

# **THE DAVID HUME INSTITUTE**



## **Performance Differences Across Local Authorities**

**November 2011**

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Lesley Sutton  
David Hume Institute  
with support from KPMG

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## **Foreword**

*Jeremy A Peat*  
*Director*  
*The David Hume Institute*

This paper has been produced, in co-operation with KPMG, in the context of a seminar to be held on 8<sup>th</sup> November at the Royal Society of Edinburgh on the topic of Public Sector Reform. Our speakers at that seminar are Lord Adonis – who has immense experience of public sector reform at the UK level – and John Lambert of KPMG – who is an experienced practitioner in the field. Our chair for the evening is Sue Bruce, Chief Executive of Edinburgh City Council. As ever we are hugely grateful to our speakers and chair for their support; and also to KPMG for sponsoring that seminar and working with us on this paper.

Of course this whole area of public sector efficiency is by no means new ground for the Institute to cover. Our Chairman of Trustees, Sir Ian Byatt, covered some very positive experiences at Scottish Water in a lecture to the Institute back in 2006 and suggested that there were lessons to be learned for others in the public sector. As a consequence we established a research programme, with financial support from the Office of Fair Trading, Audit Scotland and the Water Industry Commission for Scotland and other assistance from Shepherd and Wedderburn, with the research undertaken by Jo Armstrong, now at CPPR. This research was undertaken in 2007 and 2008.

The Byatt lecture was published by the DHI as were two reports by Jo Armstrong, one full report incorporating three case studies – social housing, waste collection and social care – and one covering the policy lessons. The latter was published in early 2008, following a seminar hosted by the Institute.

I should also note a very valuable paper prepared by Professor Jim Gallagher, then at the University of Glasgow, and others which we published in January 2007. This covered re-thinking Central/Local Government relations in Scotland and I would venture to suggest is relevant to a great deal of consideration now of public sector governance and reform and indeed local government efficiency.

Given this history we were delighted when KPMG suggested further work in a broadly similar field. Lesley Sutton worked closely with Jo Armstrong on the research project referred to above; and was the obvious person, as the DHI's Research Manager, to pick up this new challenge.

Our starting point was twofold. First KPMG suggested, as had the Armstrong research and the Byatt paper, that there was marked scope for efficiency savings across the public services – including local authorities - the focus for this paper.

Their UK based work was captured in their report “Payment for success – how to transfer power from Whitehall to public service customers”. Hence the quote overleaf regarding the scope for a gain of £250 billion in terms of cost savings at the UK level if the average provider moved up to the level of the top quartile. Given the necessity for major public sector savings over the years ahead, and the extreme pressure on local authority finances in Scotland and England, the benefits from any form of performance improvement are clear. We wanted to learn more. Second, we wanted to examine the data in Scotland, to see what can be determined about relative performance of Scottish local authorities and the lessons which could be drawn from this exercise of making comparisons.

This paper therefore comes in two parts. First Lesley Sutton shares her experience in looking at (some) data on local authority spend and performance in a few sectors. This is undertaken on the basis of published data, and the annex describes the key data sets that are available and touches upon the significant gaps. Her work does point to a major variation in performance but also emphasises that this is a data and policy minefield; great care should be taken before drawing any conclusions as to relative efficiencies, etc. Then KPMG provide their perspective on local government transformation and a case study related to delivering change at one Scottish local authority. Their conclusions from the case study are set out clearly, with much food for thought for those across the public sector.

One conclusion that I draw from both sections of the paper is the importance of a focus on outcomes, and hence the importance of clarity of purpose and data collection to monitor outcome achievement. That is very much in line with Jo Armstrong’s findings and the search for reliable and consistent data on outcomes must continue. This is a task the importance of which I know those at Audit Scotland and elsewhere fully appreciate. I just hope that this paper helps to point the way to areas where the scope for gain may be of real substance in these immensely difficult times.

Finally I must, as Director of an independent and non-partisan charitable Institute, introduce a couple of caveats. First, while recognising KPMG's input into the paper and contribution of the relevant case studies, we recognise that there are many other experiences of change programmes being carried out in local government, which are also relevant to this debate. We have no specific views on relative priorities for local government expenditure – and the views expressed in this paper are those of the authors – Lesley Sutton and KPMG - rather than those of the David Hume Institute. Like Hume himself we seek to facilitate transparent, evidence-based debate on key issues; such as the area covered by this paper.

Jeremy A Peat  
November 2011.

# 1 Introduction

*'If the average UK public service provider was as efficient as the top quartile, there would be a 20% to 30% saving in the £250bn cost of most public services.'*<sup>1</sup>

- 1.1.1 The cuts in public sector spending are now feeding through and being felt in a variety of different ways in Scotland. Staff are dealing with a pay freeze; overall public sector headcount has fallen in the last year – by 3.2% in local government and 2.4% in the NHS - according to latest figures<sup>2</sup>. Capital expenditure has been particularly badly hit with a £900m fall in planning spending between 2009-10 and 2010-11. Planned projects have been cancelled or delayed. And services to citizens are being cut.
- 1.1.2 This is just the start of the process and further cuts are to come. Using 2010-11 as the starting point, the Scottish Spending Review 2011 published on 21 September 2011 indicated a real terms projected fall in overall Scottish Government DEL of 12.3% during the spending review period to 2014-15. The profile of the real terms cuts show a fall of 7% this financial year, 2011-12, followed by further falls of 1.3%, 2.7% and 1.8% in the remaining years of the spending review period.
- 1.1.3 The Christie Commission and others have looked at public sector reform and how services could be transformed to meet this financial challenge, coupled with a projected increase in demand for services because of demographic and lifestyle changes.
- 1.1.4 The purpose of this paper is much more prosaic. It takes a large area of public expenditure – local government – which accounts for some 31% of the Scottish Government DEL budget - to explore the scope for improving the average performance across local authorities and then goes on to give practical examples of how this is being done already.
- 1.1.5 There is a wide variance in the performance of local authorities in relation to service provision: in terms of the amount of spending which takes place to provide a service; the level of service provided and how effective that service is in meeting local needs and Scottish Government targets.

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<sup>1</sup> Alan Downey, Paul Kirby and Neil Sherlock, 2010. *'Payment for Success'*, KPMG

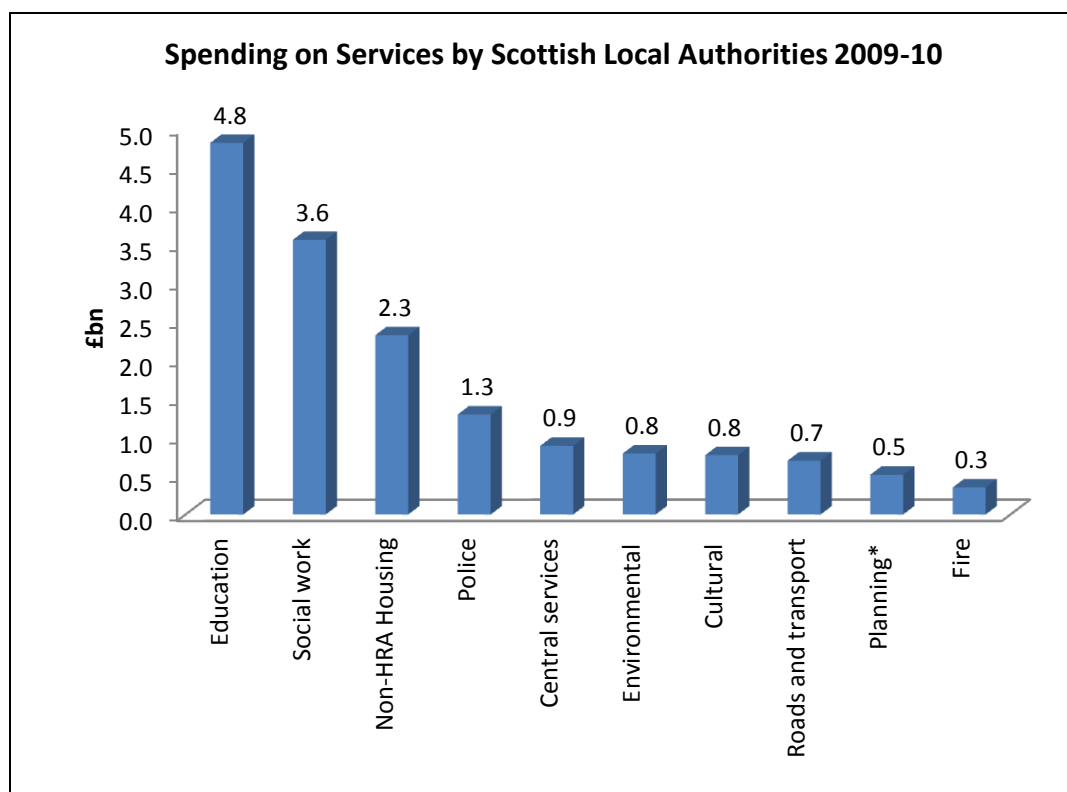
<sup>2</sup> ONS Public Sector Employment Statistics Q1 2011, published 15 June 2011

- 1.1.6 There are many reasons for this. First, variations in services and costs reflect different local priorities. Some authorities are geographically remote and, therefore, sparsity raises the cost of service provision, whilst others have high proportions of households in very low income brackets resulting in less positive outcomes for the same amount of spend per head. Some of the differences will be down to how data is collected. Data and benchmarking issues are explored in Annex 1
- 1.1.7 However, there are also differences in costs which cannot readily be accounted for. Cost data is not uniformly available, but as the quote above indicates, where unit costs are available, they consistently indicate a 20%-30% difference in unit cost between the average provider and the most efficient 25th percentile – not just in local government but across the public sector as a whole. This means that if the future average provider did as well as the current top quartile, 20%-30% savings could be made and either contribute to financial reductions or be re-invested in better services. For local government, such a process of improvement could amount to some £1.7bn to £2.6bn on the resource budget alone, based on 2009-10 figures.
- 1.1.8 Performance management in local government and benchmarking one authority's performance against another has made significant progress in recent years, but is still a work in progress:
- The Accounts Commission set out Statutory Performance Indicators, which councils must report against and are clear that “we want to be able to use our statutory role to underpin performance reporting designed by authorities themselves, rather than impose an additional regime”.
  - Audit Scotland has repeatedly made the point that the coverage and quality of data on cost and performance is both limited and highly variable.
  - SOLACE and the Improvement Service have been working on a set of benchmarking indicators.
- 1.1.9 The following section looks specifically at variations in spend across a number of key local authority areas.



## 2 Spending on services – an exploration of published data

Figure: 1



Note: \*and Economic Development

Source: Scottish Local Government Financial Statistics 2009-10 Annexe F, February 2011

- 2.1.1 Figure 1 shows spending on services by Scottish local authorities. Spending on service provision totalled £16bn in 2009-10 (up by 46% in cash terms over the past 5 years – compared with a 16% increase in nominal GDP over the same period). Education and social work accounted for 52% of total expenditure – worth £8.4bn. The care of older people – social care - cost £1.6bn - 44% of the social work budget. Hence these areas of service provision account for vast sums of public money. Whilst focussing on these in the rest of this note, we have also considered some additional examples of variations in council performance. We have, however, been unable to provide a comprehensive analysis of comparative council outputs and outcomes. This is due to the limited availability of statistics – at least - in the public domain with which to compare council performance and to assess accurately how much each council pays to provide a particular service. This issue of data etc. is discussed more fully in Annex 1. Before considering the variations in council performance, we must reiterate that various factors will

impact the results e.g., different council priorities, sparsity, local demographics and poverty. A number of these are outwith each council's control.

## 2.2 Social Care

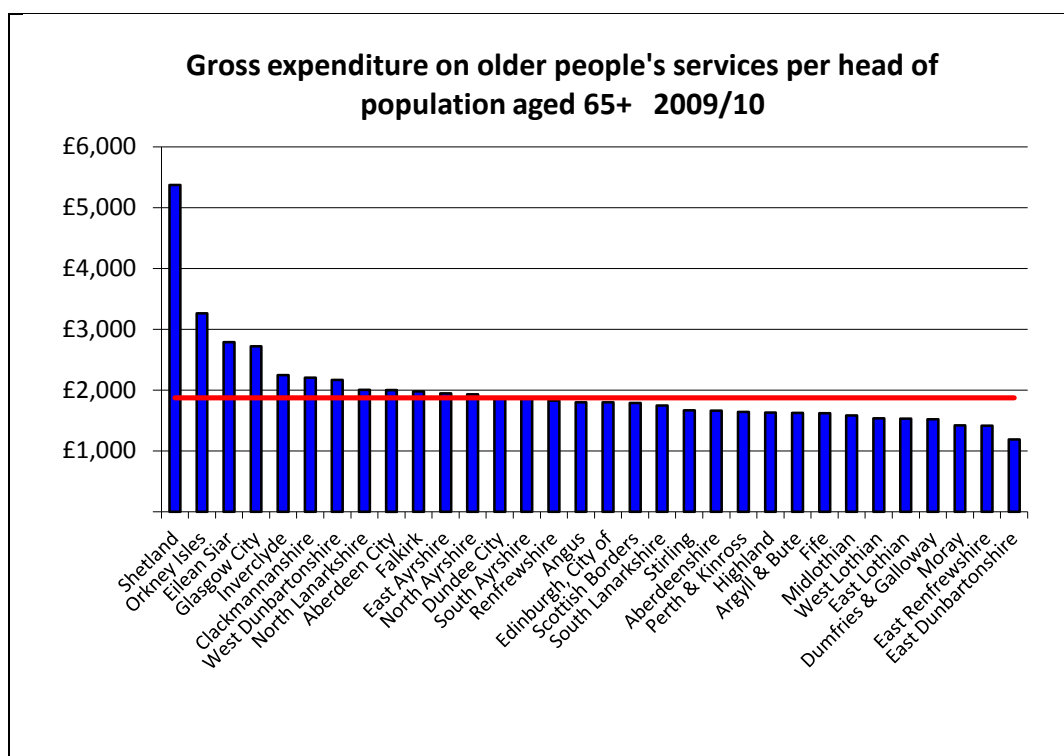
2.2.1 We draw out below, some of the key issues from an analysis of published data on social work spend:

- Spend on older people's services has consistently increased above inflation – in the case of some individual authorities, very significantly so.
- Direct spend in 2009/10 (by local authorities alone) was £1.6 billion. Significant further cost is incurred by other parties – most notably the NHS.
- Variation in spend levels across Scotland is increasingly coming under the spotlight – there is an observed factor of x4.5 between the highest and lowest spenders (see below).
- We see similar levels of variation on measures of service provision – use of care homes, provision of home care, etc.
- The Social Work Inspection Agency in a number of reports have noted that additional spending in itself does not necessarily lead to improved outcomes<sup>2</sup>.
- In light of the latest General Registrar demographic projections, if spending per head were to continue at today's level, an additional £400 million would need to be spent in 2018 (at today's prices).
- Significant costs – and therefore potential significant benefits – are within the NHS.
- A £70 million change fund was introduced in 2011/12, to encourage local authorities and NHS partners to work together.
- A significant cost is incurred by the NHS due to emergency admissions (and associated bed days) for vulnerable older people.
- Higher spend more/higher levels of service do not necessarily result in the best outcomes.

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<sup>4</sup> "Improving Social Work in Scotland" Social Work Inspection Agency 2010

**Figure: 2**

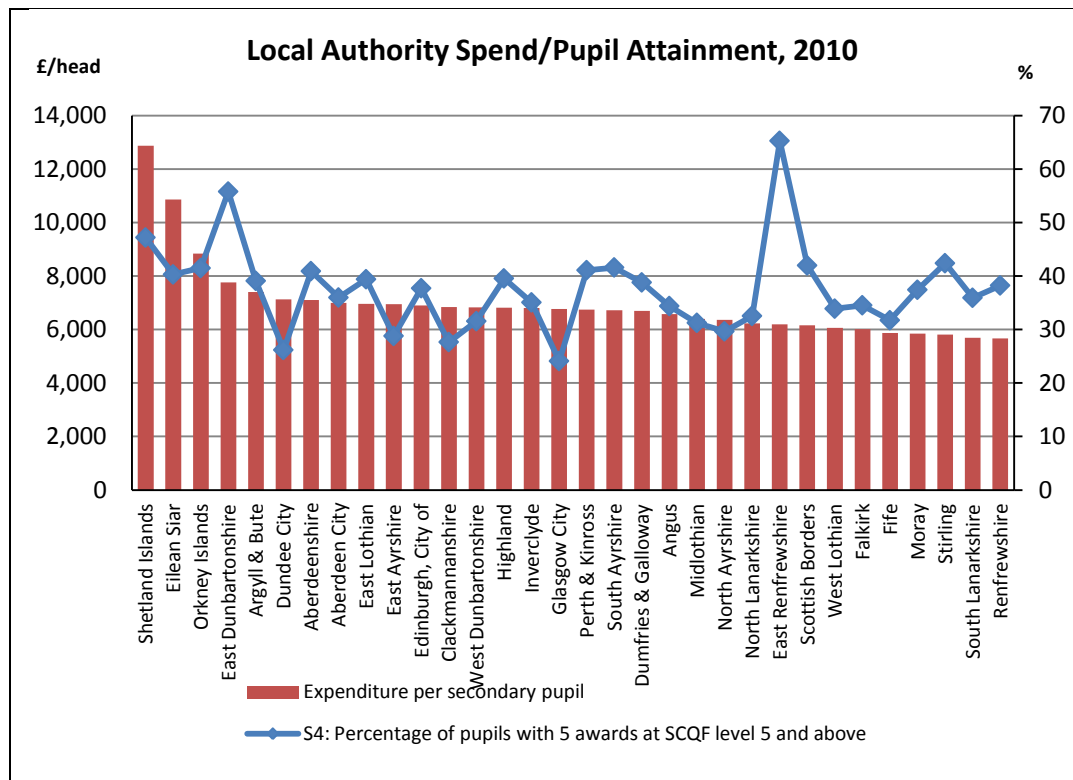


Source: Derived from Scottish Government Local Finance Returns, 2009/10

## 2.3 Education

- Local authority spending on education in 2009/10 was £4.8bn – a nominal increase of almost 26% over the past five years (10% in „real“ or inflation adjusted terms).
- As with social care, there is a wide variation in spend per head across local authorities. Excluding the island councils, where the provision of schools for smaller pupil numbers results in higher spending per head, the highest spender at £7770 per head was East Dunbartonshire Council whilst, at the other end of the scale, the expenditure per head by Renfrewshire Council was £5671.
- From the chart below, however, it can be seen that East Dunbartonshire does have a significantly higher percentage of S4 pupils attaining 5 awards at SCQF level 5 and above than many of the other local authority areas, although there is no apparent overall correlation between the level of spending and achievement as other, lower spending councils, appear to have had greater success than some of their higher-spending counterparts, for example, East Renfrewshire. But note that time-series data suggests that East Renfrewshire, which has the best results, has been a relatively high spending council on education in previous years suggesting that one should not place too much emphasis on one year’s results or spending data.

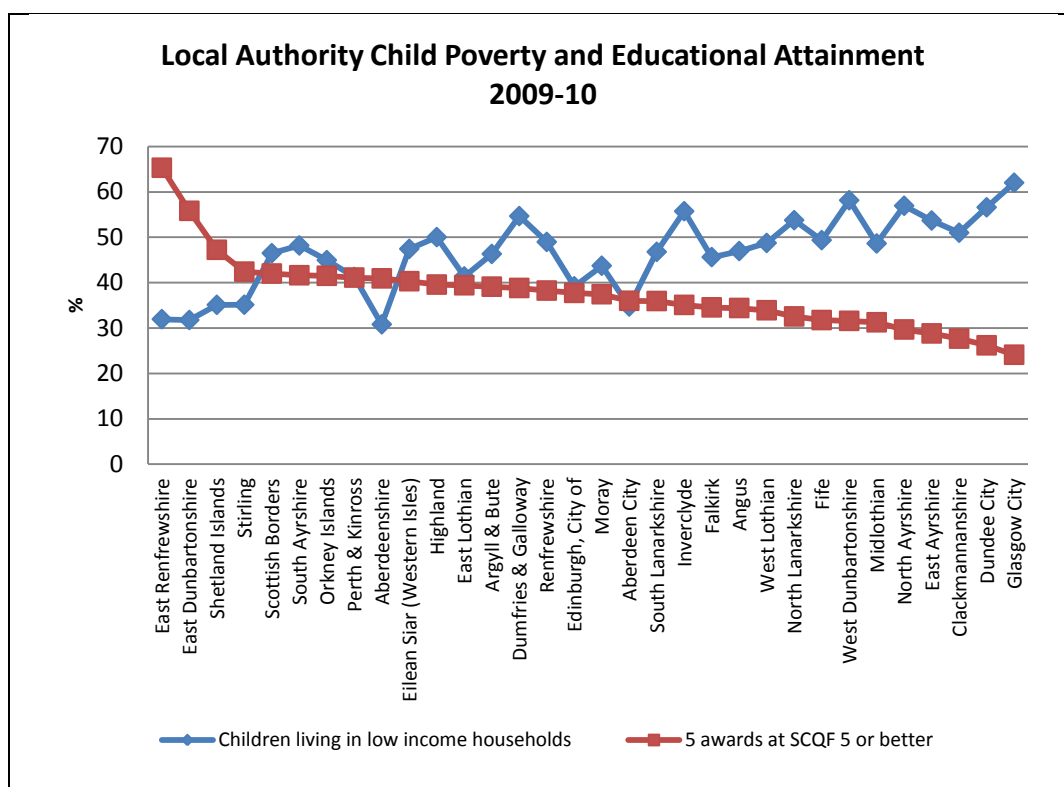
**Figure: 3**



Sources: *Scottish Local Government Financial Statistics 2009-10 Annexe F, February 2011; Summary statistics for attainment, leaver destinations and school meals, No. 1: 2011 Edition - Attainment*

- Comparing educational attainment with child poverty for each local authority (shown in Figure) shows a considerably greater correlation, with the percentage of 4<sup>th</sup> year students attaining 5 awards at SCQF 5 or better declining steadily as the percentage of children in the area living in low income households increases. („Low income“ is derived from the proportion of children living in households that are dependent on out of work benefits or Child Tax Credit more than the family element.) This highlights that when comparing results such as educational attainment, it is highly important to consider factors such as deprivation etc.

**Figure: 4**



Sources: Summary statistics for attainment, leaver destinations and school meals, No. 1: 2011 Edition – Attainment; Scottish Government Local Authority level proxy poverty data, 2011

## 2.4 Other Aspects of Council Performance

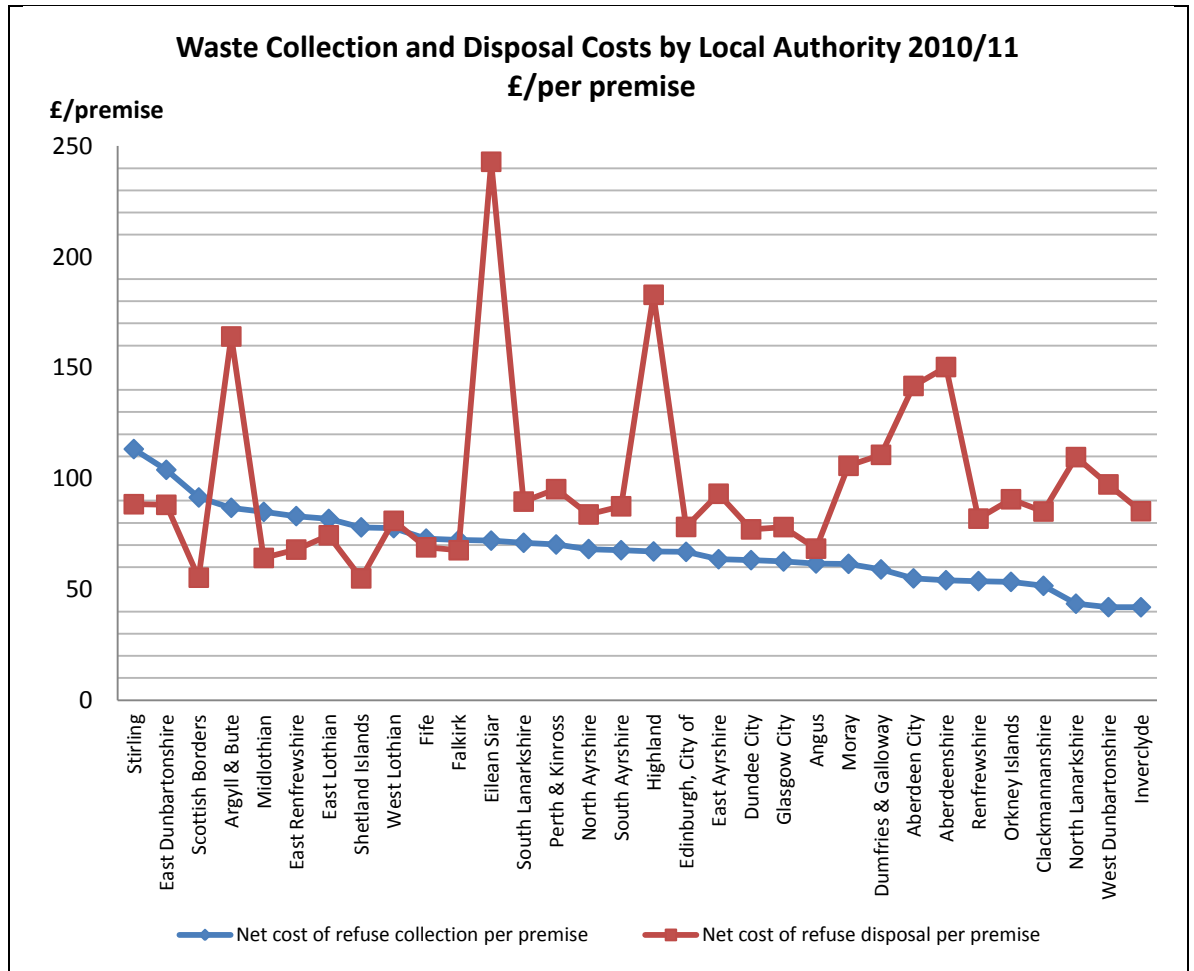
2.4.1 As highlighted earlier, data availability does not allow for a full blown analysis of council costs and outputs. Below, however, we highlight a small number of examples which illustrate the variance in cost of service provision/council activity.

### *Waste Collection, Disposal and Recycling*

- In 2009-10, £0.6bn was spent on waste collection, disposal and recycling by local authorities in Scotland. Unsurprisingly, the more remote areas spend more per premise to dispose of waste than councils in urban areas.
- In terms of refuse collection costs, it was almost 3 times more expensive to collect refuse in the highest cost council compared to the lowest - the cost was £113.3 per premise in Stirling compared with £41.9 in Inverclyde.
- In terms of waste disposal, Eilean Siar council spent £242.9 per premise compared with Shetland Islands at £55.0 – more than 4 times the cost.

Therefore, it is not clear that Eilean Siar's costs are entirely due to it being an island authority.

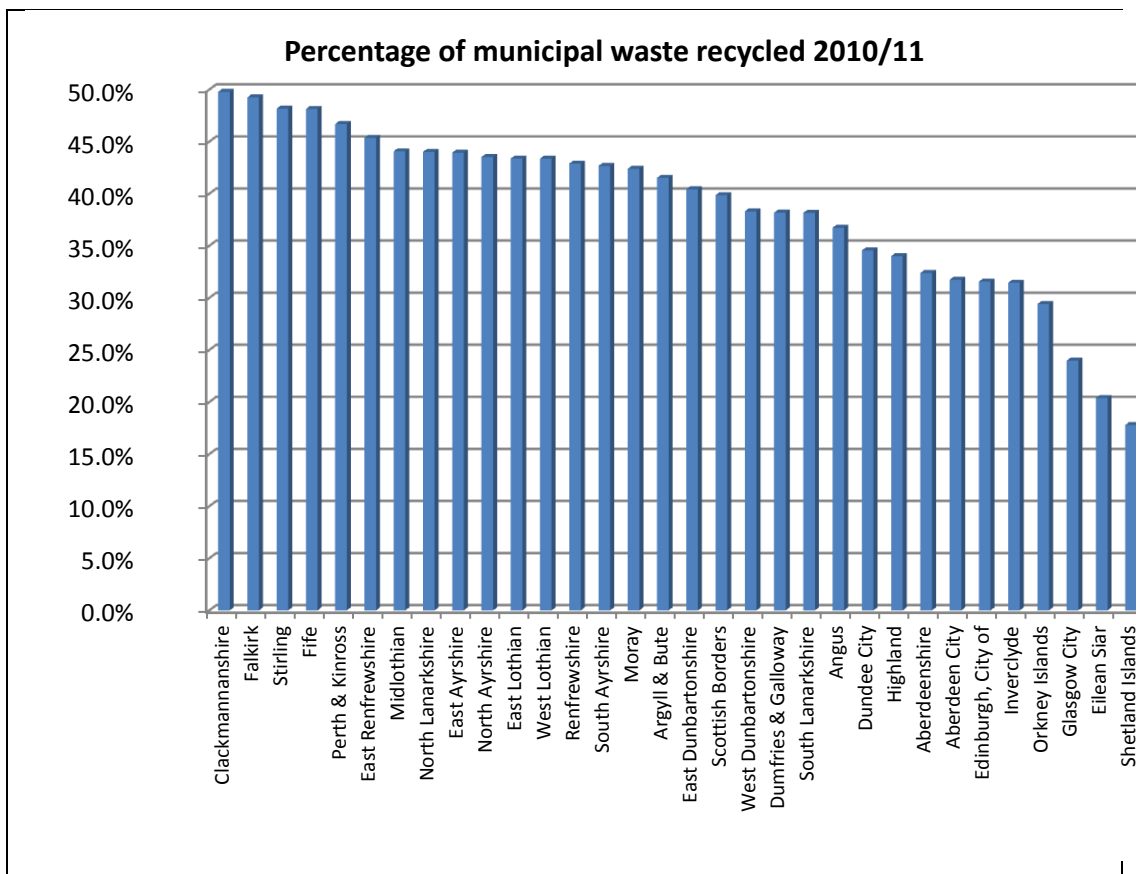
**Figure: 5**



Source: *Audit Scotland Performance Indicators 2010/11*

- In terms of recycling, there is a wide variation across local authorities in the percentage of municipal waste which is recycled, ranging from 49.8% to only 17.8%. The target set by the Scottish Government is that 40% of this waste should be recycled, but according to these figures just over half of all councils are meeting the target.

**Figure: 6**

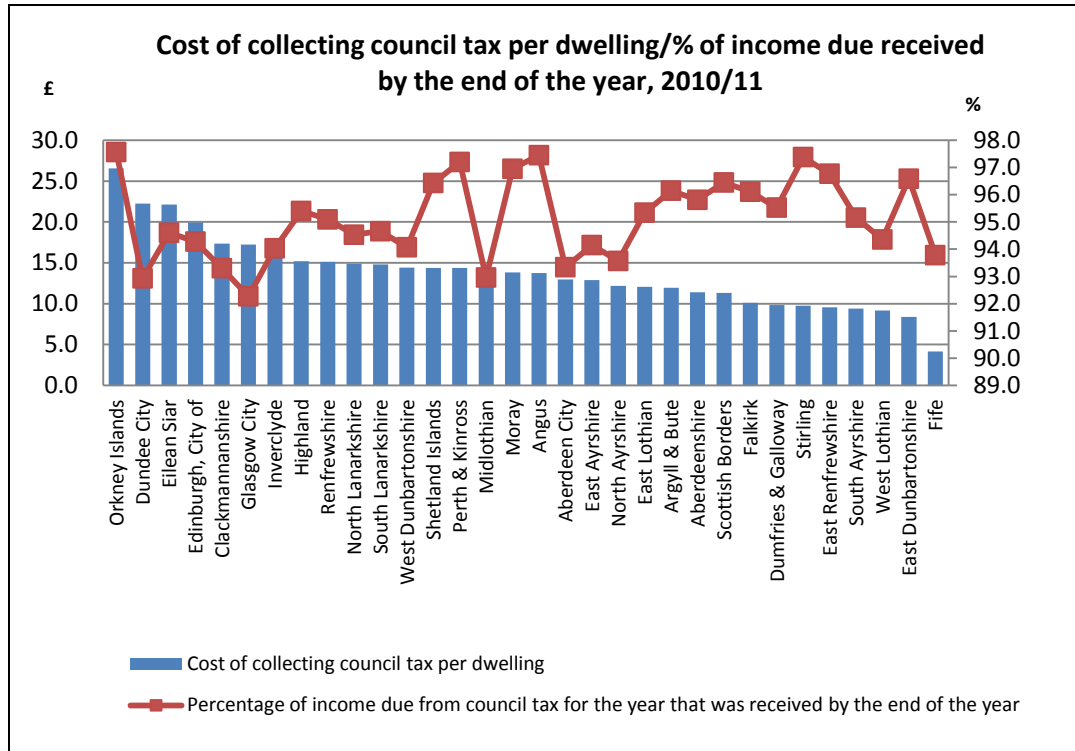


Source: Audit Scotland Performance Indicators 2010/11

### **Council Tax Collection**

- Again, there is a wide variation in performance with Dundee spending £22.3 per dwelling to collect council tax compared with Fife which spends £4.20. Two of the three island councils have the greatest collection costs, whilst the Shetland Island council's costs are closer to average.

**Figure: 7**



Source: *Audit Scotland Performance Indicators 2010/11*

- Figure 7 highlights, however, that it is misleading to focus only on collection costs as the picture alters a little when the percentage of income due which is actually collected in the year is taken into account. For example, Orkney Islands has the greatest council tax collection costs of all the Scottish local authorities but receives 97.6% of the council tax due - presumably because more is spent chasing those who have not paid. A number of other councils, with significantly lower collection costs, take receipt of a smaller proportion of the due income e.g. Fife which collects only 93.4% of outstanding income. Other councils, however, have both low collection costs and receive a large percentage of the outstanding income due e.g. Stirling. The question then is whether or not the savings to be made through lower collection costs per head outweigh the shortfall in income collected. Or to put it another way around, whether the marginal costs of increasing collection rates above a certain level are justified by the extra revenue collected.

## 2.5 Conclusion

2.5.1 While it would be difficult and in some cases misleading to draw specific conclusions on individual Council performance from the available published data,



it is nevertheless clear that any shift to move average performance up to the top quartile could deliver significant savings. The following sections set out case studies on how this might be done, drawing on KPMG's extensive experience of working with local government north and south of the border.

### 3 Local Government Transformation – KPMG’s Perspective

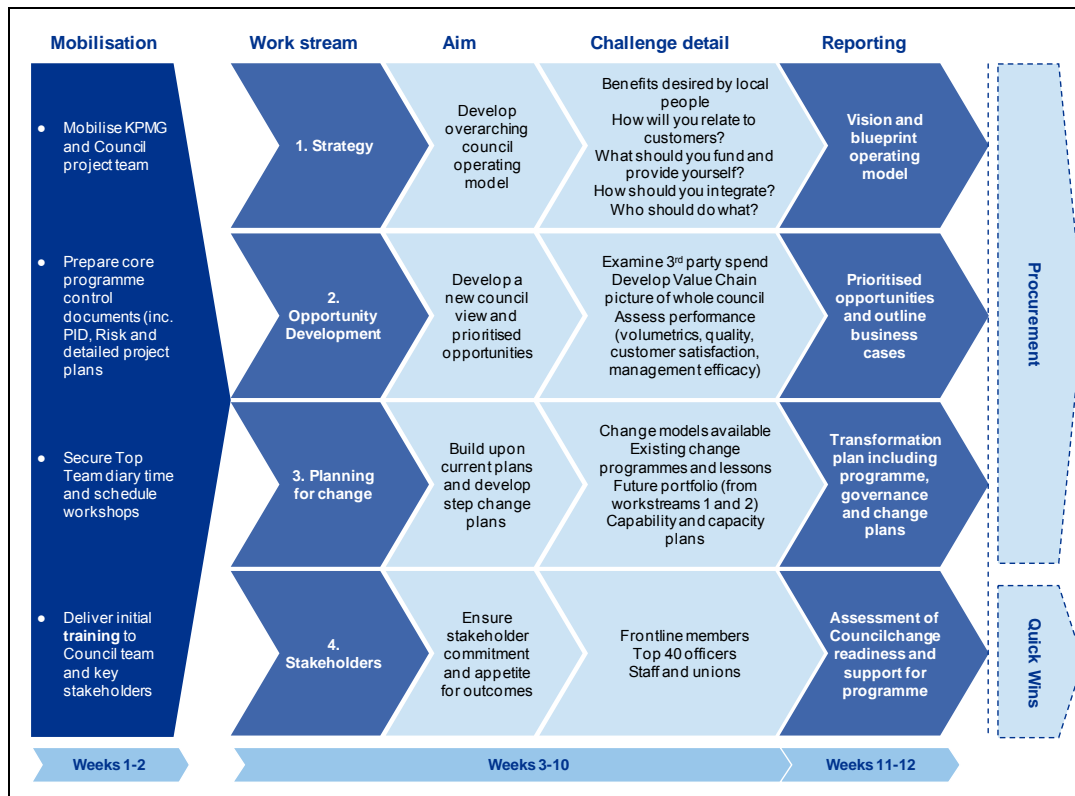
3.1.1 KPMG has helped the biggest, the best and the most ambitious councils in the country launch and drive dramatic transformation programmes. KPMG has supported a wide range of diverse authorities with significant efficiency and change programmes, for example:

- Major cities that have focused on radical internal change - like Newcastle, Edinburgh, Bristol, Bradford, Sunderland and Salford.
- Driving out £20-30m per annum of cashable savings in metropolitan boroughs from work with clients like Hounslow, Trafford, Waltham Forest, Camden and Southwark.
- Leading edge service transformation and efficiency from work, for example, in social care in Essex, West Sussex and in developing an integrated health and social care service for the Island of Jersey.
- Rural authorities who have to consider the impact on large numbers of small communities such as Argyll & Bute, Stirling, Powys and Northumberland.
- Radical changes in the business models for running a council, whether from helping Suffolk's move from 11,000 staff to a core of 400 or supporting Kent's integration of public services through its Public Service Board and frontline technology.

3.1.2 From KPMG’s experience it believes that the key success factors for a programme of significant change within a local authority can be summarised as follows:

- The timescale and programme of work should be **intensive and carried out at pace**: in doing so benefits are realised as early as possible, the period of change and uncertainty within the authority is minimised and the planned benefits are not eroded due to external factors or change fatigue;
- **Stakeholder engagement and buy in is imperative**: without it the transformation will not have the momentum it requires to progress, the senior management team should be focused on a rigorous plan of stakeholder engagement; and
- **Picking the correct transformation projects** – in the correct order - will release the improvements and cash savings that are needed in the timescales required.

3.1.3 A typical approach to creating a transformation programme is shown in the diagram below. Clearly each Council has to create its own approach that is relevant to its current position, level of ambition and ability to absorb change.



## 4 **Case Study: A Scottish Council and KPMG – Delivering a Change Programme**

### 4.1 **Introduction**

4.1.1 Through a significant change programme, KPMG helped this Scottish Council save over £7 million a year - 7% of addressable spend - while preserving the quality of services to the public. This paper provides an overview of the creation and initial implementation of the change programme.

### 4.2 **Background**

4.2.1 The pressure on local government to reducing spending continues. Despite growing financial pressure and increased demand for services, the Council was determined to protect and improve services for its citizens. Several years of meeting mandated 1-2% efficiency targets had left the Council with a sense of dissatisfaction with the approach that the targets engendered and a sense that there was very little headroom for further efficiencies. Against a backdrop of growing saving requirements this created further concern amongst senior officers and politicians.

4.2.2 The objectives of the programme were to generate sustainable savings, to create a different approach to efficiency and to instil a different attitude and culture amongst managers and staff to change. KPMG was asked to help the Council deliver this highly ambitious programme, utilising our skills and experience from similar work elsewhere in local government and the private sector to provide pace and challenge.

4.2.3 More specifically, the Council sought to improve efficiency and its overall capability through:

- Creating a leaner and more flexible organisation.
- Simpler, clearer and more cost effective management structures.
- Increased staff productivity.
- More efficient processes.

4.2.4 Recognising the financial pressures and the requirements above the Council and KPMG constructed a programme with a two stage approach that was unique in Scotland:

- The first stage to deliver a level of ambition within the current operating model that was significantly greater than previous efficiency targets and achieving this without impacting frontline services.
- The second a medium to long term stage to change the Council's underlying operating model(s) thereby releasing future efficiency savings and maintaining or improving frontline services.

### 4.3 Programme Overview

- 4.3.1 The approach was unique at the time because the level of ambition was to achieve savings of 10% of addressable spend within one budget period without impacting front-line services. This required a dedicated full-time team of Council and KPMG staff that would work at a fast pace to deliver the savings that were built into the Council's budget for the forthcoming financial year. The initial programme of change was also intended to form the foundation for the on-going programme.
- 4.3.2 Officers and Members needs were aligned through the programme through a robust governance structure and embedding the change programme within the normal structures and processes within the Council. Members were fully supportive as they had already given commitments for a "root and branch" review of the Council and officers were driven by the need to find an alternative approach to change and delivering the Council's budget. The programme was a key component of the regular budget strategy meetings between Members and officers.
- 4.3.3 The first stage of the programme was delivered via a range of initiatives that were designed to deliver improvements *and* efficiencies within a short time scale. These initiatives were grouped into three work-streams:
- *Work-stream 1*: Organisational Review – resulting in both management and administrative FTE efficiencies.
  - *Work-stream 2*: Procurement – resulting in demand management and price (to suppliers) based efficiencies.
  - *Work-stream 3*: Social Care (Adults and Childrens) – resulting in decision making, process, FTE and price based efficiencies.
- 4.3.4 The emphasis on efficiencies, taking a corporate approach and being determined not to impact frontline services largely minimised and mitigated the risks. In addition, the programme governance that was put in place with the Council Management Team taking a lead programme scrutiny role on a fortnightly basis allowed issues to be aired and quickly resolved. The Chief Executive took personal responsibility for sponsoring and leading the programme.

- 4.3.5 The need to take the organisation and staff at all levels with the programme was a critical success factor. This requirement was challenging but was addressed through a high level of ongoing communications activity including fortnightly updates discussed with Senior Management and published to all employees. A key benefit that the Council has realised through the programme to date is a cultural step change in the organisation's ability to deliver significant change in a short period, something that has helped create a much stronger platform for future change.
- 4.3.6 The Council has always been an advocate of sharing services and experience with other authorities in Scotland and been a willing contributor to the knowledge pool being built around change. However, it recognised early on that the pace of change of national sharing initiatives would not deliver the solution to short term budgetary pressures. Hence the approach to get on and do it locally first and allow the wider initiatives to contribute to the change programme in the medium to long term. This has put the Council in a strong position to drive forward future joint working arrangements with its partners.

#### 4.4 Programme Achievements

- 4.4.1 The Council secured rapid efficiency improvements and *short term* budget savings within its current operating model, thereby, creating cash headroom for future change programmes. It has:
- Banked savings of over 7% of its addressable revenue budget of £100m (this excludes schools), this will be used to re-invest in the people and processes of the organisation whilst returning as much resource as possible to frontline services.
  - Avoided the annual round of top slicing and service reduction in delivering the budget.
  - Built the foundation for future change.
- 4.4.2 The programme has created significant organisational capacity and capability for change. The future change programme focuses on:
- Leadership and decision making.
  - Discipline within financial management, in particular focus on unit costs and managerial motivation for delivering savings.
  - Changes to the Council's underlying operating model by making customer driven choices to Council priorities regarding service delivery that will drive both service improvement and medium to long term efficiency.

4.4.3 This was a complex programme of change that required external stimulus and support and it is difficult to describe all aspects of that complexity in a short case study such as this. However, there are some key components that contributed to its success and these are described in the final part of this paper.

## 4.5 **Key Components**

4.5.1 From the outset the programme had strong support from the Council's Administration and senior management. There was strong leadership and support for the Programme from the Leader of the Council and the Chief Executive. It also had a number of very clear and fundamental objectives:

- Abandon the "traditional" top slicing approach to budget setting.
- Achieve a radical step up in the level of ambition for efficiencies.
- Create a robust platform for on-going and wider change.

4.5.2 Setting a high level of savings ambition was essential to success and constructing the budget on the programmes output provided focus and drive, although effort was required to maintain consensus. Each work-stream within the programme had clearly defined and well understood aims and goals. The work-streams were chosen on their ability to deliver short term savings and have a significant impact on the organisation.

4.5.3 Strong governance was critical. The Steering Group contained all of the Senior management team and, therefore, it was possible to maintain a corporate approach. A corporate approach was essential so that the senior management believed that they were "all in the same boat". Senior managers also had to be resilient in the face of opposition to change and had to maintain their enthusiasm, energy and commitment for the programme.

4.5.4 Maintaining focus on benefits and their realisation is also fundamental to success. This programme had clear short and medium term financial targets from the outset and although these were impacted by issues of timing they were achieved. Benefits erosion over time is, to some degree, inevitable but can be avoided by maintaining pace and ambition and using a benefits management process to track progress and issues. In addition to our input of subject matter expertise into the programme, the key ingredient that KPMG brought was in driving the programme as quickly as possible to delivering the planned benefits.

- 4.5.5 There are always difficulties that need to be addressed during a programme of this nature and this programme had several to overcome. Severance costs were significant and were driven in part by the scale of headcount reduction and the enhanced packages that were on offer. This had a significant impact on the Council's financial reserves although it has now re-built these in a very short space of time due to the success of the programme and the culture change that it engendered.
- 4.5.6 The number of administrative and management posts within the Council were significantly reduced but this was achieved through careful vacancy management, reducing the use of temporary staff and a completely voluntary severance scheme. Resistance is a natural reaction to change of this nature that affect people's careers and employment. This required careful and compassionate management in order to support those affected and clear political commitment to the process.
- 4.5.7 However in conclusion, this Council has delivered a significant programme of change in less than 12 months. It has created a platform for future change and has the capacity and capability to deliver that change. It has a "can-do" mentality with much greater ambition for efficiencies going forward and a much clearer programme focused approach to change. Frontline services have been maintained and the Council continues to look for opportunities including those that might exist outside of its own organisation with service delivery partners and neighbouring authorities.
- 4.5.8 As the public sector recession bites and the localism agenda gathers pace, local government will have to address both the threats and opportunities that these forces are creating.
- 4.5.9 To survive and prosper, councils will need to quickly become very different in some key respects.
- 4.5.10 This paper argues that the brilliant council of the future will need to:
- Have highly skilled political leaders, high calibre councillors and a cabinet focused on outcomes and financial control;
  - Have a more accountable Head of Paid service (the Chief Executive or equivalent) and executive team;
  - Frame a commercial business plan for the council and deploy a new operating model to deliver it;
  - Reduce the behavioural autonomy of directorate silos within the overall business of the council;



- Deploy an iron-like grip on the finances of the council with a board of shareholders mentality (local citizens being the shareholders seeking maximum returns);
- Markedly increase the productivity and performance of its people and suppliers;
- Focus ruthlessly on outcomes for its communities and be agnostic about which part of the economy delivers service provision;
- Implement payment by results for anything it funds in its supply chain; and
- Enthusiastically cede control to others, including to local communities, as a critical tactic to secure better results for customers and citizens.

## 5 Annex 1: Benchmarking Issues for Local Authorities

### 5.1 Introduction

- 5.1.1 So far this paper has provided much food for thought by considering both „real-life“ examples of councils which are trying with some success to improve their efficiency and effectiveness and also by fleshing out a blueprint for the „brilliant local authority“ of the future. The first section on „Performance Differences Across Local Authorities“ tried to set the scene by highlighting how varied council performance is in terms of efficiency. The point being that, if the top quartile of spenders could reduce their spend to the current average level, it would save the public purse some £1.7bn - £2.6bn per annum as explained in our Introduction. The examples given, however, do not provide by any means a comprehensive comparison for local authorities across the wide range of services which they provide. The reason for this is simple. There are very few **easy to access** statistics in the public domain to truly compare council performance throughout Scotland in a way which allows us to assess how much each council pays to provide a particular service and how performance has changed over time. Councils do produce and monitor information and share this with other councils but the information is not widely available without some digging. We should note, however, that following the recent reduction in statutory Key Performance Indicators which do need to be published, most councils have followed the guidance which the Public Performance Reporting arm of Audit Scotland issued requiring councils to report formally to the public on their own indicators split between corporate management and service performance to demonstrate that the council is securing best value in providing best value in providing services. The difficulty is that each council reports differently, so comparability across the country is limited.
- 5.1.2 Good performance indicators need comprehensive data which considers; inputs, processes, outputs and outcomes if they are to provide a balanced picture of performance. This data needs to be uniform across all authorities to allow comparison and it should also lend itself to time-series analysis. This benchmarking data would be an immensely useful tool for local authority managers. The surprising issue is that unit cost information has not been developed routinely within each authority already, irrespective of whether that information is then shared more widely across other councils. Similarly, for politicians and the public, transparency on cost information would enhance accountability, to establish how efficiently and effectively public money is being spent. Jo Armstrong makes this point in her paper „Improving Productivity in Scotland“s Public Services: Policy Lessons“.

*‘Setting meaningful output and outcome targets requires recourse to suitable benchmarking data.....A large array of data is currently being collected right across Scotland’s public sector, utilising scarce resources that could otherwise be available to fund front-end services. It is essential that the data that are being collected are of practical value and assist users and/or regulators to measure the efficiency and effectiveness of the services on offer.’<sup>3</sup>*

The Accounts Commission is encouraging councils to prepare and compare unit cost information and outcomes being achieved.

- 5.1.3 We recognise that, even were this data readily available, it is merely a starting point as it is important to understand the impact of factors such as sparsity, demographic differences and also the quality of services provided on the cost of service provision. However, it is a critical starting point. The aim of this Annex, therefore, is to provide the reader with a reasonably comprehensive review of the data currently in the public domain relating to local authority performance, the issues associated with it and what further steps might be taken to allow real benchmarking to take place.

## **5.2 Available Data/Information**

- 5.2.1 There are a vast number of different data sets available which measure various aspects of council performance in Scotland but it is difficult to find those which consider the outputs of a specific local authority compared with the cost of service provision to allow determination of council efficiency and effectiveness.

## **5.3 National/Local Outcomes**

- 5.3.1 The Scottish Government has established fifteen outcomes it wishes to achieve over the next ten years. These are aims such as: „we live in a Scotland that is the most attractive place for doing business“; „we are better educated, more skilled and more successful, renowned for our research and innovation“ and „we live our lives safe from crime“. A link to the full list is provided in Appendix 1 (1). Clearly, outcomes will improve if the public sector are highly effective (although there are also many other factors at play here). The focus on outcomes has been welcome and can track progress over time. In tougher financial times, we need to be able to see not simply whether interventions contribute to outcomes – they usually do – but how well they do, thus allowing a comparative ranking for policy purposes.

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<sup>5</sup> Jo Armstrong, 2008. *„Improving Productivity in Scotland’s Public Services: Policy Lessons‘*. David Hume Institute, Occasional Paper No. 76.

5.3.2 These aims have been translated to local level as Single Outcome Agreements (SOAs), the recommended local indicators which have been devised to help councils assess how well they are doing in meeting these outcomes, by their nature, are not linked to the key services which councils provide. Most of the information relates to issues such as deaths from various causes, employment rate, low weight live births, disabled employability etc. A link to these is provided in Appendix 1 (2). Thus, there are only a couple of indicators such as „proportion of municipal waste recycled“ and „proportion of housing stock in social rented sector passing the Scottish Housing Quality Standard“ which do reflect council service provision (and are similar to the Audit Scotland Performance Indicators). Thus, this information might show how the council is impacting the environment and well-being of its citizens and demonstrating effectiveness in that sense, but it is not providing any information about how efficient it is in performing core activities. In addition, each individual local authority has chosen to focus on a few of the national outcomes as they relate to their local area. The indicators are optional and their take-up across local authorities to date has varied. Thus, they are not really comparable across authorities. It is worth noting that the SOAs (and the associated performance measures) represent an agreement between the local partnership and the Scottish Government. This means that the outcome measures in SOA performance reports are not exclusively designed to assess the performance of local authorities, albeit councils are important partners in the delivery of outcomes. Appendix 1 (3) provides a link to local authority reports on Local Outcomes. The information is subjective and each council has its own priorities thus making it difficult to compare across councils.

## 5.4 **Audit Scotland Performance Indicators**

5.4.1 The Audit Scotland website provides a set of Performance Indicators, as specified by the Accounts Commission, which are highly informative (see Appendix 1 (4)) for the link. The Accounts Commission has a statutory responsibility to specify information that councils must publish about their performance, in the form of statutory performance indicators (SPIs). The information is collected and published locally by each council. The Commission then publishes information about the comparative performance of councils across Scotland. In the Statutory Performance Indicators 2010 Direction and Guide for the reporting year 2011/12, the Chair of the Accounts Commission stated:

*‘The Accounts Commission believes that it is of the utmost importance for authorities to have performance information that will enable them to report effectively to local communities and that will support robust decision-making priorities. We want to be able to use our statutory role to underpin performance reporting designed by authorities themselves, rather than impose an additional regime. We encourage the local government community to move forward quickly with its own performance information*

*initiatives. It needs to implement and sustain the infrastructure that will be required to deliver an effective set of performance information. This needs to enable citizens and service users to understand how their services are performing. It must enable comparison across authorities and over time, as required by the legislation*<sup>4</sup>.

5.4.2 There are some issues associated with the current Performance Indicators:

- Many of the indicators relate to the output of the council with no corresponding information on the cost of the service provision or, indeed, whether or not the council is actually meeting the demand for the service in their area. Thus, we may learn the number of people aged 65+ receiving homecare in a local authority – which is useful information - but we have no idea how many people may need homecare in the area but are not receiving it.
- Much of the data are of the type „percentage of planning applications dealt with within 2 months“. Whilst this may infer a certain level of efficiency, there is no indication of how much is being spent by the authority to achieve this.
- There are some data which shed more light on costs or aspects of performance e.g. „cost of collecting council tax per dwelling“ or „days lost per employee“. Examination of that data shows that some councils are highly effective in some areas but not others. Thus, the picture is not uniform and, indeed it has been suggested that this reflects the policy choices of the council, i.e. concentrating resources and skilled management in some areas rather than in others due to resource constraints. Without suitable data for all services, it is impossible to know what a council’s strategy is in this regard and if it is appropriate.

## 5.5 **Scottish Government – Scottish Local Government Financial Statistics**

5.5.1 As for cost information, the Scottish Government does report on Local Authorities’ costs as part of a wider exercise but further research would be required to establish if it would be possible to use this data in conjunction with that from Audit Scotland to establish costs per output for each local authority area as the categorisation of the two sets of data differs slightly – see Table 1.

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<sup>6</sup> Audit Commission, 2010. „Direction/Guide for 2011/12“

**Table 1: Categorisation of General Fund Income and Revenue Expenditure\* and Audit Scotland Performance Indicator Data**

<b>General Fund Revenue Income and Expenditure</b>	<b>Audit Scotland Performance Indicators</b>
Education	-
Cultural and related services	Community and cultural services
Social work	Adult social work
Police	Protective services
Fire	Protective services
Roads and transport	Roads and lighting
Environmental services	Waste management
Planning and economic development	Development services
Non – HRA housing	Housing
Central services	-
-	Corporate management

\* Scottish Government data showing local government finances based on financial returns

5.5.2 Appendix 1 (5) provides a link to this data in full.

## 5.6 Audit Scotland Best Value Reports

5.6.1 Audit Scotland also produce „Best Value“ reports on local authorities. Factors such as asset management, governance and accountability, performance management, vision and strategic direction, risk management and many other others (link Appendix 1 (6)) are examined for each council. Given that this exercise does not provide any hard cost/output data, it means that any conclusions re council efficiency are subjective. Appendix 1 (7) provides a link to the reports for each authority, whilst Appendix 1 (8) contains a link to a Best Value Toolkit report, published on the Audit Scotland website, on the characteristics of an effective performance management framework. In addition to the Best Value reports, Audit Scotland provide a wide range of publications e.g. an „Overview of Local Government in Scotland 2010“ and „Maintaining Scotland“s Roads. However, these are not regular publications.

## 5.7 Summary of Data Issues

### *Specific Issues*

- As shown by this paper, there are a myriad of data available in the public domain to consider aspects of local authority performance. Perhaps the most relevant are the performance indicators supplied by Audit Scotland. None of the information, however, really provides us with what we need to know and „hard“ indicators in the public domain are few and far between.
- The little **cost** data that is readily available in the public domain is provided by the Scottish Government but, as highlighted above, the most relevant **output**

data are produced by Audit Scotland. The categorisation of each set of data is slightly different. Thus, it is difficult to compare the cost data with the output information from these sources.

- There is good subjective information on aspects of council efficiency available from Audit Scotland by way of the Best Value reports. These, however, do not provide any analysis of local authority costs and, thus, efficiency.

### ***General Issues***

- Raw data alone cannot be trusted to provide an accurate view of council performance. One must consider other factors which impact the results, e.g. the more sparse a council's population, the higher its costs may be. Also, if one only considers output information in isolation, there is no indication of the quality of that output. Further, when looking at costs, one local authority may have higher costs than another but it may be providing a better level of service or have greater issues to deal with e.g. a higher crime rate. Even if the data were available to allow benchmarking of local authorities, there are a number of other issues to consider before making rash conclusions regarding council performance.
- Following on from the above point is that some data, where they exist, are not always consistent across local authorities. Various councils may account for some costs differently to others.

## **5.8 Some Considerations**

5.8.1 Clearly, given current data provision, there is very little opportunity to compare fairly council performance throughout Scotland using quantitative methods. However, we believe that, with buy-in from a number of organisations, including the local authorities and Audit Scotland, it would not be impossible to collect and publish good benchmarking data. Necessary to this would be:

- The creation of a comprehensive but contained set of output indicators – probably based on the current Key Performance Indicators – covering the main areas of council activity.
- The collection and publication of local authority expenditure data on a consistent basis with the above and collected uniformly across all authorities. Where this was not possible, it could be flagged to show where the exceptions arose.

5.8.2 Whilst this would be a considerable task to undertake, it is not an impossible one and the benefits should be substantial.

5.8.3 We understand that SOLACE and the Improvement Service have been working on a set of benchmarking indicators. The purpose of the SOLACE benchmarking project was to develop, on a collaborative basis, a comparative benchmarking framework for Scottish Local Government in terms of costs/productivity and related outcomes. To date the project has identified/largely agreed a proposed set of around 60 indicators covering a range of services and corporate areas, including for example; the attainment of children at Standard Grade by all children and the cost per secondary school. SOLACE recognise that these indicators can be used in combination with other indicators including; outcome indicators, statutory performance indicators etc. to provide a more effective overview of performance. This work is not yet complete.



## **Appendix 1: Links to Performance Indicators**

**(1) Scottish Government National Outcomes**

<http://www.scotland.gov.uk/About/scotPerforms/outcomes>

**(2) Single Outcome Agreement Recommended Local Indicators**

<http://www.improvementservice.org.uk/local-outcome-indicators/>

**(3) Local Authority Single Outcome Agreement Reports 2009/10**

<http://www.improvementservice.org.uk/library/577-single-outcome-agreements/681-phase-2-single-outcome-agreements-2009-onwards/752-soa-annual-reports-2009-2010/view-category/>

**(4) Audit Scotland Performance Information**

<http://audit-scotland.gov.uk/performance/service/>

**(5) Scottish Local Government Financial Statistics**

<http://www.scotland.gov.uk/Resource/Doc/933/0114202.xls>

**(6) Best Value toolkits**

<http://www.audit-scotland.gov.uk/work/toolkits/index.php>

**(7) Best Value Reports**

<http://www.audit-scotland.gov.uk/work/bestvalue2.php>

**(8) Best Value Toolkit**

[http://www.audit-scotland.gov.uk/docs/best\\_value/2010/bv\\_100809\\_performance\\_management\\_toolkit.pdf](http://www.audit-scotland.gov.uk/docs/best_value/2010/bv_100809_performance_management_toolkit.pdf)

## [Appendix 2: Links to related David Hume Institute/ KPMG papers](#)

Jo Armstrong, 2007. *'Improving Productivity in Scotland's Public Services: A Research Project'*. David Hume Institute, Occasional Paper No. 74.

[http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP\\_74\\_PSD\\_report.pdf](http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP_74_PSD_report.pdf)

Jo Armstrong, 2008. *'Improving Productivity in Scotland's Public Services: Policy Lessons'*. David Hume Institute, Occasional Paper No. 76.

[http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP\\_76\\_Improving\\_Productivity\\_in\\_Scotlands\\_Public\\_Services\\_Policy\\_Lessons.pdf](http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP_76_Improving_Productivity_in_Scotlands_Public_Services_Policy_Lessons.pdf)

Sir Ian Byatt, 2006. *'Balancing Regulation and Competition in the Water Business in Scotland'*. David Hume Institute, Occasional Paper No. 67.

[http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP\\_67\\_Byatt.pdf](http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP_67_Byatt.pdf)

Various authors, 2010. *'Re-shaping the Public Finances'*. David Hume Institute, Occasional Paper No. 87.

[http://www.davidhumeinstitute.com/images/stories/publications/Re-shaping\\_the\\_Public\\_Finances.pdf](http://www.davidhumeinstitute.com/images/stories/publications/Re-shaping_the_Public_Finances.pdf)

Gallagher J, Gibb K & Mills C, University of Glasgow, 2007. *'Rethinking Central Local Government Relations in Scotland: Back to the Future?'* David Hume Institute, Occasional Paper No. 70

[http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP\\_70\\_Local\\_Government.pdf](http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP_70_Local_Government.pdf)

Marsh, R & Zuleeg F, 2006. *'The Scottish Public Sector: Does Size Matter'*. David Hume Institute, Occasional Paper No 69.

[http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP\\_69\\_Zuleeg\\_and\\_Marsh.pdf](http://www.davidhumeinstitute.com/images/stories/publications/HOP/HOP_69_Zuleeg_and_Marsh.pdf)

The Brilliant Council of the Future, KPMG and Centre for Public Sector Partnerships, 2011

[http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/Market%20Sector/Public\\_Sector/brilliant-local-authority.pdf](http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/Market%20Sector/Public_Sector/brilliant-local-authority.pdf)

Payment for Success: how to transfer power from Whitehall to public service customers

<http://www.kpmg.co.uk/pubs/204000%20Payment%20For%20Success%20Access.pdf>

Care of Older People, KPMG 2011

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