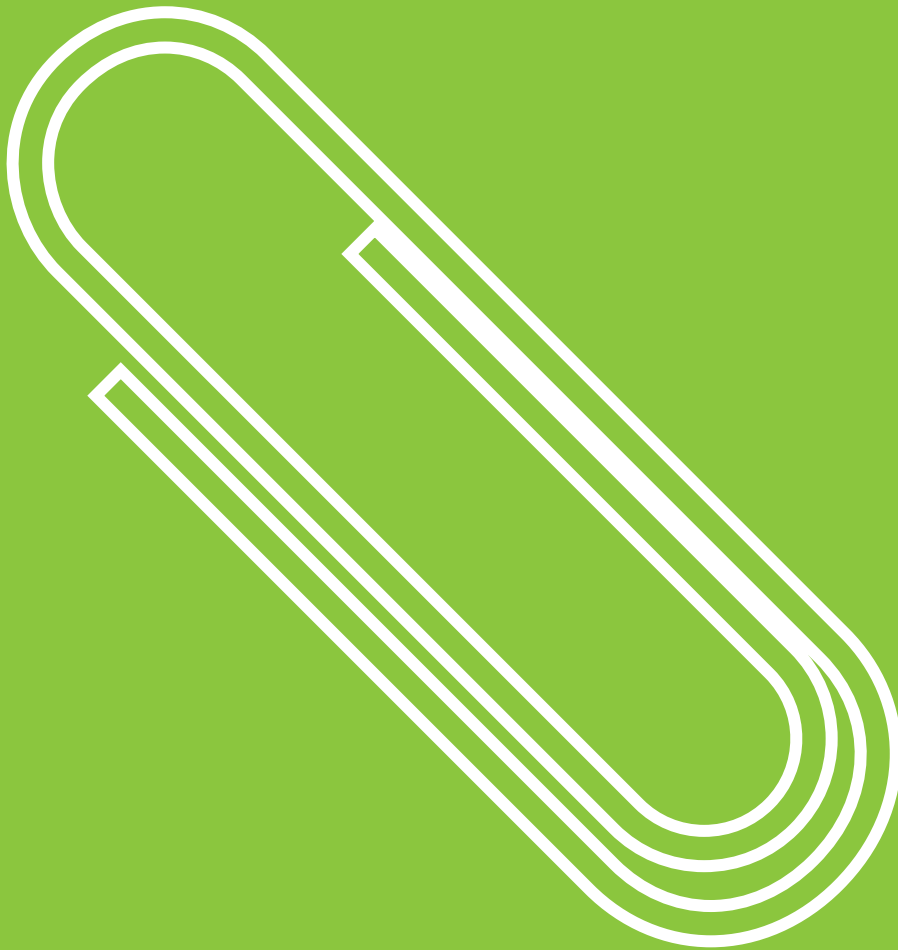


# Back to front

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Efficiency of back office functions in  
local government



**Local government**

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**National Report**

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October 2008

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# Summary

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## **Councils met the 2004 efficiency challenge – back office activity made a key contribution**

- Local councils in England met and beat the 2004 Spending Review (SR04) efficiency challenge making £4.3 billion total efficiency gains.
- Back office activities contributed over a quarter (28 per cent) of councils' efficiency gains.
- The proportion of council spending on back office activity has declined since 1999. Gershon efficiency gains helped to speed up this decline.

---

## **But there is no room for complacency**

- The 2007 Comprehensive Spending Review (CSR07) builds a 3 per cent annual efficiency target into the local government financial settlement. Councils are expected to achieve £4.9 billion cash-releasing efficiencies by 2010/11.
- Failure to make efficiency savings will mean service cuts or an inability to respond to new challenges.
- Changes in the wider economy and to goods, services, and utility markets mean that some efficiency gains will be harder to achieve.

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## **Councils need a strategic approach to efficiency**

- Councils that created significant and sustainable SR04 efficiencies:
  - designed and/or redesigned services from a user perspective;
  - linked efficiency programmes to corporate objectives for service improvement and council tax management;
  - demonstrated local political support for, and scrutiny of, efficiency programmes; and
  - delegated management and monitoring of efficiency activities to a senior-level executive board.
- Strategic approaches are transformational: they challenge traditional structures and aim for long-term gains and service improvements.

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# Summary

- Councils taking a strategic approach used performance and contextual information to understand their options, make choices, and monitor and review progress.
- Changes at senior level were necessary for some councils to unblock obstacles to efficiency gains.

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## **There is no single answer – back office efficiencies are created with tried and tested methods**

- The most successful approaches to improving back office efficiency during SR04 were redesigned business processes and improved use of Information and Communications Technology (ICT).
- Councils used a portfolio of internal (good housekeeping), mutual (shared services), and external (outsourced) methods for achieving back office efficiency gains.
- All councils must be clear about the best combination of methods for their individual circumstances.

---

## **Councils must build on the lessons of SR04**

- Councils cannot be complacent, particularly those that met their targets through one-off windfall gains.
- Strategic efficiency programmes are fundamental to effective public services operating in a tight, and tightening, economic environment.
- Difficult and transformational choices require effective leadership, forward-looking management, and support from key stakeholders.
- Internal political challenge and support is vital for long-term efficiency improvements.
- Councils have to choose the methods and techniques that support their wider objectives and cut waste throughout the delivery chain.
- There are still opportunities for back office efficiency gains. Councils must exploit them to meet the challenges of CSR07.
- Efficiency needs to be a part of the day job.

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# Recommendations

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## Councils should:

- deliver long-term, sustainable efficiency gains by taking a transformational approach that:
  - implements a strategic efficiency policy;
  - incorporates efficiency targets into corporate and financial planning;
  - uses efficiency boards or committees to oversee and guide internal management activity;
  - integrates front line and back office activity;
  - strengthens the role of councillors through overview and scrutiny of internal and service efficiency; and
  - engages staff in developing new ways of working.
- review and evaluate their experience of SR04 efficiency gains by:
  - identifying what worked and what did not work; and
  - understanding how their experience compares with other authorities.
- assess their preparedness for CSR07 and the changing political and economic environment by:
  - agreeing their aims for creating and using back office efficiencies in the future;
  - testing resilience to the pressures of the financial settlement, increasing prices, and local priorities for service improvement; and
  - scrutinising the local lessons for CSR07 from the experience of SR04 and Gershon efficiencies.
- challenge current approaches to leading and managing efficiency programmes and act to deal with weaknesses by:
  - deciding which aspects of the SR04 efficiency programme should be continued and which should be abandoned or revised; and
  - planning how to overcome obstacles to future internal, mutual, and external methods of achieving efficiency gains.

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# Recommendations

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## **The Local Government Association (LGA), the Improvement and Development Agency (IDeA), and the Regional Improvement and Efficiency Partnerships (RIEPs) should:**

- support councils that need to deal with internal managerial and leadership blockages to making back office efficiency gains during the CSR07 period;
- collect intelligence and develop resources to ensure they can respond quickly to the needs of councils identified by Comprehensive Area Assessment (CAA) as needing assistance;
- help councils to embark on projects, including service transformation and shared services, to deliver greater efficiency savings;
- facilitate effective benchmarking, peer review, and knowledge transfer between councils nationally and within regions; and
- support and broker mutual (shared services) approaches to efficiency as more authorities move beyond the SR04 focus on good housekeeping.

---

## **The Audit Commission will:**

- consider the adequacy of a council's arrangements for identifying the scope for making efficiencies and tracking progress in achieving planned efficiencies as part of the annual Use of Resources assessment;
- provide an electronic self-assessment tool that will help councils to develop a transformational approach; and
- share knowledge and learning through web-based action learning case studies.

---

# Introduction

- 1 Councils in England have made significant steps to improve their internal efficiency. Between 2005 and 2008, following the 2004 Spending Review (SR04)<sup>I</sup> (Ref. 1), £4.3 billion<sup>II</sup> of efficiency gains were diverted to improve services and manage the level of council tax.
- 2 The 2007 Comprehensive Spending Review (CSR07) (Ref. 2) set new efficiency targets for public services. These targets were introduced alongside a tightening economic environment and predictions of increased demand on council services. This new landscape means that local councils cannot rest on their journey to improved efficiency.
- 3 Back office activity – the behind-the-scenes work that supports services for the public – is an important source of efficiency gains. This report reviews how councils made back office efficiency gains during SR04 and identifies lessons for the future.
- 4 Research for this study took place in 2007 and 2008. Research included visits to a cross-section of 23 councils (the case studies), analysis of the Annual Efficiency Statements (AES) of all English councils (2005-2008), and a review of local authority financial returns (1999-2007). Data from these sources were tested against value for money assessments of the case study authorities. Details of the study methodology are in Appendix 1.
- 5 There are five key messages from the study.
  - Local councils made real efficiency gains in the SR04 period – they beat the Gershon targets. Back office activities made a considerable contribution to that achievement.
  - Most efficiency gains were translated into improved services or to manage council tax levels.
  - The CSR07 efficiency challenge is tough, and it takes place in a tougher economic and financial environment. All councils must understand how they achieved their SR04 efficiency gains and use that understanding to assess their options for meeting CSR07 targets.
  - There is no single answer. Successful councils use a variety of established and innovative techniques. They have managerial and political consensus on the need to make efficiency gains. They recognise that CSR07 will involve difficult decisions about future council services.
  - Councils must understand and challenge where they are on their efficiency journeys. No council can afford to be complacent. All councils must recognise the limitations of a transactional approach to efficiency and ensure they are moving towards transformation.

<sup>I</sup> Efficiency savings achieved during the SR04 period are often referred to as ‘Gershon’ efficiencies after Sir Peter Gershon’s report to the Treasury on diverting resources to support front line services.

<sup>II</sup> Calculated from the Annual Efficiency Statements 2007/08.

- 
- 6** This report is in four chapters:
- Chapter 1 – Making councils more efficient
  - Chapter 2 – A strategic approach to efficiency
  - Chapter 3 – Tried and tested methods
  - Chapter 4 – Conclusions: building on the lessons of SR04

- 7** The Audit Commission website includes additional practical advice to support this report and to enable councils to develop their approach to back office efficiency gains in the CSR07 period. The website includes:
- a self-assessment questionnaire to help council officers or overview and scrutiny committees to identify, understand, test and improve their council's approaches to back office efficiency;
  - a literature review of the academic and policy guidance that was used to scope this study;
  - further analysis of the data sources; and
  - eleven detailed action learning case studies.

For more information, visit  
<http://www.audit-commission.gov.uk/nationalstudies/backoffice>

# 1 Making councils more efficient

8 Local councils in England have made significant steps to improve internal efficiency. Between 2005 and 2008, £4.3 billion was diverted to improve services and manage the level of council tax. This chapter reviews that achievement and the role of back office efficiency gains.

## Beating the targets

9 SR04 gave local councils a 7.5 per cent efficiency target<sup>1</sup> – equal to £3.01 billion (Ref. 3). They beat this target (Table 1); and their own predictions of likely gains (Figure 1).

**Table 1**  
**Councils beat the 7.5 per cent efficiency target**

Year	Cumulative efficiency target (£bn)	Efficiencies reported (£bn)	Excess over target (£bn)
2004/05	Nil	0.76	0.76
2005/06	1.00	1.93	0.93
2006/07	2.01	3.06	1.05
2007/08	3.01	4.34	1.33

Source: Audit Commission/Communities and Local Government

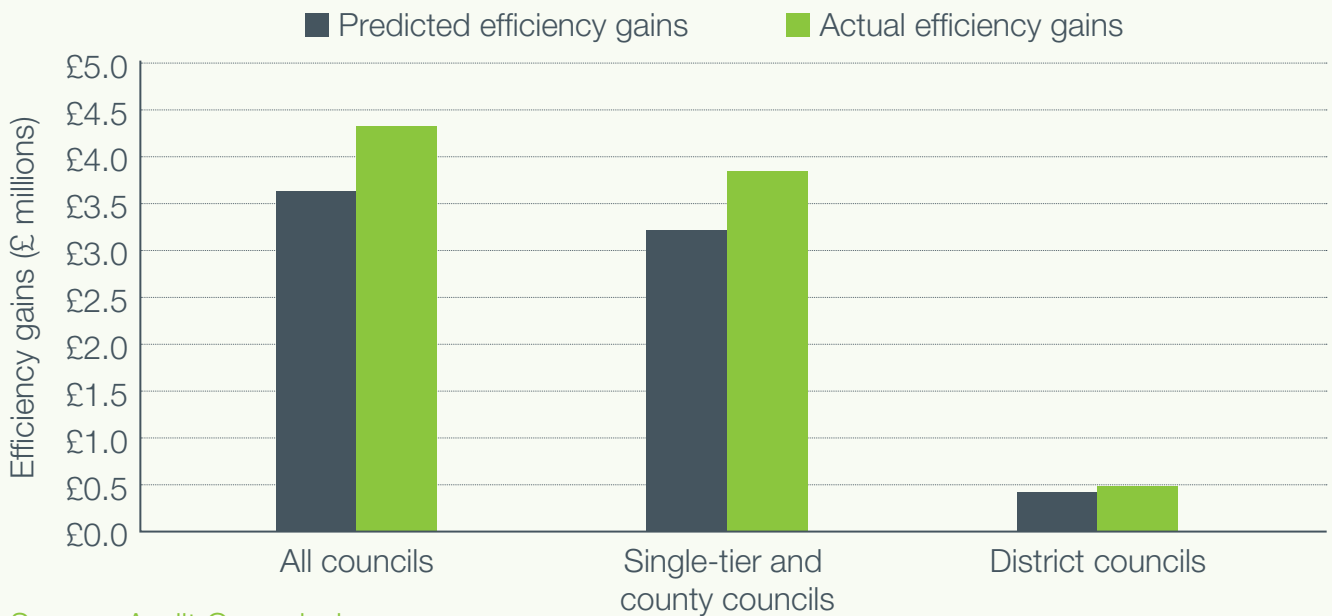
10 Over half the councils in England (214 councils, 55 per cent) met the SR04 efficiency target in the first two years. Just over half of those councils (108) can credit this achievement to efficiency programmes started before SR04.

<sup>1</sup> The targets for cumulative efficiency gains for the period 2004/05 to 2007/08 are laid out in the Efficiency Technical Note 2007 <http://www.communities.gov.uk/documents/localgovernment/pdf/381432.pdf>

# 1 Making councils more efficient

**Figure 1**  
**Actual and predicted efficiency gains during SR04**

Councils exceeded their predictions for the level of efficiency gains achieved



Source: Audit Commission

**11** SR04 gave a second challenge. Half the efficiency gains had to be cashable (Table 2).

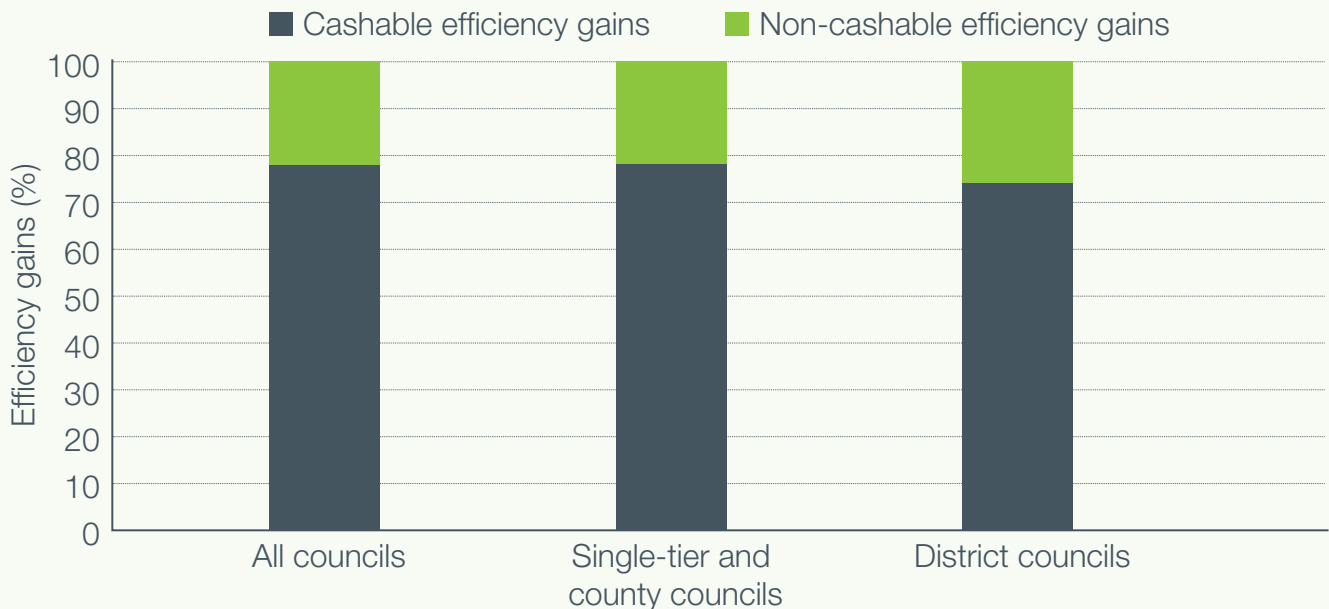
**Table 2**  
**Cashable and non-cashable savings**

Efficiency action	Cashable or non-cashable	
Reduce inputs for the same outputs	Cashable	Money is released that can be reused elsewhere
Reduce prices for the same outputs	Cashable	
Greater outputs or improved quality for the same inputs	Non-cashable	Money is not released
Greater outputs or improved quality in return for a proportionately smaller increase in resources	Non-cashable	

Source: Adapted from Communities and Local Government

**12** In the event, more than three quarters (79 per cent) of councils' efficiency gains were cashable (Figure 2).

**Figure 2**  
**Most SR04 efficiency gains were cashable**



Source: Audit Commission

## The role of the back office

**13** Back office activities do not usually provide services directly to customers. They are, though, a potential site of organisational inefficiency (Ref. 4, Ref. 5). Back office activities were one of the six work streams identified in Sir Peter Gershon's review of public service efficiency for the Treasury (Ref. 6). The review described back office services as:

'Finance, human resources, information technology support,

procurement services, legal services, facilities management, travel services, marketing and communications.'

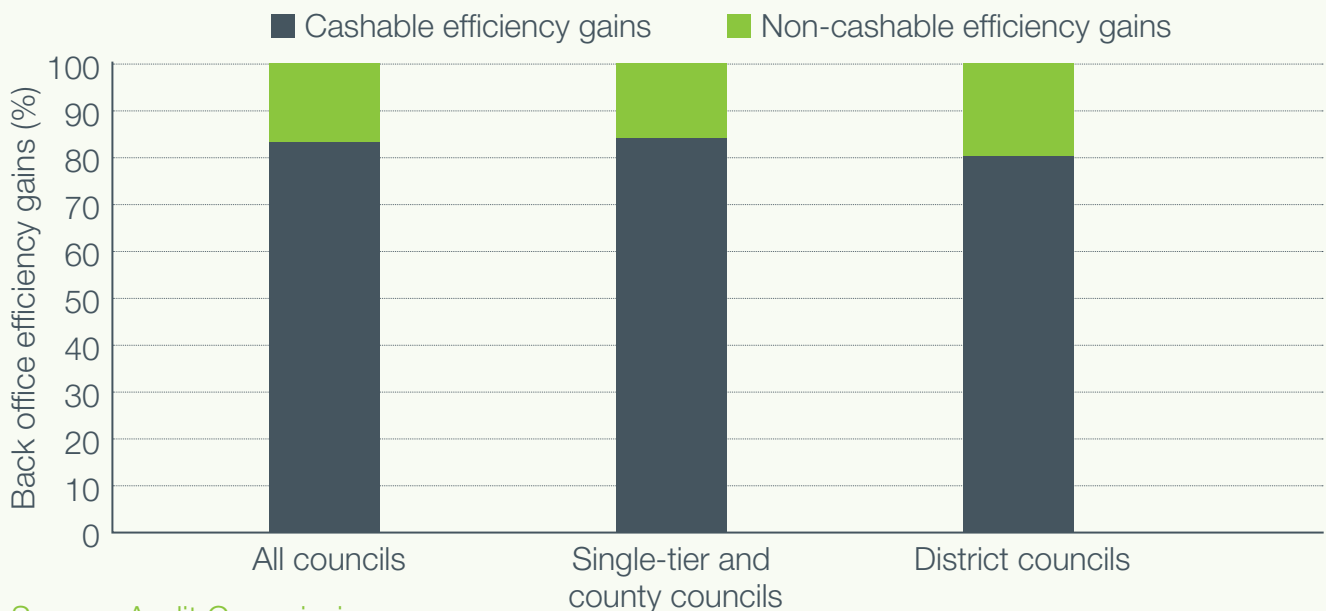
# 1 Making councils more efficient

- 14** During SR04, councils' back office efficiency gains:
- contributed £1.2 billion (28 per cent) of the £4.3 billion achieved for all efficiencies; and
  - generated £1 billion in cash for local authorities to use for improving services or to manage council tax levels.

- 15** More than four-fifths (84 per cent) of back office efficiency gains were cashable (Figure 3).

**Figure 3**  
**Back office activities made significant cashable gains**

The average council's back office activities released £8.40 in cash for every £10 of efficiency gain



Source: Audit Commission

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## Consistent performance

**16** Two sources of evidence demonstrate the extent of the overall back office efficiency gains made by local authorities, and show that these gains are part of a long-term trend:

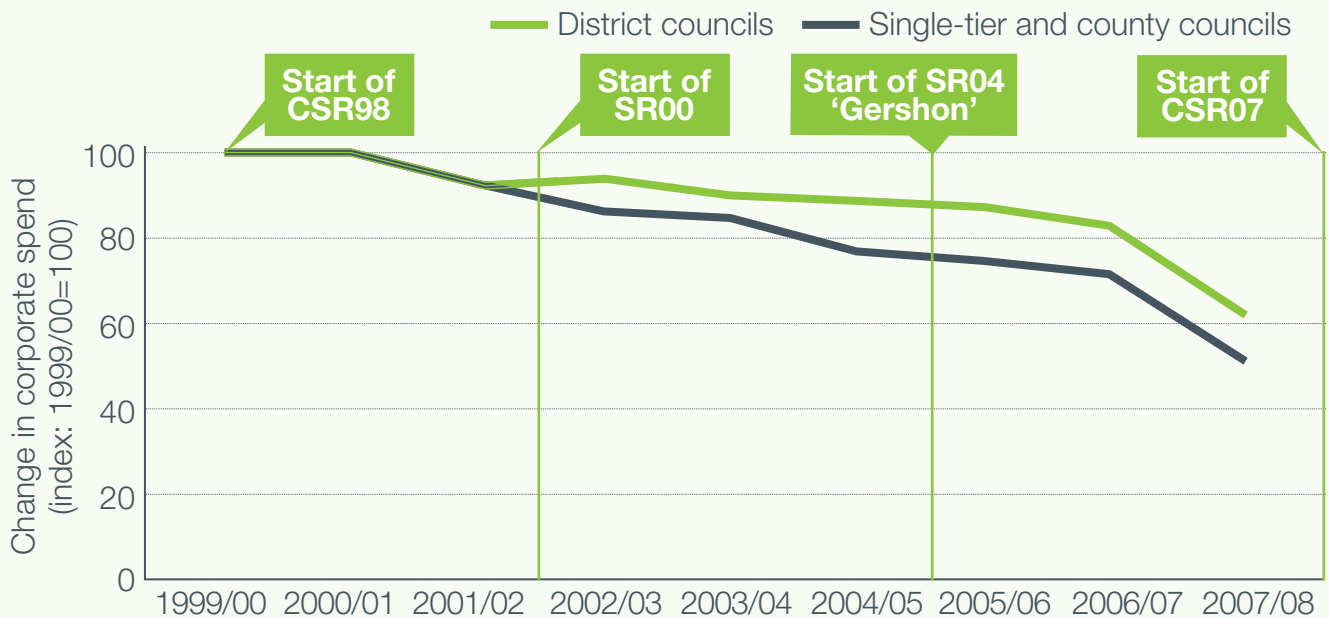
- during each year of the SR04 period, councils produced an Annual Efficiency Statement (AES). These statements recorded the gains made by local authorities and their plans for further savings. This study analysed data on efficiency gains in corporate services, procurement and transactional services; and
- councils send annual financial returns to Communities and Local Government (CLG). These identify the proportion of council spending on corporate services.

**17** The proportion of council spending on corporate services has declined over the last three spending review cycles (Figure 4), even though overall local government spending has increased. The 1999/00 financial year was the first of the 1998 Comprehensive Spending Review (Ref. 7). By 2006/07, the proportion of spending on back office activity in the typical district council had declined by 40 per cent. In the typical single-tier or county authority, the decline was 50 per cent. SR04 and the Gershon efficiency drive accelerated a trend started in previous spending review periods.

# 1 Making councils more efficient

**Figure 4**  
**Spending on corporate services is declining**

The proportion of council spending on corporate services has consistently declined since 1999/00



Source: Audit Commission/Communities and Local Government (Ref. 8)

**18** The decline in spending on corporate services is consistent across all types of council, but there are variations in the proportion of the overall budget that goes to corporate services. District councils spent an average of 35 per cent of their budgets on corporate services in 1999/00, while single-tier and counties spent an average of 6 per cent (Figure 5). By 2007/08, back office efficiencies and other changes had reduced the average to 23 per cent for district councils, and 3 per cent for single-tier and county councils. The continuing differences between districts and other types of council are due to a mix of factors:

- district councils (and single-tier authorities) have tax collection and benefit

payment responsibilities that county councils do not have;

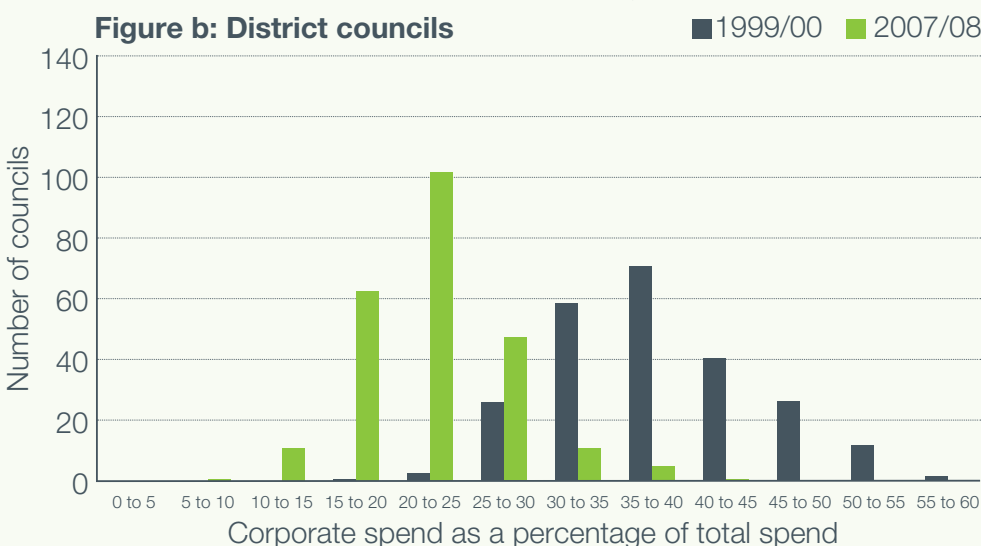
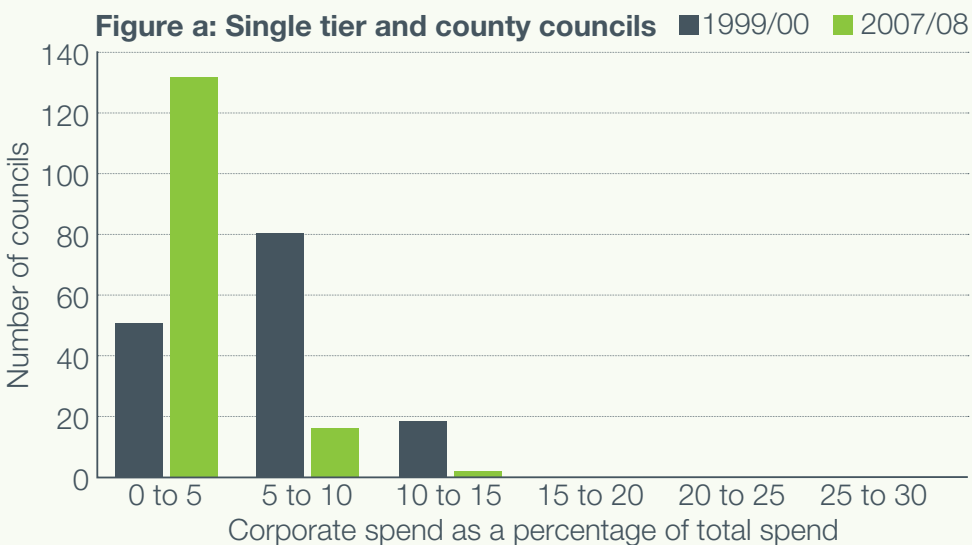
- county councils and single-tier authorities have transferred significant elements of service-related data and financial processing from the corporate centre into front line service departments;
- district councils, on the other hand, have transferred more back office activities into corporate services to make economies of scale; and
- the basic costs of running a local authority are proportionately higher for smaller councils than for larger ones; this applies across the different types of local authorities as well as between them.

**19** However, the range of district council spending on corporate services is wider than that for any other type of council. District councils spending an above-average proportion of their budget on corporate

services should review whether this is due to deliberate policy about the allocation of corporate service costs, or is a pointer to future efficiency gains.

**Figure 5  
Back office spending is declining**

All councils are spending a smaller proportion of their budgets on back office activity, but there is still scope for improvement



Source:  
Audit Commission/  
Communities and  
Local Government  
(Ref. 8)

# 1 Making councils more efficient

## Change and challenge

**20** Between 1998 and 2008, the economy grew and government increased its investment in local public services. The three-year local government financial settlement for 2008/09 to 2010/11 is based on lower economic growth and less investment in public services (Ref. 9). The economic

environment, and assumptions about future prospects are changing rapidly (Figure 6). Demand for council services, however, is likely to increase, as are raw material prices (Ref. 10). Many of the procurement efficiency gains made in SR04 will be more difficult to repeat in CSR07, and both national and local government are striving to manage council tax levels (Figure 7).

### Figure 6 A changing economic environment

'The downward revisions to the public sector current budget in this Pre-Budget Report from 2007-08 onwards are largely due to falls in receipts, driven in part by the expected impact of recent financial market disruption on receipts and changes to the economic forecast in 2008.'

2007 Pre-Budget Report and Comprehensive Spending Review

'The dramatic increases in the prices of food, fuel, gas and electricity alone account for 1.1 percentage points of the 1.2 percentage points increase in inflation. These sharp price increases reflect developments in the global balance of demand and supply for food and energy. In the last year, world agricultural prices have increased by 40 per cent. Global oil prices have risen by more than 80 per cent to average \$123 a barrel. To put this into perspective a decade ago a barrel of oil cost less than \$10; two weeks ago it jumped by more than that in a single day.'

Chancellor of the Exchequer, 18 June 2008

'CPI inflation rose to 3.8% in June, reflecting marked increases in food and petrol prices. And further substantial rises in inflation are expected in the near term, reflecting in part the announcements already made about gas and electricity tariffs.'

Bank of England Inflation Report, August 2008

'Continued financial turmoil appears to reflect increasingly signs of weakness in the real economy, itself partly a product of lower credit supply and asset prices. The eventual depth and extent of financial disruption is still uncertain, however, with potential further losses on housing and construction finance being one source of concern.'

OECD Economic Outlook, 2 September 2008

**Figure 7**  
**The efficiency challenge**

CSR07 will test councils' preparedness



Source: Audit Commission

## Building in the efficiency target

**21** All spending reviews since 2000 have addressed efficiency (Ref. 11). Councils were tested against best value efficiency targets (2 per cent a year from 1999/00) and the Gershon targets (2.5 per cent a year from 2005/06 to 2007/08). The underlying objective of these targets was to make the most efficient use of public money by directing resources towards dealing with local and national priorities.

**22** CSR07 sets a new challenge for local government. The efficiency challenge and the government's underlying assumptions about economic change are built into the financial settlement for councils (Figure 8).

# 1 Making councils more efficient

**Figure 8**  
**Efficiency savings are built into the three-year settlement**

'[The Government will build] on the SR04 efficiency programme with at least 3 per cent value for money savings per year over the CSR07 period across central and local government, totalling £30 billion of annual savings by 2010-11.'

2007 Pre-Budget Report and Comprehensive Spending Review

'Councils are expected to achieve £4.9 billion cash-releasing efficiencies by 2010-11. This will be challenging, but can be done, provided local and central government fulfil their roles to maximise the potential of local services.'

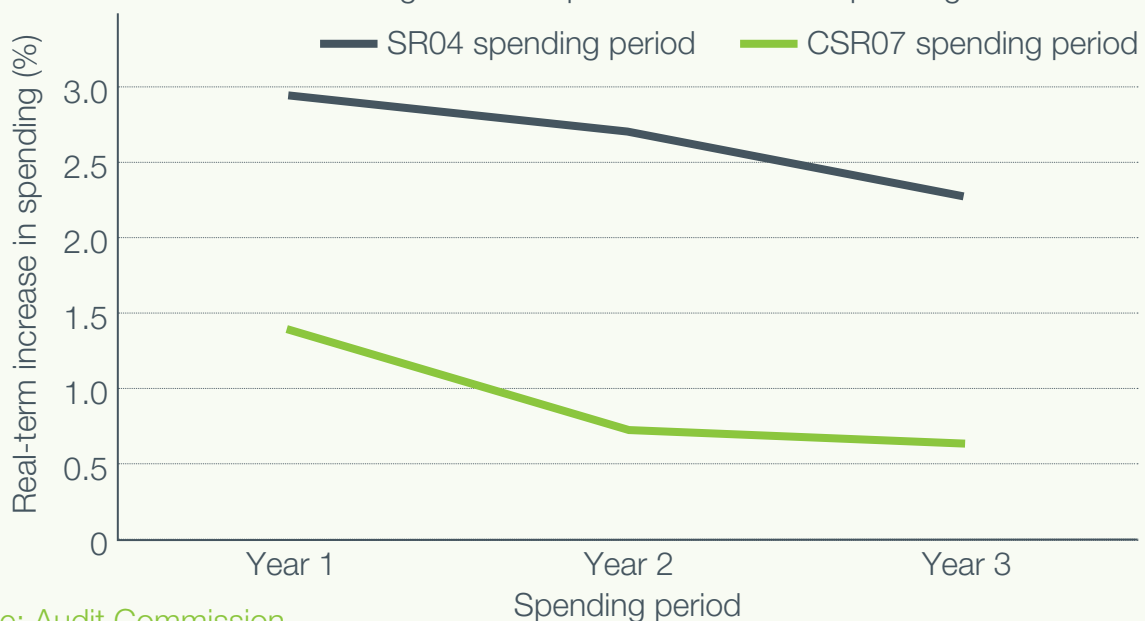
Delivering Value for Money in Local Government: Meeting the Challenge of CSR07

**23** The CSR07 target is significantly tighter on local authority spending than that for SR04. There will be a significant slowdown in the increase in local government spending (Figure 9). The increase in spending is based

on inflation at 2.75 per cent. If actual inflation averaged 3.75 per cent over the CSR07 period, there would be a shortfall of £0.57 billion across local government in England by 2011.

**Figure 9**  
**A tighter financial settlement for CSR07<sup>1</sup>**

Inflation rates above the CSR07 target could wipe out increases in spending



Source: Audit Commission

<sup>1</sup> Real-term increases in local government spending based on the 2.75 per cent deflator built into the Treasury's economic forecasts.

**24** To add to the pressures on local councils to maintain and increase efficiency, the government has announced (Ref. 12) that annual council tax increases should be below 5 per cent and that it will use its powers to cap council tax increases if necessary. For councils to maintain or improve their current service levels, they must achieve, and/or

go beyond the efficiency gains built into the three-year financial settlement.

**25** The government launched the Operational Efficiency Programme (OEP) in July 2008 (Ref. 5). The programme supplements CSR07 and focuses on efficiency across public service organisations (Figure 10).

### **Figure 10** **Improving operational efficiency**

The OEP is ambitious and covers all government activity. It will report at Budget 2009 and drive the efficiency programme forward into the next Spending Review. The OEP has five strands:

- back office/IT;
- collaborative procurement;
- asset management/sales;
- property; and
- local incentives and empowerment.

The back office/IT workstream plans to build on the Gershon/SR04 savings and on plans for CSR07 efficiencies. It will review savings throughout the public service delivery chain, not just within individual organisations. The OEP will review data on current performance, benchmarking, standardisation, and simplification of processes. It will identify opportunities for additional efficiency savings. The OEP is also likely to suggest improvements to government policy frameworks that would release efficiency savings.

The collaborative procurement workstream will build on the achievement of SR04 and CSR07 in developing a more strategic approach to government spending.

The asset management/sales workstream will assess the impact of the current framework for asset management within government departments and other public sector organisations.

The property workstream will examine the efficient use of property across the public sector.

The local incentives and improvement workstream will encourage innovation and publicise good practice.

The Operational Efficiency Programme will run during CSR07.

Source: HM Treasury/Audit Commission

# 1 Making councils more efficient

## Measuring performance

**26** A single efficiency indicator (NI179) in the national indicator set (NIS) measures local performance against the CSR07 efficiency challenge (Ref. 13).

**The total value of ongoing cash-releasing value for money gains that have impacted since the start of the 2008/09 financial year.**

**27** Recordable cash-releasing efficiency gains must:

- be reported net of investment and the costs required for their implementation;
- be sustained;
- reduce the level of resources to achieve the same or better outputs and allow resources to be redeployed; and
- have an impact on council expenditure after 31 March 2008.

**28** Councils can include the value of any continuing cash-releasing efficiency gains achieved in SR04 (in excess of the three-year 7.5 per cent target) in recording their performance against the national indicator.

**29** There is a higher degree of self-regulation and self-monitoring than in the previous spending reviews. Councils can decide which services to focus on and how to track delivery, measure achievement, and ensure service quality. Failure to create cash-releasing efficiencies will have a direct impact on services or council tax.

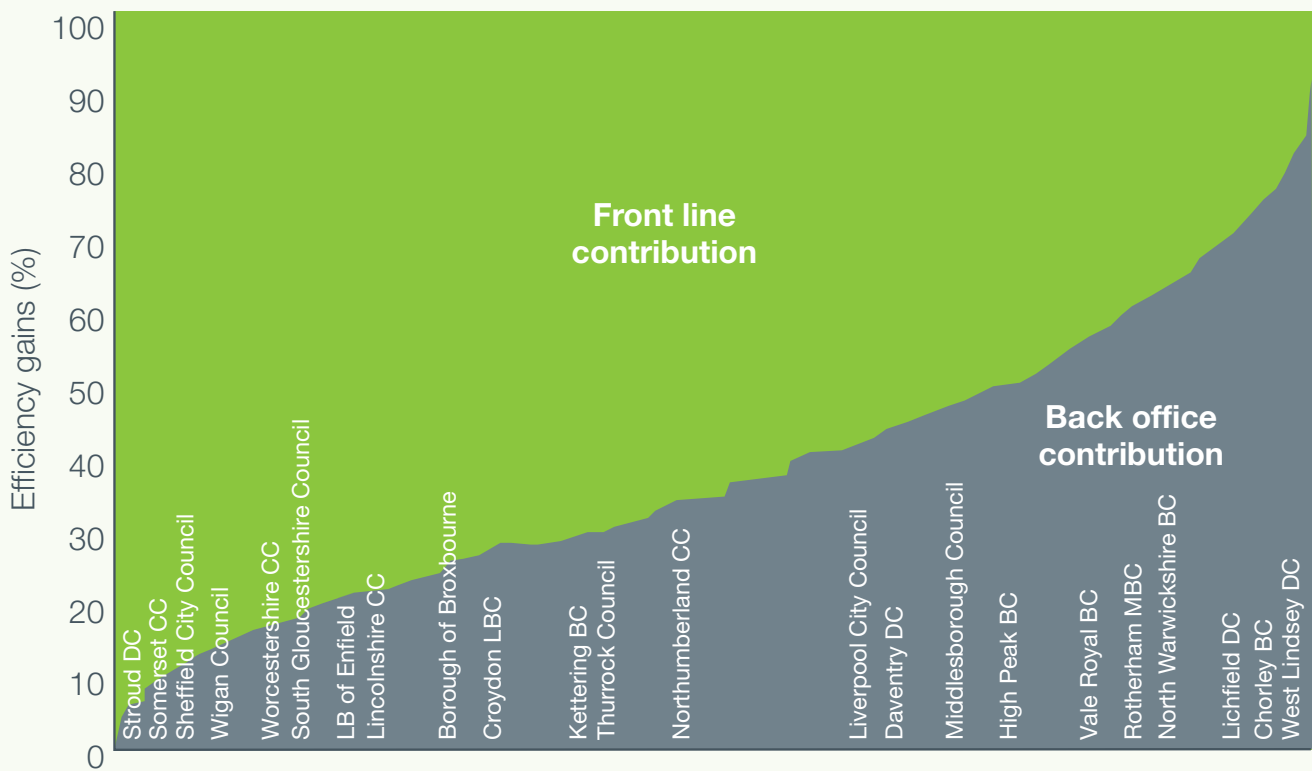
## Creating future back office efficiencies

**30** Increased back office efficiency made a considerable contribution to councils' SR04 performance. Analyses of the AES and information from the case study sites suggest opportunities for further back office gains in most councils.

**31** Back office efficiencies contributed just over a quarter (28 per cent) of the overall SR04 gains. In individual local councils, though, the contribution varied from 6 per cent to 91 per cent (Figure 11). The 23 case study authorities for this report cover the range. At one extreme is Stroud District Council. Back office activities contributed just 6 per cent of the council's reported efficiency gains. This council has combined most back office activity with front line functions. At the other end of the range is West Lindsey District Council. Almost all the efficiency gains (91 per cent) came from back office activities. This council realised major savings by insourcing information and communications technology (ICT).

**Figure 11**  
**Back office activities' contribution to reported efficiency gains**

The back office contribution ranged from 6 per cent to 91 per cent



Source: Audit Commission

**32** The wide performance range, and the experience of case study authorities, suggests that all councils must assess whether they fully exploited back office efficiencies in SR04. Even authorities where the back office contribution to total efficiency gains was greater than 50 per cent must assess whether this was due to one-off gains, consider the extent to which efficiency gains will continue into CSR07, and identify priorities for future action.

### Learning from SR04

**33** Councils must use performance and contextual data to understand where they are on their efficiency journeys and how they got there. They need to know about their position against their targets and the performance of other councils. They need to understand what works, and the options that are open to them for further efficiency gains in CSR07. Equally they need to know what does not work, or what will not work for them. These are not new messages,

# 1 Making councils more efficient

but analysis of how efficiency savings were achieved in SR04 suggests that many councils still need to learn about what is possible if they are to improve back office efficiency and to create efficiency gains elsewhere.

**34** The next chapter reviews how authorities developed and used a strategic approach to back office efficiency during SR04. It outlines how these lessons can be used to make further gains in CSR07.

## Checklist: Reviewing your council's back office efficiency performance in SR04

What were the total SR04 efficiency gains?

- How will you use the experience of SR04 to plan your approach to CSR07?

What was the level of back office contribution?

- How will you maintain/increase that contribution in CSR07?

How did your performance compare with other councils?

- How could other councils' performance during SR04 help you to choose future actions?

How did you ensure that back office efficiency gains:

- Were used to support local priorities?
- Were sustainable?

---

# 2 | A strategic approach to efficiency

**35** This chapter reviews the importance of a strategic approach to efficiency gains, and to back office efficiency in particular. Most of the councils that delivered significant back office efficiencies during the SR04 period adopted a strategic approach to the challenge. A small proportion of councils made windfall gains without a strategic approach by taking advantage of market opportunities, or by dealing with obvious inefficiencies. The gains already made in SR04, the tighter financial settlement, and changing economic circumstances make windfall gains less likely in CSR07. All councils will need a strategic approach if they are to meet the efficiency challenge.

**36** The key characteristics of strategic approaches to back office efficiencies in SR04 were:

- the consideration of services from the citizens' perspective: back office activities redesigned to support the front line. Councils refer to such an approach as 'seamless';
- efficiency priorities linked to corporate objectives: councils can demonstrate how back office efficiencies led to investment in front line services or control of council tax levels. Changes are publicised to ensure citizens and staff understand and support actions;

- strong political support and leadership of the efficiency programme: this includes engagement of overview and scrutiny committees; and
- the creation of an efficiency board or committee (officers and senior members) to lead, monitor, and evaluate the council's approach to efficiency gains. The board is linked to other corporate structures and is not a stand-alone body.

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## Different pressures shaped each council's approach to efficiency

**37** Most councils started delivering efficiencies before SR04 (Figure 4). Therefore, each council began SR04 from a unique starting point, which was shaped by local circumstances and past decisions, some of them specific to back office functions.

*'It [efficiency] is nothing new, because members constantly change priorities, [the] public expects more, we get less money in real terms. It is not necessarily about cutting out fat, but new ways of doing things. Efficiencies are the day job.'*

**Officer, District Council**

**38** Councils must understand the pressures that make back office efficiency programmes a necessity. The pressures and barriers that affect councils' approaches to efficiency are illustrated in Table 3.

## 2 | A strategic approach to efficiency

**Table 3**  
**Factors affecting councils' approaches to efficiency**

Councils must recognise both the external pressures and the internal barriers

Pressures	Barriers
SR04 CSR07 Financial position Political leadership and challenge Use of resources assessment Council tax levels Wider economic situation Public expectations	Existing contracts and arrangements Organisational culture Absence of political will and challenge Low change management capacity Risk aversion Investment in existing systems Insufficient knowledge/awareness of costs and performance

Source: Audit Commission

**39** These factors can have different impacts at different times. Sheffield City Council, for example, was unable to deliver significant additional back office efficiencies during SR04 as it was committed to an existing outsourcing arrangement.

**40** The national spending review cycles, now linked to three-year financial settlements, are the strongest external financial pressure on all councils. Councils responded to previous spending reviews by reducing the proportion of budget spent on corporate services efficiency targets. The overall response hides the considerable variation as each council responded to additional pressures. These include financial difficulties or external performance assessment.

### Case study 1

#### Using the market to enable long-term, sustainable gains

Sheffield City Council's long-term contract for back office support services restricted the potential for savings in the SR04 period. Contract re-tendering was firmly linked to a wider organisational transformation programme aimed at streamlining services, increasing choice and improving service quality. The new contract should be substantially cheaper for the council. It contains built-in annual efficiency gains and is expected to deliver a significant baseline efficiency saving throughout the CSR07 period.

- 41** Financial difficulties were a key pressure for Daventry District Council and led to a long-term financial management programme that provided the foundation for SR04 efficiency gains.

## Case study 2

### Financial difficulties drive back office efficiency improvements

Daventry District Council faced serious financial problems in the late 1990s. The council began a long-term financial and performance management programme that included investment in new financial systems and active monitoring and challenging of service over-spends and under-spends. The council has been able to demonstrate year-on-year efficiency savings and service improvements since 2001. Council officers incorporated an SR04 efficiency programme into the financial and performance management programme. In particular:

- Annual Efficiency Statements were aligned with budget planning processes;
- Gershon Champions promoted and monitored efficiency in each service area;
- a Gershon Group monitored planned savings and captured and validated the evidence; and
- the Board considered progress reports each month.

‘It would be wrong to say the Gershon efficiency initiative has driven our efficiency strategy, because we’ve had an overarching strategy to have [a] balanced budget.’

#### Officer, Daventry District Council

The council met and beat its efficiency targets in two years. The council delivered £678,500 efficiency savings in 2005/06 (123 per cent of target); and £762,000 efficiency savings in 2006/07 (212 per cent of target).

## 2 | A strategic approach to efficiency

**42** Comprehensive Performance Assessments (CPA) and other external performance assessments have been a key pressure for some councils. Thurrock Council turned a poor CPA assessment into an enabler of increased back office efficiency and improved services.

### Case study 3

#### CPA assessment drives back office efficiencies

A CPA assessment of Thurrock Council in 2002 recommended that the local authority could improve services while keeping costs low. The council decided to outsource most of the back office functions.

‘We were aiming from the contract [to] bring in [the contractor’s] knowledge of transformation so we could look at radically modernising, updating our services, to really challenge the models of service delivery so we would look at how we could perhaps deliver the same or better level of service but within less resources.’

#### Officer, Thurrock Council

The contract went live in April 2005 and released £1.7 million of cashable procurement efficiency gains by the end of SR04.

**43** A key driver for improved back office efficiency is effective internal political challenge. In 17 of the 23 case study councils there was a senior-level challenge group to encourage and test efficiency improvements. Some had to learn the hard way.

## Case study 4

### Ineffective challenge

A district council failed to engage councillor challenge and support for its SR04 efficiency programme. This failure led to ad-hoc approaches and the lack of any long-term efficiency strategy.

Senior officers, and many councillors, were committed to delivering efficiency, but they did not have a forum to discuss and develop strategy. The overview and scrutiny committee considered the efficiency programme, but only in retrospect. Challenge was ineffective.

The result was a fragmented efficiency programme. The council rejected offers from neighbours to make shared back office service arrangements as there was no overall policy and nobody to lead it.

By the end of SR04, senior managers had accepted there was a real barrier to achieving future (CSR07) efficiencies. The council is now engaging elected members and senior managers in preparing a plan for future efficiency activity.

**44** Challenge groups have different names and membership. They can be member-only and form part of either the executive or overview and scrutiny functions, or they can include members and senior officers. It is crucial that

the group has political support and clear roles and responsibilities, and that it does not just depend on the personal interest and drive of individual councillors.

## 2 | A strategic approach to efficiency

### Case study 5

#### Challenging efficiency

The London Borough of Enfield's 'Star Chamber' challenges and supports officers in promoting and achieving efficiency gains. The chamber is led by a small group of elected members, including the leader of the council. The process involves fact finding, challenge and innovation.

'[The] Star Chamber was established to go through all the [council's] cost centres line by line. Officers welcomed the opportunity. Directors actually came to us prepared [with savings ready]. Revenue and benefits just wasn't fit for purpose – now it's actually regarded as pretty good.' We [used] process model worksheets to find why our processes were performing poorly.'

#### Councillor, London Borough of Enfield

The chamber is an advisory body. Possible savings are identified and are then brought up through the normal management structure.

### Case study 6

#### Efficiency gains and medium term financial planning

Rotherham Metropolitan Borough Council introduced Base Budget Reviews in 2005. These aim to realign resources, create efficiency savings and provide Value for Money (VFM)<sup>II</sup>. Each service directorate submits a self-assessment report with information about efficiency savings, service pressures, risks and plans to a panel of councillors and senior management. The panel assesses how each directorate contributes to corporate priorities, whether budgets and services provide VFM and efficiency gains, and the viability of planned service improvements. The findings from the panel feed into the council's medium term financial planning.

The Cabinet includes a performance, VFM and efficiency portfolio holder. Senior officers regularly report on the progress of base budget reviews to the cabinet and to the overview and scrutiny committees. The reviews have enabled Rotherham MBC to make £19.3 million of back office efficiency savings during SR04, including £10 million of corporate and £9.2 million of procurement efficiency gains.

I In 2007, housing and benefits services both received the highest possible CPA score (4).

II Audit Commission Value for Money model is explained in: <http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/A8B6B973-8912-4BEA-89A3-049A416441BB/TheFutureregulationofhousing.pdf>

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**45** The importance and role of leadership and management is further discussed in Chapter 3.

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### **Three approaches to back office efficiency**

**46** Councils took three broad approaches to creating back office efficiency gains in SR04: transactional, transitional and transformational. All three enable councils to deliver efficiency gains: but transformational approaches are the most likely to deliver long-term, sustainable gains. Table 4 illustrates key differences between the approaches.

## 2 | A strategic approach to efficiency

**Table 4**  
**Transactional, transitional and transformational approaches to back office efficiency**

Three different broad approaches have different characteristics

Characteristic	Transactional	Transitional	Transformational
Efficiency policy	Ad-hoc efficiency activity.	Policy – but not linked to other policies.	Strategic and embedded efficiency policy.
Service transformation	Narrow approach to change.	Separate front line and back office transformation projects.	Integration of front line and back office activity.
Organisational change	Change within existing organisation.	Partial change to existing organisation.	Fundamental structural change.
Back office functions & front line services	Traditional separation of back office and front line activity.	Back office activity decentralised to, but not integrated with, front line services.	Full integration of front and back services.
Efficiency planning and monitoring	Top-slicing of budgets. Efficiency not aligned with corporate and financial planning.	Move to integration eg tailored efficiency targets. Some alignment with corporate and financial planning.	Efficiency targets and planning are fully integrated with corporate and financial planning.
Sustainability of efficiency savings	Over-reliance on windfall gains. Gains are retained within traditional budgets.	Gains are returned to corporate centre and are re-allocated on an ad-hoc basis.	Sustainable efficiency gains. Gains are re-allocated through corporate budget process. Investment in long-term improvement and efficiency projects.
Time scales	Short-term efficiency gains. Planning and achievement within-year and within existing budget heads.	Mix of short-term and long-term gains. Development of longer-term plans for specific efficiency projects. Some cross-year efficiency projects.	Long-term planning and gains across spending review cycles. Strong challenge to existing organisational and financial arrangements.
Management and leadership of efficiency	Councillor engagement is minimal or non-existent. Staff are not engaged in the efficiency process.	Partial engagement of councillors in efficiency planning. Some staff engaged in the efficiency process.	Clear leadership and engagement of councillors with efficiency. Staff are fully engaged in creating the efficiency process.

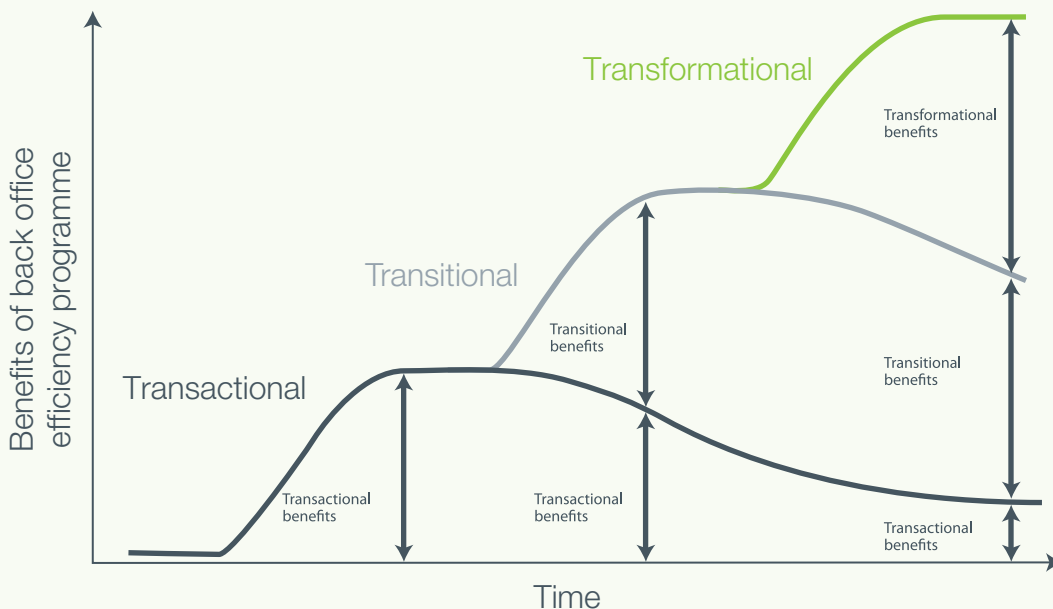
Source: Audit Commission

**47** The model of back office efficiency (Figure 12) shows the journey councils need to make. Most councils begin their approach to back office efficiency by taking a transactional approach. As the limitations of this approach become obvious, they progress into a transitional stage. Although the move from transactional to transitional can be incremental, the move from transitional to transformational requires

concerted leadership and management. At the end of SR04, four of the case study authorities were taking a transactional approach. Sixteen were in the transitional stage, and three had moved to the transformational stage. The three councils taking a transformational approach had better use of resources judgements than the other case study authorities.

**Figure 12**  
**Model of back office efficiency**

Councils need to move through the three approaches to deliver sustained benefits



Source: Audit Commission

## 2 | A strategic approach to efficiency

### Transactional

**48** A transactional approach takes advantage of quick wins and short-term gains. Efficiency gains are unconnected and they are managed within pre-existing structures. The transactional approach can be an

attractive short-term option. It can deliver significant gains in the right circumstances. But councils must be clear whether the circumstances are right. The one-off, windfall gains that are typical of a transactional approach depend on the right mixture of internal capability and external opportunity.

### Case study 7

#### Building savings from small projects

North Warwickshire Borough Council had a transactional approach to back office efficiency gains during SR04. Back office and front line efficiency activities were clearly separate and each service had its own target. The overall target for the authority, though, followed members' policies on controlling council tax levels.

Four main techniques were used to deliver SR04 efficiency gains:

- administrative services were centralised into one corporate support function, reducing staff numbers by three posts;
- efficiency savings of £248,930 were generated through improved procurement;
- ICT was used to encourage increased flexible and home working – leading to improvements in staff productivity; and
- the number of corporate directors was reduced, releasing £185,000.

North Warwickshire plans to develop a transitional approach to back office efficiency for CSR07.

‘The politicians want us to have a look at a lot of back office support services, HR, payroll and finance and see where we can look at doing some joint working.’

**Officer, North Warwickshire Borough Council**

At the start of CSR07, the council began exploring opportunities for sharing back office functions with neighbouring councils and sharing office space with local partners such as the county council, the local primary care trust (PCT), and the police.

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## Transitional

**49** Most councils were in transition during SR04. They took the benefits of transactional gains but recognised that sustainable efficiencies required a longer-term approach.

### Case study 8

#### Building upon an organisational change programme

In 2006, Croydon London Borough Council began its RELEASE programme. This aims to develop better customer-facing services, challenge the way resources are used in the council, and improve back office functions. Each element of the programme is managed by an efficiency board of senior management and councillors. The council predicts that the programme will create £15 million of savings over three years.

A fundamental part of RELEASE is the Service Transformation Plan. This aims to improve ICT infrastructure and customer contacts. An internal 120-seat contact centre deals with over 50 per cent of the council's enquiries on a 'one and done' basis. Services available on the web have increased. Eight out of ten job applications are processed online. Actions from the Service Transformation Plan created £6.8 million of back office efficiencies by the end of SR04.

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## Transformational

**50** The transformational approach is characterised by strong links between the efficiency programme and a council's corporate objectives (Figure 13). Back office efficiency gains are used to support local public services: they are not simply a matter of meeting targets. The transformational approach is complex.

Efficiency projects work across internal and external boundaries. Changes are hard to reverse and designed to produce long-term, sustainable gains. Councils taking a transformational approach are more likely to understand the links between objectives, resources, actions, and impacts as a delivery chain (Ref. 14).

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## 2 | A strategic approach to efficiency

### Figure 13 Transformational government

The transformational approach shares common elements with the government's plans for transformational government. The overall themes of transformational government (Ref. 15) are:

- citizen and business-centred services;
- shared services; and
- professionalism.

Councils taking a transformational approach to back office efficiency have already embraced these key elements.

Source: Improvement Network

**51** Worcestershire County Council had an opportunity to redesign back office services when it was recreated, following the abolition of Hereford and Worcester County Council in 1998. Worcestershire moved quickly from a transactional approach, through a shortened transitional stage into being transformational.

## Case study 9

### Becoming transformational

Worcestershire County Council began creating back office efficiency gains in the late 1990s. The new (1998) council inherited outdated finance systems, inadequate ICT infrastructures, and compartmentalised work processes. The council's initial response was a department-by-department transactional approach. A review of other councils' financial systems started the move towards a transformational approach.

'Because [we were] effectively creating a new department [we were] given extensive help by all the English county treasurers. We analysed their departments and the way things were done and tried to gauge what was best and introduced that here.'

#### Officer, Worcestershire County Council

A new financial management system enabled the council to move finance teams into front line directorates and to integrate service and financial management.

A key lesson for the council was that it needed to look outwards and inwards if back office activities were to be efficient and effective. The mixture of benchmarking and self-analysis was the foundation for Worcestershire's move to a transformational approach.

A council-wide review of performance and efficiency was launched in 2003. Cabinet members and senior managers reviewed and challenged the evidence. The original one-off review was the foundation of Worcestershire's annual Corporate Strategy Week (CSW). Cabinet members and senior managers meet each autumn for a week-long workshop to review the issues faced by each directorate, and make recommendations for the budget/strategy process. CSW is now the core of the council's financial and service planning process.

'We try to encourage a culture of becoming self aware, both of cost but also of outcomes. It's not like a company; you can't look at return on capital, you can't look at return on sales, it's not quite as easy as that, but there is a richness of data out there you can bring together.'

#### Officer, Worcestershire County Council

The 2007 CSW focused on efficiency targets for CSR07. Directorates submitted their proposals for cash-releasing efficiency gains; for 'spend less do less'; and for growth. Agreed efficiency gains include £2 million in corporate services by 2010/11.

## 2 | A strategic approach to efficiency

### The efficiency journey

**52** Councils responded to the challenges of SR04 through a mixture of transactional, transitional, and transformational approaches. Councils will always be able to take advantage of transactional gains. But the CSR07 settlement, with its built-in efficiency target, a changing economic climate, and continued pressures on council

services, means that councils cannot base their plans for future back office efficiency gains on a purely transactional approach.

**53** The next chapter reviews the different methods that councils used to achieve back office efficiency gains in SR04 and suggests lessons for CSR07.

### Checklist: What lessons from SR04 will you take forward to develop your CSR07 strategy?

What were the main internal and external efficiency pressures on your council during SR04?

- How well did you respond to them?
- What are the lessons for your council's approach to CSR07 pressures?

What are the likely efficiency pressures on your council during CSR07?

- How robust is your assessment of these pressures?

What were the barriers you had to overcome during SR04?

- What lessons have you learned?
- What are your plans to deal with remaining barriers or new ones that might appear during CSR07?

How would you characterise your council's broad approach to back office efficiency in SR04:

- Transactional?
- Transitional?
- Transformational?

What were the strengths and weaknesses of this approach?

- How will they change in CSR07?

What lessons have you learned from your own experience?

What lessons can you learn from others?

What approach do you aspire to in the future?

- How are you going to achieve it?

How will you ensure sustainability of efficiency gains?

# 3 | Tried and tested methods

**54** Councils need clear efficiency objectives for their back office activities, so that they are in a strong position to choose between the different methods for creating efficiency gains. There are a variety of techniques for creating efficiency gains: no single technique is superior in all circumstances.

**55** Councils' efficiency objectives must go beyond efficiency targets. They must be based on awareness of what is possible, and of how efficiency gains can support wider achievements in meeting local priorities. They must not lead to local complacency once targets have been achieved.

## Case study 10

### Complacency – and missed opportunities

In the years before SR04, a district council made back office efficiency gains by improving procurement and restructuring its administration. Councillors and officers believed that the council was efficient at the start of SR04. The council comfortably met its SR04 Gershon target on the back of early transactional gains.

‘It’s not an easy process, of course, when you start from the point of being quite a lean machine anyway so obviously that gives us additional difficulties.’

#### Councillor, District Council

But weaknesses in the planning and budgeting processes, identified by inspection, were ignored. The council had little understanding of how opportunities for further internal restructuring could release more resources to support its policy objectives. At the end of SR04 the council was wholly transactional in its approach. It now recognises that it must make fundamental changes to meet the challenge of CSR07.

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## 3 | Tried and tested methods

**56** There are three broad methods for creating efficiency gains (Table 5) and councils can choose between them.

- **Internal methods** involve reviews of, and challenges to existing structures, processes and methods. They include the use of 'lean' and business process improvement methods. They also include improved procurement and asset management.
- **Mutual methods** involve councils working with each other, and with other public sector agencies. They include formal and informal shared services arrangements, developed around ICT systems, asset management and access to suppliers.
- **External methods** involve a wide range of outsourcing approaches and joint ventures. External methods all involve suppliers or partners from the private or non-profit sectors.

**57** Most authorities use a mixture of methods. During SR04 nearly all the case study authorities (21 out of 23) used two internal techniques:

- lean thinking/business process improvement; and
- improvements to ICT.

**58** All 23 authorities used improved procurement processes to support back office efficiency. A considerable contribution to local authority efficiency gains, therefore, came from well-established methods for business and service improvement. These methods should continue at the heart of CSR07 efficiency plans.

**59** It is not just the initial choice of method that is important (Ref. 16, Ref. 17). Councils must follow their choices through with effective management if they are to deliver the predicted efficiency gains.

**Table 5**  
**Different methods and techniques to deliver efficiency**

Councils choose from three different methods and a variety of techniques

Methods	Techniques	Case study sites using the techniques in SR04		Case study sites using or planning to use the technique in CSR07, when interviewed in 2007
		Number	Value range	
Internal methods	Lean/BPI	21	£60,000 (district council) – £7,000,000 (county council)	19
	ICT	22	£235,000 (district council) – £4,000,000 (county council)	1
	Procurement	23	£42,000 (district council) – £7,000,000 (metropolitan borough council)	2
	Asset management	7	£250,000 (county council)	6
	Transformation and restructuring projects	13	£500,000 (district council) – £11,500,000 (county council)	4
	Insourcing	4	£22,000 (district council) – £750,000 (district council)	0
Mutual methods	Shared services	12	£150,000 (district council)	6
	Informal partnerships	14	£27,000 (district council) – £300,000 (district council)	9
External methods	Outsourcing	11	£2,600,000 (unitary authority) – £6,000,000 (unitary authority)	10
	Joint ventures	5	Figures not available	6

Source: Audit Commission

# 3 | Tried and tested methods

## Choice must be built on self-awareness

- 60 Councils need to know their strengths and weaknesses if they are to make the best choice of efficiency technique. They need to understand how the different techniques can deliver efficiency gains, and the relationship between the different techniques.
- 61 For internal, mutual or external techniques, there must be a clear business case and the capacity and capability to manage it. The Audit Commission's report *Healthy Competition* (Ref. 17) found that many councils still lack the relevant skills that will get, and sustain, efficiency gains through better procurement activity.

## Internal methods

- 62 Internal efficiency methods can deliver efficiency gains in their own right. They can also be used as a first step before mutual and external methods are investigated. In SR04 a third of authorities took this approach.
- 63 Most councils used improved ICT to deliver SR04 efficiencies. ICT improvements deliver efficiency by reducing process times, reducing process stages, and supporting increased flexibility. These are internal changes. In some councils, the improvements in ICT have accompanied insourcing: previously outsourced ICT services are returned in-house.

### Case study 11

#### ICT delivers productivity and flexibility

North Warwickshire District Council focused on ICT to improve staff productivity during SR04. It promoted home working and flexible working. Home workers were given computers and linked to corporate ICT systems. All staff had the option of flexible working arrangements. Benefit officers used tablet PCs to work from their own, or a customer's home. Benefit claims are now processed in a single transaction. Improved use of ICT released £182,430 (17 per cent of total efficiencies) by the end of SR04.

## Case study 12

### Contract renewal offers an opportunity for radical option

In 1989, West Lindsey District Council outsourced its ICT services to a large private company. Initially the council was able to create efficiency savings from the contract through a reduction in the ICT budget: these gains were soon outweighed by costs.

‘We looked at what we were getting [from the contract]. Satisfaction wasn’t particularly good from our colleagues internally and the costs seemed very high compared [with] other people with different arrangements.’

#### Officer, West Lindsey District Council

The council worked with the IDeA to benchmark performance against similar authorities. It also discussed arrangements with neighbouring councils to minimise risks. Senior management and councillors then took the decision to bring the council’s ICT function back in-house and four staff from the private contractor transferred into the council. As a result, the council realised £750,000 of efficiency gains during the SR04 period, coupled with improved ICT service performance and enhanced partnership working.

**64** Two main ICT developments will contribute additional efficiency gains for CSR07.

- Unified communications take all voice and data communications through a single network for voice and data. The most common example of this is the move to telephony carried over the internet (IP telephony). A fifth of local authorities have moved to IP telephony. Cheshire County Council invested £18m in a new telephone network in 2007 as part of a ten-year strategy to reduce costs by £174 million (Ref. 18).
- Virtualisation is the pooling and sharing of ICT resources including servers, storage and networking. It reduces costs, simplifies infrastructure and removes the need for large numbers of separate servers (and their operation and maintenance costs). Virtualisation can improve resource utilisation. It can also support the flexibility needed to adapt to changing requirements and workloads. Virtualisation, however, is just an enabler: councils must have clear strategic objectives for their use of ICT if they are to take full advantage.

# 3 | Tried and tested methods

## Case study 13

### Good housekeeping, virtualisation, and benefits to citizens

In 2006, Stroud District Council's internal ICT department had expensive computer servers, out-of-date PCs and duplicated work processes. Senior managers reviewed ICT services and decided to restructure the department.

The council identified the opportunity to use virtualisation to reduce the number of servers by forty. This released immediate cashable efficiency gains exceeding £4,000 per server. In addition there were non-cashable gains through the elimination of duplicated processes. The new system also offers the opportunity of automatic software updates, reducing time and ensuring consistency.

Once the system is fully implemented, the council will decide if it should continue to be managed and developed internally or be outsourced to the private sector.

'I think my general approach is we know what we're doing. We take the efficiencies for the local tax payer before we outsource anything and let the private sector have [the profits].'

#### Officer, Stroud District Council

Restructuring reduced staff costs by over 20 per cent. Other hardware, software, and process improvements mean the council expects to realise £320,000 of cashable gains over a four-year period.

65 Improvements in procurement processes and asset management often sit alongside ICT improvements in delivering efficiency gains as part of a council's holistic approach to back office services.

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## Case study 14

### Fit for the future – building on strengths

High Peak Borough Council's organisational change programme 'Network 2005' focused on improving back office productivity and creating better customer services. During this programme the council identified further opportunities for back office efficiency gains. In 2006, the council launched a 'Fit for the Future' programme, building on the strengths of 'Network 2005', to improve procurement practices through introducing paperless purchase ordering and increased e-tendering. The programme also aims to increase productivity through promoting home/flexible working arrangements, leading to rationalisation of office accommodation, which will reduce the number of main council sites from three to two. The programme is expected to deliver savings of £280,000 a year during CSR07.

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## Mutual methods

**66** Mutual, shared service methods will have an important role in CSR07. A key lesson from SR04 is the need for time to identify opportunities and negotiate relationships. The fundamental challenges of partnership working – whether they are with the public sector (Ref. 19) or the private sector (Ref. 20) – mean that mutual methods have to be part of a long-term strategy.

# 3 | Tried and tested methods

## Case study 15

### Building a partnership to create and share efficiency gains

The Chief Executives' Group of the eight local authorities in Lincolnshire commissioned research in 2005 on the possibility of a shared service partnership. The research presented different options and each council reviewed its opportunities for, and barriers to, shared services. Overall they prioritised six back office activities to put into Shared Services Lincolnshire:

- property management;
- training;
- information and communication technology;
- legal services;
- procurement; and
- revenues and benefits.

Although all councils were involved from the outset, there were problems as the project progressed. Some district councils were initially concerned that the county council would dominate the partnership and they were reluctant to commit resources to develop it. To overcome this barrier, the county council stood down as the lead authority for the shared services partnership:

‘From the county’s perspective we didn’t want to be seen as being the ‘big brother’ here, as being the lead authority, so the county council has deliberately fully participated but not wanted to be the lead authority. The lead authority is [a Lincolnshire district council].’

#### Officer, Lincolnshire County Council

The East Midlands Centre of Excellence supported the development of the partnership with £700,000 of funding over two years to support development and start-up costs.

Shared legal and procurement services started operating in April 2008. The partnership plans to develop the other shared service workstreams during CSR07, to create efficiency savings of £4.2 million.

‘We’re going really wider than the cash saving, although there will be cash savings, but it’s also about quality and robustness of service.’

#### Officer, Lincolnshire County Council

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## External methods

**67** Externalisation covers one-off transactions for a particular service and large scale multi-service delivery partnerships (Ref. 20) that cover a wide range of back office and front line functions.

### Case study 16

#### Allocating risk and making efficiency gains

A key risk for Chorley District Council's internal property management service was its ability to access appropriate skills and to retain staff. The council reviewed the internal service and opted for a fixed price contract for the management and maintenance of assets. The external provider bears the risk of possible skills shortages and changes to maintenance costs. Other services, such as improvement and development or architectural services, are additional to the main contract.

'This is part of our philosophy about transferring risks. Importantly it gives us access to the whole suite of services; all the additional bits of work.'

#### Officer, Chorley District Council

The new arrangement is expected to deliver savings of £80,000 per annum over the seven years of the contract. It also allows the council to purchase other property-related services, within agreed scales of fees and charges, from the provider.

# 3 | Tried and tested methods

## Case study 17

### New financial management system creates savings

Prior to SR04 Northumberland County Council had 26 separate financial and purchasing systems. There were duplicated work processes: multiple HR and payroll systems and structures created unnecessary work for staff.

‘We had very old technology; we had a lot of disparate systems that didn’t actually talk very well to each other.’

#### Officer, Northumberland County Council

The council reviewed its financial, HR and procurement systems and considered a number of options to replace the existing systems including those for financial management. Senior management and officers visited other local authorities that had purchased financial management systems to understand how they reduced work inefficiencies and increased staff productivity.

Following consultation with councillors and heads of service, the council chose a large private company to provide internal management and finance systems to the authority. The implementation of the new system created £4 million of efficiencies for the authority during SR04 and a reduction of 50 full-time posts in the finance department, with staff being redeployed into positions in front line services.

**68** External suppliers have delivered efficiency savings. There are opportunities for more efficiency gains, but these gains will be increasingly hard to secure as quick wins are taken and market conditions tighten. Councils must remain open to the use of competition and market mechanisms. They must also invest in the skills to understand and define their needs, manage their suppliers’ performance, and understand the markets with which they work (Ref. 17).

## Sharing knowledge about what works

**69** Benchmarking continues to have an important role in helping councils understand

how their back office functions compare with others and to identify what works elsewhere. But councils use benchmarking to different degrees and with different levels of effectiveness.

**70** Successful benchmarking needs:

- senior managers’ support;
- staff involvement (in the process and in consequent change programmes);
- an organisational culture that accepts challenge; and
- a clear business focus.

**71** Councils used three broad approaches to successful benchmarking during SR04 (Table 6).

**Table 6**  
**Three types of successful benchmarking**

Benchmarking type	Description	Example
Strategic	Comparing objectives, policies, outputs, and outcomes	Worcestershire County Council uses comparative service cost and provision data during its annual Corporate Strategy Week. The data is used alongside local information to help to identify service pressures and risks, and opportunities for efficiency savings. Councillors use the data to make decisions about the council's future direction.
Service	Comparing organisational structures and processes	Thurrock Council used the Audit Commission's VFM benchmarking model to develop a service achievement matrix. Service performance is compared against available data. Services in the low performing and high cost category are reviewed to see where efficiencies can be made. South Gloucestershire Council uses information from Institute of Public Finance (IPF) profiles to compare its cost structures and processes with similar councils, to understand service costs and to implement service reviews.
Data	Comparing inputs and outputs	North Warwickshire Borough Council uses benchmarking data from the Society of Information Technology Management (SOCITM) and the Chartered Institute of Public Finance and Accountancy (CIPFA) to compare inputs and outputs of back office functions such as procurement and ICT with neighbouring authorities in Warwickshire. This enabled the authority to identify back office efficiency savings during SR04.

Source: Audit Commission

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## 3 | Tried and tested methods

**72** Effective benchmarking supports light-touch monitoring and detailed review, as well as an internal culture that encourages learning and challenge. It also requires cooperation from willing partners. It should not be necessary to resort to sending Freedom of Information requests to get performance information about other councils' legal services, as one case study authority had to.

**73** Councils obtain benchmarking information from one-to-one relationships, benchmarking clubs, consultants, and nationally published data sets. Cross-sector comparison is rare and mainly focuses on HR and ICT activities. Comparison of efficiency targets, methods, and results achieved, suggest that councils compare favourably with performance in the private sector (Ref. 21). Many businesses fall into the trap of taking a short-term rather than a strategic approach to making efficiency gains.

**74** The government's Operational Efficiency Programme (Ref. 5) will re-emphasise the role of benchmarking back office service performance. Councils will need to ensure that future benchmarking activity improves knowledge about 'how' and 'why' as well as delivering data about 'what'.

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### Management and leadership

**75** Effective management and challenge are fundamental elements of long-term sustainable approaches to back office efficiency. Political leadership and scrutiny of back office efficiency programmes are key factors in councils' movement into the transitional and transformational approaches to efficiency.

## Case study 18

### Kettering – Next Steps Programme

Kettering Borough Council's Next Steps Programme (NSP) builds on councillors' full involvement in decision-making. Regular performance clinics allow them to scrutinise and monitor performance. Regularly updated financial performance handbooks give councillors financial and performance data for each service. Councillors use their own judgements about services, performance data, and user satisfaction information to identify possible efficiencies and areas for service improvement.

'We had a debate at a project planning day with cabinet members four years ago that basically said we've reached the limit of what we can achieve, we've got some difficult decisions to make, it's going to be a painful process, and members took the view that [for the council] to reach ambitions in five or six years time, we [needed] to go through this pain barrier.'

#### Officer, Kettering Borough Council

The NSP programme enabled the council to realise £70,000 of efficiencies from the procurement of the new financial management system; £41,000 from improvements in ICT and £150,000 from a shared licensing applications service during SR04.

**76** Clear managerial and political leadership cannot be taken for granted. Efficiency programmes in two-thirds of the case

study councils started after changes at the senior level.

## Case study 19

### Necessary changes

In one council, the senior management team responded to challenges from a new administration by devising and implementing a long-term programme of reorganisation, that started with quick easy-win initiatives (rationalising three print rooms into one) but aimed for transformational change.

In another council, the retirement of the chief executive enabled senior managers to renegotiate contracts and undertake an internal reorganisation using lean thinking techniques. They had the capability to make these changes, but had previously lacked the leadership.

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# 3 | Tried and tested methods

**77** Effective political and managerial leadership of back office efficiency programmes displays three characteristics.

- An understanding of current levels of performance on delivering efficiency gains. Performance and market information identifies where back office efficiency gains can be made and is used to set challenging and realistic targets.
- A realistic vision of possible efficiency gains, and an understanding of how back office activities contribute to that vision. Councils link their efficiency targets and gains to the delivery of other council objectives: efficiency gains are an enabler of better services, not an obstacle to them.
- Delivery of the vision, even if this means major changes or difficult choices. Effective political and managerial leaders understand the different ways of generating back office efficiencies and can identify which approaches are most appropriate for their council.

**78** Back office efficiency programmes during SR04 were most effective where four elements were present:

- councillors, managers and staff saw the delivery of back office efficiency gains as a means of achieving local environmental, social, and/or economic goals, rather than simple compliance with SR04 or CSR07 targets;
- there was a consensus in support of delivering efficiencies;
- there were robust approaches to challenging and delivering efficiency; and
- there was commitment to the chosen techniques.

**79** No single answer will achieve significant back office efficiency gains. Each council must choose the best local mixture of methods and techniques. To make that choice, it must be aware of external and internal pressures and the enablers of, and obstacles to change. Political and managerial leaders must challenge, support and demonstrate commitment to using efficiency gains to support council policies and priorities.

**80** The next chapter sums up the lessons from SR04 and the implications for council efficiency programmes in CSR07.

## Checklist: How can you strengthen your council's approach to back office efficiency?

What was your council's balance of internal, mutual and external methods for achieving back office efficiency gains in SR04?

- Which methods were most successful?
- How did each method contribute to your overall efficiency gains?
- What did you learn about the effectiveness of different methods – and how will that learning be sustained in CSR07?
- How will you ensure success is sustained?
- How will you build on that success?
- How can experience of SR04 help you choose future actions?

What obstacles prevented you from using a wider range of methods?

- What future obstacles might you have to deal with?
- How can you effectively overcome those obstacles?

How do you ensure that there is capacity and capability to deliver efficiencies?

- How will you develop it to meet the challenges of CSR07?

How did you compare your performance during SR04?

- How will you use comparisons in CSR07?

What role did senior managers and elected members play in the SR04 back office efficiency programme?

- How could that role be strengthened for CSR07 back office efficiencies?

How effective was your council's management and leadership of back office efficiency programmes in SR04?

- What are the main lessons for CSR07?

How can your council strengthen the management and leadership of efficiency programmes?

- How do councillor and officer development programmes support the management and leadership of efficiency?
- How does your council make the most of links between back office efficiency programmes and its other efficiency activity?

How well does your council match up to the four elements of an effective back office efficiency programme:

- Are efficiency gains agreed as a means to meeting local priorities, not externally imposed targets?
- Is there a consensus in support of efficiencies?
- Are there robust approaches to challenge and delivery?
- Is there a commitment to chosen techniques?

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# 4 | Conclusions: building on the lessons of SR04

- 81** Councils face a challenging financial environment. Efficiency targets are built into the CSR07 financial settlement, the economic situation has tightened, and many of the opportunistic gains available to councils during SR04 are unlikely to be available in the future.
- 82** Councils can make efficiency gains – they cannot achieve efficiency. They are on a never-ending journey with constantly changing external pressures. Each council has its own, unique starting point on the journey. Each council has to understand where it is starting from and what that means for the next stages. Efficiency needs to be part of the day job.
- 83** English councils made considerable efficiency gains during the SR04 period, accelerating a trend that started in 1999/00. Sustainable gains will require continuing commitment and drive from politicians, senior managers, and staff.
- 84** There is more that can and must be done. CSR07 sets new efficiency targets for councils. The government's Operational Efficiency Programme will challenge the public sector to go beyond these targets (Ref. 5).
- 85** To deliver the level of efficiencies required by CSR07 and beyond, councils must develop a strategic approach to identifying and delivering efficiencies. The transformational approach to efficiency, described in Chapter 2, delivers sustainable gains and increases performance.
- 86** Councils must choose the methods and techniques that are most appropriate for their local services and priorities. They must also have the capability and capacity to use those methods and techniques. Good housekeeping not only delivers efficiency gains in its own right, it can also be used as the first step before assessing the appropriateness of mutual or external methods.
- 87** Councils should make appropriate use of benchmarking to understand how their back office functions compare with others and to identify what works elsewhere. A suite of Corporate Services VFM indicators was developed in 2007 and has been endorsed by all five UK audit agencies (Ref. 22). Benchmarking services based on the VFM indicators are available to councils.
- 88** The pressure to achieve greater efficiencies in local public services is a very strong driver for innovation (Ref. 23). The unique starting point and variety of techniques available to councils give them an opportunity to use their innovative skills to progress the efficiency and better service delivery agenda.
- 89** This report has confirmed the importance of political leadership and strong management in councils. Political or managerial change is often necessary to unblock obstacles to further efficiency or partnership working. Effective leadership involves strong elements of:
- challenge to existing ways of doing things;

- challenge to proposed new approaches; and
- support for agreed actions.

**90** Political challenge and support is crucial for delivering efficiencies and needs to be developed and properly maintained. Councillors and officers must learn and work together to develop mechanisms for improved understanding, management and control of the efficiency agenda.

**91** Councils should not be complacent and rest on their SR04 achievements. CSR07 is a tough challenge. Councils must use back office and other efficiency programmes to support better local services and to transfer resources to priority areas. They should take a transformational approach towards efficiency gains, designing services from customers' perspective (Ref. 24). It requires a commitment to local priorities – not simple compliance with national targets.

**92** To support councils in responding to the back office efficiency agenda in CSR07, the Audit Commission has developed a self-assessment toolkit comprising:

- a self-assessment questionnaire to help council officers on overview and scrutiny committees to identify, understand, test and improve their council's approaches to back office efficiency; and
- a set of detailed case studies that illustrate councils' approaches and techniques, lessons learned and future efficiency plans.

These tools are available at:  
<http://www.audit-commission.gov.uk/nationalstudies/backoffice/>

**93** The Audit Commission will use the annual Use of Resources assessment to assess council efficiency and to support councils in adopting a transformational approach.

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# Appendix 1

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## Methodology

- 1 The research for this study was conducted between May 2007 and September 2008. For the purpose of this report, the back office covers: revenues and benefits, finance, human resources, ICT, procurement services, legal services, facilities management, travel services, marketing and communications.
- 2 There were three main elements to the research, outlined below.
  - A literature review of academic, management, and local government sources. The Institute of Local Government Studies provided a review of academic literature. This was supplemented by an in-house review of local government sources. The literature review identified the different methods used by public and private sector organisations to identify and realise efficiency savings in back office activity. The literature review played an important role in scoping the further research. The combined review is available on the Audit Commission website: [www.audit-commission.gov.uk/nationalstudies/backoffice/](http://www.audit-commission.gov.uk/nationalstudies/backoffice/)
  - Analysis of local council reports on their SR04 efficiency plans and efficiency gains (from the AES). There was also an analysis of local council spending on corporate services since 1999/00, taken from local authority financial returns to the Department for Communities and Local Government. The data in these sources were tested against each other to understand the relationship between back office efficiency and councils' spending on corporate services. Both data sets covered similar back office functions and were collected as part of the same data sets. The AES and financial returns were also tested against data from the Audit Commission's Use of Resources and data quality assessments.
    - Back office efficiency savings in the AES were also compared to six Best Value Performance Indicators (BVPs) that related to back office functions, to understand if there was a relationship between service performance and efficiency savings. The analysis showed that there was no relationship between back office efficiencies and service performance.
  - Interviews and assessments of documentary evidence from 23 case study authorities. The case study authorities were chosen from an initial analysis of AES data to reflect a range of different contributions of back office activity to SR04 efficiency targets. The case study authorities also reflect the different types of local council (district, county and the various types of unitary) and the different regions of England. Visits to each authority took place over one or two days and involved discussions with key officers (including the chief executive and the finance director) and key elected members (including the leader and the chair of scrutiny or the portfolio holder for efficiency/finance). The study team also discussed the evidence from these interviews with the Audit Commission's relationship manager for each authority.

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- 3** Agnieszka Scott, Rosamund Chester, Rob Francis and Sarah Furlong undertook the research for this project. Roy Anklesaria, Andrew Ball and Karen Price provided additional support to the site visits. Michael Hughes was the Project Director. Mark Burkett and Craig Renney contributed to the statistical analysis and individual relationship managers provided the research team with information and comments.
- 4** For further information please contact [back-office@audit-commission.gov.uk](mailto:back-office@audit-commission.gov.uk)

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## External Advisory Group

An External Advisory Group assisted in developing the research framework and analysing the findings. The Commission thanks all those who were involved. However, the views expressed in this report are those of the Commission alone.

Ged Bowles	West Midlands Regional Centre of Excellence
Tim Chesworth	Staffordshire Connects
Keith Davis	National Audit Office
Kevin Davies	Communities and Local Government
Peter Eckersley	IPF
James Fothergill	CBI
Andrew Passey/Nicola Kay	HM Treasury
Zoe Radnor	Warwick Business School
Janet de Rochefort	SOCITM
Peter Watt	INLOGOV, University of Birmingham

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## Fieldwork councils

The councils that participated in fieldwork were:

Borough of Broxbourne

Chorley Borough Council

Croydon London Borough Council

Daventry District Council

London Borough of Enfield

High Peak Borough Council

Kettering Borough Council

Lichfield District Council

Lincolnshire County Council

Liverpool City Council

Middlesbrough Council

North Warwickshire Borough Council

Northumberland County Council

Rotherham Metropolitan Borough Council

Sheffield City Council

Somerset County Council

South Gloucestershire Council

Stroud District Council

Thurrock Council

Vale Royal Borough Council

West Lindsey District Council

Wigan Council

Worcestershire County Council

The Audit Commission is grateful for their cooperation and for the information they provided and access they granted to the research team.

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