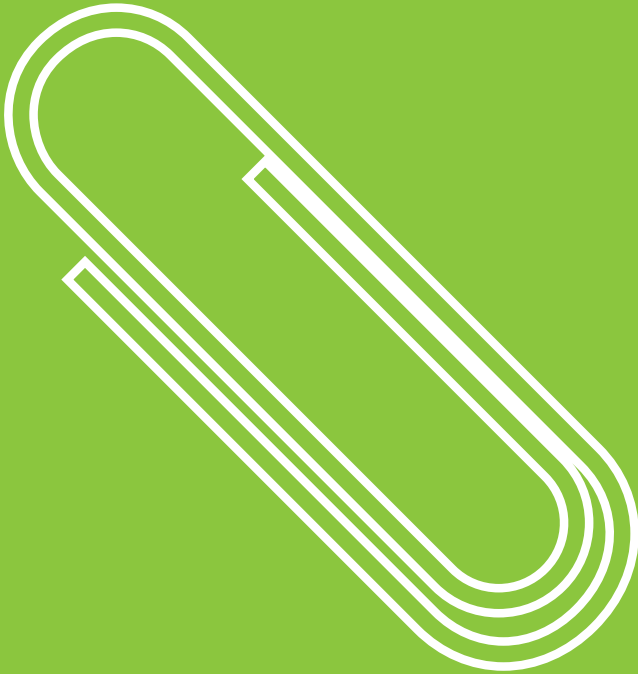


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Efficiency of back office functions in
local government



Local government

Summary

October 2008

 **audit**
commission

Summary

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.

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.
- 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.

Summary

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.

Recommendations

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.

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- 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.

Recommendations

The Local Government Association, the Improvement and Development Agency, and the Regional Improvement and Efficiency Partnerships 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.

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