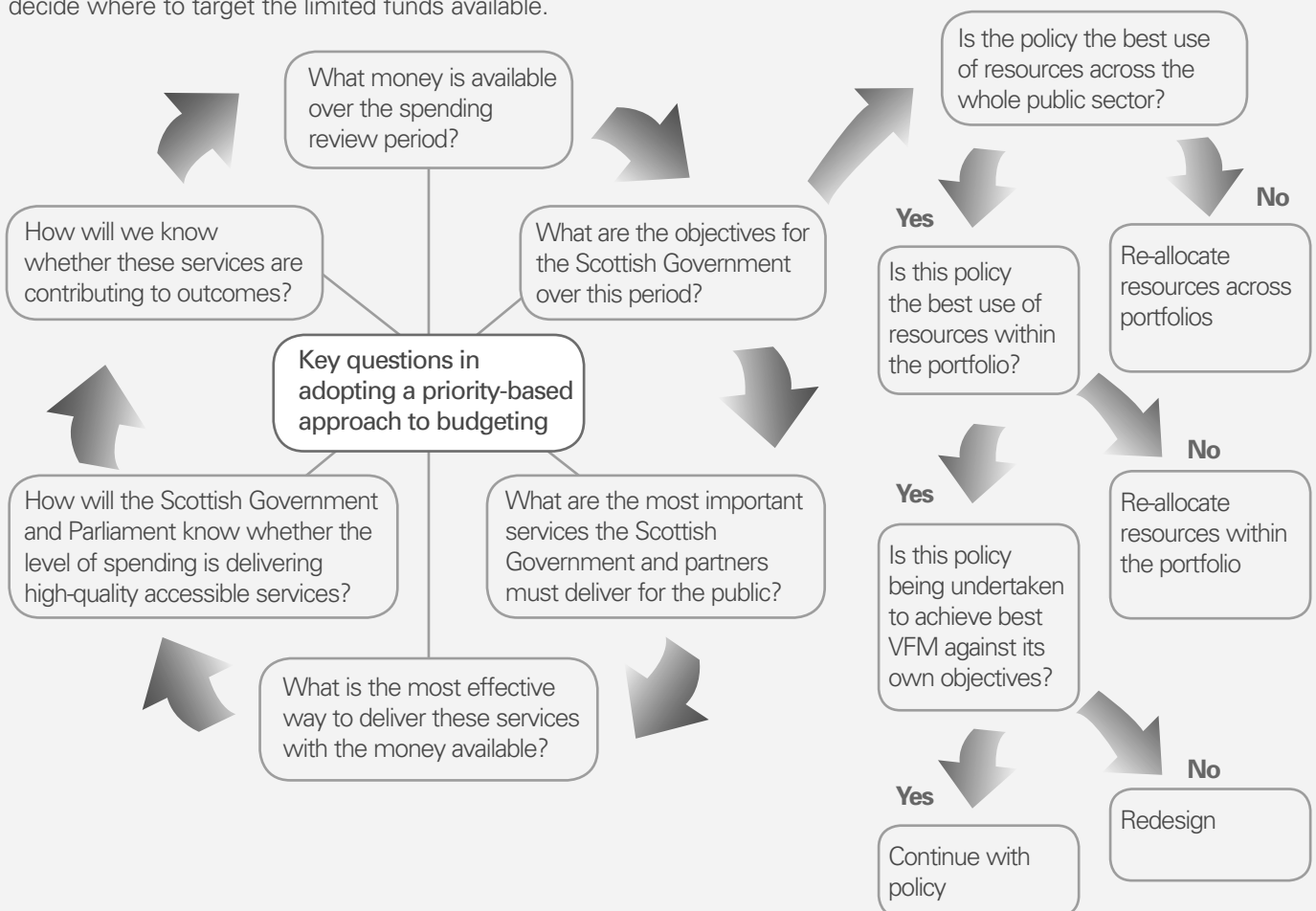
decisions will need to be made about what services are delivered and how. It also highlighted that leaders should ensure that priorities are clear and well communicated; decision-making is open and transparent; constructive challenge is encouraged; and high standards of conduct and performance are expected and delivered.⁴⁷

83. In managing tight resources in the current and future financial climate, public bodies need to consider a number of questions before allocating money. We described a priority-based approach to budgeting in a recent report on Scotland's public finances (Exhibit 7).

Exhibit 7

Key questions in adopting a priority-based approach to budgeting

Within a priority-based approach to budgeting and spending the public sector should consider competing priorities and decide where to target the limited funds available.



Source: Audit Scotland/National Audit Office

Public bodies are taking different approaches to identifying efficiency savings

84. Public bodies are taking different approaches to identifying and achieving their efficiency savings depending on the nature of the business and services delivered. Some are applying a two per cent efficiency savings target to all services. Others are identifying specific projects to deliver savings.

85. All 15 public sector bodies reviewed as part of this study have set out their efficiency savings targets or the commitment to become more efficient within their corporate plans or other strategic documents, such as local delivery plans in the health sector. Three bodies (Dundee City Council, Scottish Court Service and Scottish Natural Heritage) have established specific committees to oversee their efficiency work. These committees have helped shape and plan efficiency programmes and created a focus on delivering efficiency savings through regular reporting and challenge on efficiency programmes and progress against targets.

86. Some of the public bodies reviewed have also developed specific initiatives to drive forward their efficiency savings. For example, East Ayrshire Council has developed a programme of service reviews which are led by elected members (Case study 2).

Savings plans are approved at a senior level

87. It is important that senior people, including elected and board members, are involved in strategic planning, particularly when difficult decisions need to be made about reshaping services, and monitoring performance.

88. We found that boards, council committees, or their equivalents, are approving savings targets as part of the formal approval of corporate plans, budgets or specific efficiency plans. Public bodies' savings targets typically have timescales for delivery, with responsibility assigned to staff

for ensuring that planned savings are achieved.

89. However, there is wide variation in the level of information provided to, and engagement and involvement of elected members and board members in considering and approving savings targets. The level of detail on efficiency savings provided varies and some bodies do not provide details of all efficiency projects to the board or committees. We identified some areas of good

practice, including at NHS Greater Glasgow and Clyde and NHS Tayside where board members participate in efficiency savings workshops to consider options, ideas and proposals.

Service users, front-line staff and other service providers play an important role in redesigning services

90. Users of public services, front-line staff and other service providers have an important role to play in helping to redesign services to make them more

Case study 2 – East Ayrshire Council Review of business programmes

In preparing its budget for 2009/10 East Ayrshire Council set out a programme of business reviews. The programme included a timetable for carrying out 22 business reviews to be delivered in 2009/10 with an efficiency savings target of £5.4 million.

The reviews sought to identify efficiency savings and drive forward continuous improvement within the council. Strategic review groups based on the council's portfolios (Lifelong Learning; Community Planning and Equalities; Management and Resources; Environment and Regeneration and Community Wellbeing), chaired by an elected member, oversaw respective business reviews. Each review sought to:

- evaluate current service provision
- explore opportunities for better working and innovation
- identify options for efficiency savings
- make recommendations to deliver demonstrable improvements in services through more effective use of resources and cash-releasing efficiencies
- consider wider policy options for future service delivery.

Staff undertaking the business reviews worked with key stakeholders, including lead officers in the service area and service user groups. Changes in service users' needs were identified and these informed the conclusions of the reviews and helped outline future objectives.

The establishment of the strategic review groups to oversee implementation of the reviews enabled greater scrutiny and challenge.

For each review, savings targets were clearly identified along with timescales for delivery. The council's Corporate Management Team is responsible for monitoring progress. By October 2009, in-year savings of £2.45 million had been identified and the council was on track to deliver £5.4 million by the end of the year. Objectives from the reviews are reported back to staff through departmental team meetings and are included within service plans.

Source: Audit Scotland

efficient and effective. Because they are close to the points where services are delivered, they may be well placed to identify areas that could be improved.

91. We found that 14 of the 15 bodies reviewed are informing staff about savings programmes, through emails and staff newsletters. We found some areas of good practice, for example where staff have specific objectives, which contribute to efficiency savings programmes and staff suggestion schemes where staff are rewarded for contributing ideas that lead to savings. However, not all bodies are actively engaging front-line staff in the development and delivery of savings programmes. Dundee City Council has involved staff in identifying efficiency savings through introducing efficiency champions (Case study 3).

92. Taking a service user perspective can lead to improved services that better meet users' needs. There are many examples of where this has been successful, including in the area of palliative care (Case study 4, overleaf).

93. Most of the public bodies reviewed involve service users to some extent but this is generally through seeking feedback on their services or performance, for example through public meetings and surveys. While this is only a limited way of involving users, public bodies may use this feedback to help them make decisions when they are redesigning or expanding services.

Better collaboration and joint working are needed

94. The public sector needs to continue to improve its collaboration and joint working to deliver more efficient and user-focused services. This requires strong leadership across the public sector, increased flexibility, identifying innovative approaches to how services are provided, and breaking down traditional barriers to making this work

Case study 3 – Dundee City Council

Initiative to involve staff in the identification, recording and reporting of efficiency savings

Dundee City Council had experienced difficulties in preparing the annual efficiency statements. One of the problems was a lack of expertise within departments in identifying, recording and calculating efficiencies savings, in particular non-cash (time-releasing) savings. The council selected 15 staff to take on additional responsibilities as 'efficiency champions' to improve the process for identifying, recording and calculating efficiency savings and for providing training.

Champions identify initiatives and projects that are delivering genuine savings within their departments and record and calculate savings for the annual statement. In addition, their role is to be aware of, and provide a focus for information on, the wider corporate and national efficiency agenda.

Continued support and further advice and information is available to efficiency champions from the accounting team responsible for the preparation of the annual efficiency statement. More training sessions are planned for departmental management teams that have requested this. A formal review of the initiative is to be undertaken and reported to the council's Improvement and Efficiency Board and any further activities will be identified then.

Although the project has not been in place for long, three advantages have already emerged:

- the sessions have raised the awareness of staff within departments about the efficiency agenda
- efficiency champions form a clear reporting mechanism and communication channel on the efficiency agenda between finance and service departments
- because half of the appointed champions are from outside their departments' finance function, the preparation of the efficiency statement is not seen as an 'accounting exercise'.

Source: Audit Scotland

effectively. Good quality information is essential to inform decisions. Collaboration and joint working can take a number of different forms including contracting with alternative providers, shared support services and integrated approaches to delivering front-line services.

95. The recent Arbuthnott review into existing shared services initiatives and joint working in eight councils in the Clyde Valley community planning partnership identified opportunities for development.⁴⁸ The review

considered priority areas to deliver improved services and savings. Key recommendations included integrated or joint services for:

- health and social care
- waste management (treatment and recycling)
- transport (single social transport and fleet management and maintenance)
- roads maintenance

- education (supply teachers and specialist services)
- property sharing and management
- 'back office' services (administration, customer services, information management and charging policies).

96. There is evidence that some public bodies have begun to address the issues highlighted by Arbutnott. For example, some councils are working together to develop new plans for shared waste facilities to meet national waste targets. City of Edinburgh and Midlothian councils have established a zero waste project, which involves them working together to procure a contract with the private sector to build a facility to deal with waste that is not recycled, rather than send this waste to landfill.

97. Another area where councils, NHS boards and other local organisations are working together is in the implementation of joint property strategies with the aim of delivering Best Value for the public purse. There are a number of examples where this has led to the development and sharing of joint premises which has resulted in efficiency savings and improved access to services (Case study 5).

98. By working together public bodies can identify inefficiencies and duplication in the way in which services are accessed and delivered, and overcome traditional service boundaries. This is an area where more could be done as efficiency can be improved at the same time as improving the quality of services (Case studies 6 and 7).

Case study 4 – NHS Borders and NHS Highland

Taking a user perspective to improve palliative care services and make more efficient use of resources

NHS Borders' out-of-hours palliative care service has won an 'Evidence into Practice' award. The service is led by the lead Macmillan GP and clinical nurse specialist in cancer and palliative care, with active support from social workers, GPs and district nurses. Audits have shown low out-of-hours admission rates (one hospital admission from 150 contacts over a six-month period); improvements to pain assessment processes; and high patient and primary care staff satisfaction.

New technologies are improving access to palliative care services for people in remote and rural areas who live a long way from hospices and hospitals. In the Highland area telehealth is being used to monitor people with advanced respiratory illness in their own homes. The local hospice is also providing patients with handheld computers and mobile phones so that they can receive tailored self-care advice and their conditions can be monitored.

Source: Audit Scotland

Case study 5 – NHS Ayrshire and Arran and East Ayrshire Council

Taking a joint approach to using assets more efficiently and effectively.

The North West Kilmarnock Area Centre was built through collaboration between NHS Ayrshire and Arran, East Ayrshire Council and the Better Neighbourhood Services Fund programme. The centre brings together a wide range of primary health services and other public services including a new 'teach and treat' dental facility, mental health services, nursery and family centre, social day care for older people, a community health cafe and a fitness suite.

The joint premises have opened up opportunities for joint working and addressed a number of potential future problems in the community. For example:

- East Ayrshire Council Social Work and NHS Ayrshire and Arran Adult and Elderly Community Mental Health Services now work together providing outreach services which were previously based in hospitals.
- The centre replaces 11 properties, many of which needed extensive upgrading and were not designed for modern service delivery and joint working.
- Through the 'teach and treat' dental facility, the centre provides local access to dental care in an area where dental health is poor and registration levels are low.

Source: Audit Scotland

Case study 6 – Clackmannanshire Integrated Mental Health Services

Introducing a single referral process has led to better user satisfaction and improvements in waiting times.

Clackmannanshire Integrated Mental Health Services introduced a single referral pathway to improve access to NHS, council and voluntary sector community services. Service users were consulted throughout the process. Referrals to all services are made electronically to one point using a single form. With patients' consent, information on their needs is shared among agencies as appropriate. An evaluation was carried out after the new system had been in place for nine months, and staff providing mental health services reported that the simplified referral process had improved significantly. In particular:

- service users were more satisfied
- waiting times for services were reduced
- referrals were being directed to the appropriate service
- better information on the care provided was available.

This work is coordinated by a multi-agency steering group supported by a pooled NHS and social work budget.

Source: Audit Scotland

Case study 7 – Tayside Police, the Crown Office and Procurator Fiscal Service and NHS Tayside

Access to mental health assessment while in police custody to ensure referral to the right services.

Tayside Police, the Crown Office and Procurator Fiscal Service and NHS Tayside have agreed a joint protocol regarding police referrals for psychiatric assessment. If the police believe someone in custody has a mental health problem, they may request an assessment of that person from psychiatric services. They may request an assessment at any time seven days a week. The protocol requires psychiatric services to attend all police referrals as promptly as possible. Once assessed, if an individual is not admitted to hospital then they will be referred where appropriate to other services for support or advice.

Tayside Police believes that this approach is providing a better service to people with mental health problems and is resulting in fewer people being held inappropriately in a police cell. Her Majesty's Inspectorate of Constabulary for Scotland has recommended that similar approaches should be rolled out across Scotland.

Source: Audit Scotland

99. Where two bodies want to develop shared service arrangements there may be barriers to doing this, such as legal problems. For example, Orkney Islands Council and NHS Orkney agreed to pursue the formation of a wholly owned limited company to deliver shared support services for both bodies. The creation of a joint body has been delayed because of problems arising from the different legal status of councils and NHS bodies. Under the NHS (Scotland) Act 1978, NHS bodies can only enter into a joint venture with a company as defined by the Companies Act 2006. This means that a limited liability partnership is not possible between the council and the NHS body. The council would be able to recover any VAT on services charged by the company but the NHS body cannot, which means that it may be more expensive for the NHS body to operate in this way. Barriers like this must be overcome if the public sector is to be able to work more flexibly and innovatively to deliver public services.

Programme coordination and guidance needs to be strengthened

100. The Scottish Government's Efficiency and Transformational Government Division (the Division) is responsible for the national coordination of the Efficient Government Programme. The Division published the efficiency savings for 2008/09 and has published technical guidance for all public bodies.^{49, 50} The Division is also responsible for providing support and guidance when requested, and publishing good practice examples online. The Permanent Secretary and directors general within the Scottish Government are responsible for collating and reporting efficiency savings delivered by their portfolio. COSLA presents local authorities collective efficiency savings directly to the Division.

49 *Efficient Government: efficiency outturn report for 2008/09*, Scottish Government, November 2009.

50 *Efficient Government Programme 2008/09–2010/11: Efficiency Process & Guidance – Version 3.1*, Scottish Government, April 2008.

101. In addition to the Division, a number of other parts of the public sector are also involved in supporting public bodies in delivering efficiency savings (Exhibit 8). All are committed to helping parts of the public sector identify, monitor and report efficiency savings and seek to identify and share areas of good practice. These include:

- NHS Efficiency and Productivity Oversight Group
- COSLA
- the Improvement Service.

102. In April 2008, the NHS established an efficiency and productivity oversight group to identify and share opportunities for improving and delivering efficiencies across NHS bodies. In June 2009, the group published the NHS Scotland Efficiency and Productivity Delivery Framework.⁵¹ The aim of the framework is to support and assist the NHS in achieving efficiency and productivity targets.⁵² This framework is the first stage of a three-year programme, which expects to drive up efficiency and productivity, improve the consistency of health care and help to create an efficiency culture in all NHS bodies.

103. The framework aims to help NHS bodies to improve the quality of care provided whilst reducing or maintaining existing cost levels. As part of this programme, seven new indicators have been launched aimed at improving productivity by identifying the best performing areas and disseminating good practice to other NHS bodies. However, the focus of the indicators is activity, such as pre-operative bed days, rather than productivity, which also requires an understanding of costs and quality.

104. COSLA provides guidance and support to councils to help them meet the reporting requirements of the Programme. COSLA liaises with the Scottish Government on behalf of all councils, collates councils' annual efficiency statements and provides a composite return to the Scottish Government on their behalf. To support this role, COSLA produces annual guidance for councils on preparing annual efficiency statements, and requires councils to report efficiencies against six efficiency themes.

105. The Improvement Service helps local authorities develop their programmes for delivering efficiency savings and sharing experiences. The Improvement Service published the *Aspire* measures in 2007, which were designed to provide councils with a set of efficiency and productivity indicators to track efficiency and productivity savings. However, a study carried out for the Improvement Service in March 2008 found that only four councils had adopted them.⁵³ The Improvement Service also facilitates a good practice group to support council officers involved in the delivery of efficiency savings and preparation of annual efficiency statements.

106. While these sector arrangements may be of benefit to the individual bodies concerned, there is no central coordination to bring good practice together or to publish this electronically as the Programme's guidance requires. To date there is no plan or strategy to provide proactive support and guidance to central government bodies.

107. There is potential for confusion across the public sector as three different parts of the public sector are

issuing guidance on efficiency savings. The Division provides guidance on the Programme for the whole of the public sector. The NHS Efficiency and Productivity Oversight Group issues additional guidance to NHS bodies and COSLA issues annual efficiency guidance to local authorities.

108. The three sets of guidance provide different messages on how to report time-releasing and non-recurring savings:

- The Division says that time-releasing savings can deliver efficiencies and states that public bodies should recognise time-releasing savings but must not report them against the Programme's targets. COSLA guidance asks local authorities to report time-releasing savings in their published efficiency statements but to report them separately from cash-releasing savings.
- The Division's guidance states that non-recurring savings should be reported against the Programme's targets but does not require bodies to report these separately. However, COSLA's guidance requires local authorities to report both recurring and non-recurring savings and to do this separately.
- The NHS guidance does not comment on monitoring or reporting time-releasing or non-recurring efficiency savings.

109. The different guidance has resulted in public bodies reporting different figures for different purposes.

⁵¹ *NHSScotland Efficiency and Productivity Programme: Delivery Framework*, Scottish Government, June 2009.

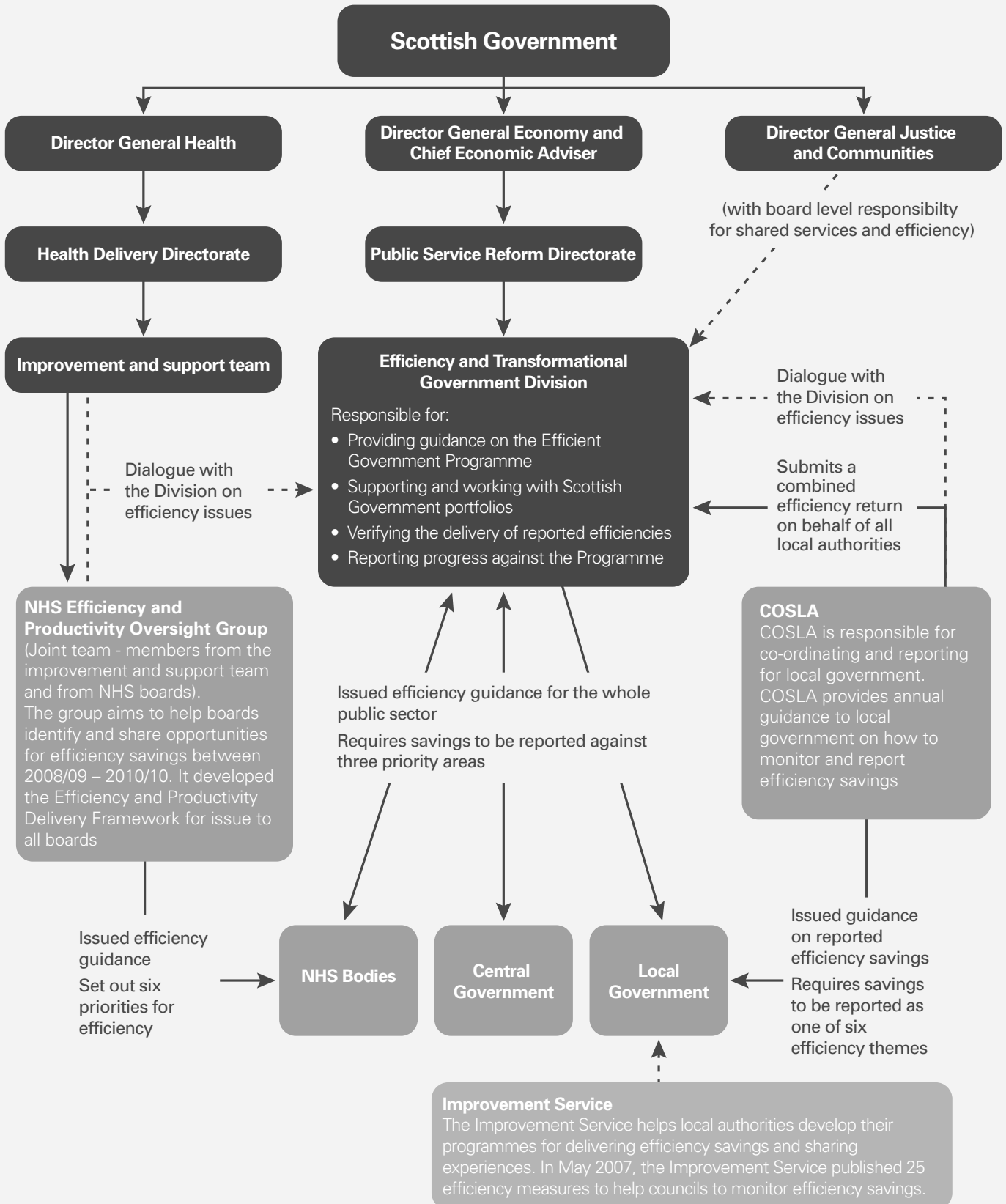
⁵² These are set out in *Better Health, Better Care: Action Plan*, Scottish Government, December 2007; NHS HEAT Targets and Scottish Government Efficient Government Programme.

⁵³ *Efficient Government Research Study 2008*, Brodies LLP, March 2008.

Exhibit 8

Responsibilities for guidance and support on efficiency savings

Several bodies provide guidance and support on efficiency savings.



110. The three sets of guidance have also set different priority areas for efficiency savings:

- The Division's guidance requires efficiency savings to be reported against the three priorities of better purchasing, better asset management and shared services.
- The NHS guidance identifies six priorities. Three reflect the Division's priority areas. One of the further priorities is workforce, also specified by COSLA for local authorities, but the remaining two are specific to the NHS – improving consistency of care in clinical practice and drugs and prescribing.⁵⁴ The NHS guidance also identifies 20 areas as 'potential productive opportunities', outlining efficiency indicators for NHS bodies to measure.
- COSLA has identified six efficiency themes for local authorities. In addition to the three priority areas set by the Scottish Government and workforce planning it has specified streamlining bureaucracy and other efficiency savings.

111. Given the number of bodies involved there is a risk of inconsistent messages and guidance being given, resulting in efficiency savings being calculated and reported on a different basis in different parts of the public sector. There is a need for a more joined up and better coordinated approach across the public sector, including central government. The aim should be to ensure that there is robust information that supports:

- consistent measurement and reporting of savings
- better sharing of good practice
- whole system working, such as health and social care.

⁵⁴ The *NHS Scotland Efficiency and Productivity Programme: Delivery Framework* sets out the six priorities for the NHS: improving consistency of care – clinical practice; drugs and prescribing; procurement; workforce; support services; and estates and facilities.

Appendix 1.

Study methodology

The study looked at:

- progress made against the recommendations of Audit Scotland's 2006 report on the Efficient Government Initiative
- the savings reported in the first year of the Efficient Government Programme (2008/09)
- whether public bodies have the building blocks in place to identify, measure, manage and report efficiency savings.

To support the study, we carried out desk-based research and conducted interviews with the Scottish Government and other relevant bodies. We used data provided by the Scottish Government and from councils' published efficiency statements.

In addition to the desk-based research and interviews, we carried out fieldwork at a sample of 15 public bodies – five NHS bodies, five councils and five central government bodies (table, overleaf). The 15 bodies include urban and rural areas and organisations with both a national and local focus. We also included bodies that have established community partnerships and joint working arrangements.

The fieldwork was carried out using Audit Scotland's *Efficiency: Best Value – Use of Resources Toolkit 2008/09*.¹ The findings of these toolkits were used to inform the study, in particular in relation to Part 2 of the report.

A project advisory group was established to provide independent advice and feedback at key stages of the project. The membership of this group is shown in Appendix 2.

A good practice checklist supplements this report. Audit Scotland, the Northern Ireland Audit Office and Wales Audit Office worked together to produce the checklist. It outlines the key elements to securing greater efficiency and productivity. The overall aim is to help public bodies assess their own approach to efficiency. The checklist can be found on our website at www.audit-scotland.gov.uk.

¹ Audit Scotland has developed audit toolkits to cover the Best Value principles which can be applied across the public sector. These toolkits will enable a consistent approach to auditing Best Value, but will be reported differently taking account of existing accountability arrangements. The toolkits have been developed so that they can be used by both auditors or by public bodies for self-assessment purposes.

Fieldwork sites

Reported efficiency savings for the 15 fieldwork sites total some £147 million.

Sector	Organisation	Reported efficiency savings 2008/09 £ million	Reported savings as percentage of DEL (%)
Local government	Dundee City Council	3.1	1.5
	East Ayrshire Council	3.1	2.0
	North Lanarkshire Council	12.5	3.0
	Orkney Islands Council	0.8	1.5
	West Lothian Council	6.4	3.3
Sub-total		25.9	–
Health	NHS Ayrshire and Arran	10.9	2.0
	NHS Dumfries and Galloway	4.8	2.1
	NHS Greater Glasgow and Clyde	54.7	3.1
	NHS Lothian	19.1	1.9
	NHS Tayside	18.2	3.2
Sub-total		107.6	–
Central government	The Scottish Court Service	1.7	2.9
	The Crown Office and Procurator Fiscal Service	2.9	2.3
	Loch Lomond and the Trossachs National Park Authority	0.1	1.7
	Scottish Natural Heritage	8.5	12.7
	Scottish Public Pensions Agency	0.1	0.9
Sub-total		13.3	–
Total		146.8	

Source: Audit Scotland

Appendix 2.

Membership of the project advisory group

The project advisory group provided independent advice and feedback at key stages of the project. We gratefully acknowledge the assistance of members of the group.

Member	Organisation
Craig Marriott	Director of Finance, NHS Dumfries and Galloway
Craig Russell	Deputy Director Efficiency and Transformational Government, Scottish Government
Jane Davidson	Deputy Director of Finance, Scottish Government Health Directorate (from January 2010 Director of Finance, NHS Borders)
Jonathan Sharma	Policy Manager, COSLA
Linda Hardie	Executive Director of Finance and Depute Chief Executive, South Lanarkshire Council
Nicola Bennett	Director of Finance, Scottish Court Service

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ISBN 978 1 906752 72 9 AGS/2010/2

Printed on Revive 100 Uncoated, a Forest Stewardship Council (FSC) certified recycled grade containing 100% post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).

