

WIRRAL COUNCIL

CABINET

9 DECEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

OPERATIONAL EFFICIENCY PROGRAMME

1. EXECUTIVE SUMMARY

1.1 This report provides details of the HM Treasury Operational Efficiency Programme and the impact upon local authorities. Members are requested to note the progress against the recommendations of the programme and agree to the funding of further benchmarking and management review work.

2. BACKGROUND

2.1 The Comprehensive Spending Review 2007 (CSR07) set an overall public sector efficiency target of £30 billion for the current spending review period (2008-2011).

2.2 To assist in the achievement of this target, the Chancellor of the Exchequer announced within the 2008 Budget that the Government would instigate an Operational Efficiency Programme to ensure that public sector efficiency was maximized. Five broad areas of operational expenditure were chosen each led by private and public sector leaders with relevant expertise. The areas were:

- back office operations and IT, led by Dr Martin Read
- collaborative procurement, led by Martin Jay
- asset management and sales, led by Gerry Grimstone
- property, led by Lord Carter of Coles
- local incentives and empowerment, led by Sir Michael Bichard

2.3 The Operational Efficiency Programme final report was published in April 2009. A series of reports relating to the individual workstreams were published during May 2009. A number of themes emerged from the work undertaken. These were reported as:

- **consistent, comparable data** – organisations need consistent, comparable data to be able to benchmark their performance against others to know whether the services they deliver constitute good value for money. Both public and private sector best practice should be used to raise standards.

- **incentives** – an effective system of incentives and sanctions across the public sector would create the right conditions for all organisations and individuals to maximise their contribution to the delivery of high quality public services in an efficient manner.
 - **structures and tools** – the right structures (e.g.both internal and external shared service centres and professional buying organisations) and tools (such as software which allows access to collaborative procurement deals) need to be in place to help organisations and their staff achieve the savings they are being asked to achieve.
 - **accountability and performance management** – organisations should have the flexibility to decide on the most appropriate methods of delivering savings, suited to their circumstances, but all elements of the public sector must respond to the efficiency challenge. To maximise the benefits across the public sector, there is a need for robust, proportionate accountability mechanisms. With consistent, comparable data, those who are currently under-performing can be identified and supported to improve quickly.
- 2.4 Following the publication of the Operational Efficiency Programme final report, the Government increased the overall public sector efficiency target for the spending review period from £30 billion to £35 billion. This reflected the view from the report that additional efficiencies could be generated.

3. BACK OFFICE OPERATIONS AND IT

- 3.1 The back office operations and IT workstream report drew a number of conclusions including:
- The UK public sector is highly fragmented with many different back office operations and IT systems
 - Lack of consistent and robust management information in these areas making it difficult to analyse costs and make comparisons
 - Limited mechanisms for reviewing organisational operational effectiveness
 - Cost penalties may exist from the lack of standardisation, simplification and sharing of back office operations
- 3.2 The back office and IT report estimated the total public sector back office spend at £18 billion per annum and estimated IT spend at £16 billion per annum. The report states that savings achievable after three years could be £4 billion for back office operations and £3.2 billion for IT, including savings through collaborative procurement.

3.3 The report made a series of recommendations ranging across the whole of the public sector. The most relevant recommendations impacting upon local authorities are:

1a. All public sector organisations with more than 250 staff should collect and publish data using the five audit agencies approved value for money indicators for back office and IT services. For local government this should be from December 2009.

1b. Each sector should ensure that information is being collected on a consistent, auditable and transparent basis.

2. A system of operational reviews examining performance on back office operations should be introduced in public sector organisations. For local government this should be included within the Audit Commission Use of Resources assessments.

3. Government should take account of the £4 billion annual back office savings and £3.2 billion IT annual savings when determining financial settlements.

4. Public sector organisations with more than 1000 employees should conduct a systematic review of their functions, systems and processes by 2010-11. This should lead to significantly greater sharing of services.

4. IMPLICATIONS FOR WIRRAL

4.1 In terms of the overall Operational Efficiency Programme Wirral is well placed to respond to the challenges from the report. A number of initiatives had already commenced within the Authority involving the operational efficiency programme areas, before the report was published. These included:

- Collaborative procurement: The work programme of the Procurement Team
- Asset Management / Property: New Department of Law, Human Resources and Asset Management, and commencement of the Strategic Asset Review
- Local Incentives and empowerment: Established networks of area forums, youth and older peoples parliaments and participatory budgets
- Back office operations: Efficiency Plan, Change Programme and Customer Access Strategy
- IT: Replacement of Core IT systems.

- 4.2 The Chartered Institute of Public Finance (CIPFA) and the accountancy firm KPMG have established a benchmarking club to collate, analyse and compare information for the areas identified by the five audit agencies. This relates specifically to the back office and IT functions indicators recommended within the back office and IT report. Wirral has joined this club as it is the only economic method of meeting the requirements of the Operational Efficiency Programme and along with all member authorities will be submitting data for the surveys commencing December 2009
- 4.3 Wirral is already a member of the Pricewaterhousecoopers (PWC) benchmarking club. The PWC club has a different focus to the CIPFA/KPMG club and does not collate information on the back office/IT indicators recommended within the Operational Efficiency Programme. The PWC club concentrates on comparative information regarding national indicators.
- 4.4 The CIPFA/ KPMG benchmarking surveys cover five areas:-
- Finance
 - Human resources
 - ICT
 - Estates Management
 - Procurement
- 4.5 Once local authorities submit their returns, CIPFA/KPMG will provide analysis reports to the club members. The benchmarking return submission will be the first stage of the process. Further work will then be required to identify reasons for any differences. Although this could highlight areas for improved efficiency, it may also identify local authorities adopting different service delivery approaches, inconsistent accounting processes and/or including or excluding particular service elements within their returns. From the analysis a series of actions for improvement will then be identified.
- 4.6 A number of management reviews have been identified and will be included within the revised change programme which will fit with the recommendation of the Operational Efficiency Programme to systematically review functions, systems and processes. These include:
- Common Administrative Processes
 - Commissioning and Procurement
 - Information Technology
 - Revenues and Benefits
 - Financial Services
 - HR Services
 - Children and Young People Departmental Management and Administration

- 4.7 The management reviews will aim to produce efficiencies by identifying areas for process improvement and procurement savings, identifying duplication and improving and ensuring that service delivery strategies are the most appropriate. The results of the benchmarking exercises may help inform this work programme.

5. FINANCIAL IMPLICATIONS

- 5.1. Membership of the CIPFA / KPMG benchmarking club for back office and IT services will cost £5,400 per annum. This cost could be met from the Efficiency Investment Budget.
- 5.2 The management reviews will be undertaken within existing resources supplemented where necessary by the Efficiency Investment Budget and will be monitored by the Strategic Change Programme Board.

6. STAFFING IMPLICATIONS

- 6.1 There are none directly arising from this report, although delivery of the Change Programme will have staffing implications.

7. EQUAL OPPORTUNITIES IMPLICATIONS

- 7.1. There are none directly arising from this report.

8. COMMUNITY SAFETY IMPLICATIONS

- 8.1 There are none directly arising from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

- 9.1. There are none directly arising from this report.

10. HUMAN RIGHTS IMPLICATIONS

- 10.1 There are none directly arising from this report.

11. PLANNING IMPLICATIONS

- 11.1 There are none directly arising from this report.

12. LOCAL MEMBER SUPPORT IMPLICATIONS

- 12.1. There are none directly arising from this report.

13. BACKGROUND PAPERS

- 13.1 HM Treasury: Operational Efficiency Programme Final Report – April 2009

13.2 HM Treasury: Operational Efficiency Programme back office operations and IT - May 2009

14. RECOMMENDATIONS

14.1. That progress against the recommendations of the Operational Efficiency Report be noted.

14.2 That benchmarking exercises and management review processes be undertaken.

14.3. That the cost of the benchmarking exercise be funded from the Efficiency Investment Budget.

IAN COLEMAN
DIRECTOR OF FINANCE

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