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Environmental Scan

**Efficiency of Back Office Functions in Local
Government**

Policy, Research and Studies Directorate (PRS)

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Executive summary

- 1 We prepared this environmental scan as part of the research scoping stage of our study on the Efficiency of Back Office Functions in Local Government. It covers a variety of sources and aims to identify main themes in discussions about 'back office' efficiency in local government.
- 2 We identified six main themes:
 - The policy context
 - Progress towards achieving efficiency
 - Ways of achieving efficiency
 - The impact of efficiency gains
 - Efficiency in the private sector
 - International comparisons.
- 3 **The comments and observations recorded in this environmental scan refer to the position in autumn 2007. The published study (May 2008) fills in many of the gaps identified here.**

Efficiency policy context

- 4 This scan highlights the range of UK government policies that have influenced the efficiency agenda in English local authorities. The Gershon and Varney Reviews and the *Strong and Prosperous Communities* White Paper, emphasise partnership working, in its various forms, as the preferred approach to achieve efficiency gains in back office functions.

Local authorities have beaten the 2.5% annual efficiency targets from the 2004 Spending Review (SR). The 2007 Comprehensive Review will require annual efficiency savings of 3%.

Ways of achieving efficiency

- 5 Local authorities use different methods to achieve efficiency gains. There is little evidence about which approaches offer the greatest potential for back office efficiency gains, or why councils adopt particular techniques to achieve efficiencies.

The impact of efficiency gains

- 6 Efficiency gains can have benefits for service users, citizens and employees. This is particularly the case with online transactional services. The current evidence suggests there are also costs for some service users and the public sector workforce, including reductions in staff headcount. The academic and policy literatures give an indication of some of these impacts but not in great detail.

Efficiency in the private sector

- 7 Concerns about profitability and market share drive efficiency programmes in the private sector. There is a well-established literature about improving processes efficiency. Much of this has supported public sector thinking on efficiency and 're-engineering'. In recent years there have been drives for 'lean' thinking (cutting the number and scope of processes to a minimum) and 'shared services'. In the latter, the interest in the private sector appears to be in bringing back office services together within, rather than across, organisations.

International comparisons

- 8 Our scan highlights similarities between public sector efficiency programmes in the USA, New Zealand, and Australia. There are similarities with UK experience.. Outsourcing and shared services have been used to achieve efficiencies in many countries. In Europe, particularly Denmark, back office transformations have used IT and technological solutions such as online services to achieve efficiencies.

Introduction

- 9 This environmental scan assesses the current evidence on back office efficiency in public and private sector organisations in England, the UK, and internationally. We used web searches, library sources, a review undertaken by the Institute of Local Government Studies, and advice from colleagues, to understand the current picture.
- 10 We analysed information from:
- local and central government
 - academia
 - the private sector
 - international perspectives
 - practical efficiency guidance.
- 11 This scan is divided by the main themes that have arisen from the research, which are:
- efficiency policy context
 - progress towards achieving efficiency
 - ways of achieving efficiency
 - the impact of efficiency gains
 - efficiency in the private sector
 - international comparisons.

These sections are followed by an analysis of the current literature in the conclusions section of this report.

Efficiency policy context

- 12 A number of recent central government policy reviews have influenced the development of efficiency programmes in local government. These include the Gershon Review, the *Strong and Prosperous Communities* White Paper¹, the Varney Review², and the run-up to the Comprehensive Spending Review 2007. Each has a different emphasis. Together they provide strong incentives for local authorities to improve the efficiency, and effectiveness, of their back office services.

Gershon Review

- 13 Gershon's review of efficiency³ identified six priority areas, including back office functions, procurement, and transactional services that would help government achieve the targets in the 2004 Comprehensive Spending Review (CSR04). Local government needed to make £6.45 billion or 7.5% (2.5% per year) of efficiency savings (based on 2004/05 spending) by 2007/08. Back office functions were defined by Gershon as a key area for efficiency savings and were classified as⁴:

[...] for example: finance, human resources, information technology support, procurement services, legal services, facilities management, travel services, marketing and communications.'

Gershon was clear that the cashable savings made from streamlining back office functions would go to improve frontline services. Both cashable and non-cashable gains would also help to improve service delivery and quality in back office functions⁵.

- 14 Gershon identified possible methods that local authorities might choose to drive forward their back office efficiency programmes⁶. These methods could include a shared service approach, outsourcing or internal rationalisation⁷. Gershon suggested that the choice of which method to use should be left to each council, so that efficiency gains can be tailored to local needs⁸.
- 15 The Gershon Review identified that the efficiency agenda provided local authorities with the opportunity to drive forward improvements in the delivery and quality of public services⁹. Efficiency gains therefore had to be made by councils without compromising the quality of services to users and citizens¹⁰.

¹ Communities and Local Government (2006) *Strong and Prosperous Communities: The Local Government White Paper*. London: Communities and Local Government

² Sir David Varney (2006) *Service transformation: A better service for citizens and businesses, a better deal for the taxpayer*. London: Cabinet Office

³ Sir Peter Gershon (2004) *Releasing Resources to the Front Line*. London: HM Treasury

⁴ Gershon (2004) p 9

⁵ Gershon (2004) p 23

⁶ Gershon (2004) p 23

⁷ Gershon (2004) p 23

⁸ Gershon (2004) pp 23-56

⁹ Gershon (2004) p 12

¹⁰ Gershon (2004) p 38

Strong and Prosperous Communities

16 *Strong and Prosperous Communities* proposed significant changes to the way local government coordinates and delivers public services. A key part of the White Paper is the development of the efficiency agenda beyond 2007/08. The paper recommends methods that local authorities could use to achieve efficiency gains beyond 2007/08:

- business improvement and flexible working
- collaboration between public bodies (for example partnerships)
- increased use of technology
- better and smarter procurement
- competition between councils to get better services
- asset management
- stable finance
- enabling councils to challenge and support each other¹¹.

The White Paper suggests that each method will deliver efficiency in different ways, but that cross-organisational working¹² and the use of shared services are fundamental to driving efficiency gains forward¹³.

The Varney Review

17 The Varney Review¹⁴ was concerned with the transformation of frontline services. The movement of efficiency gains from the back to the front office and the often blurred distinction between back and front office functions, however, means that it has direct relevance to back office efficiency programmes. The Varney Review demonstrates how frontline services are transformed through partnership working, the use of shared services, and combined service functions such as one-stop shops and contact centres¹⁵. Varney claimed that the use of these transformational methodologies, and benchmarking, could help to make frontline services more accountable to the public, deliver better services, and achieve efficiency gains¹⁶. Like *Strong and Prosperous Communities* the Varney Review emphasises the role of shared services and partnership working in achieving efficiency gains and deliver better public services.

¹¹ Communities and Local Government (2006) *Strong and Prosperous Communities: The Local Government White Paper*. London: CLG, pp 137-150

¹² Communities and Local Government (2006) pp 97-103

¹³ Communities and Local Government (2006) p 136

¹⁴ Sir David Varney (2006)

¹⁵ Sir David Varney (2006) p 8

¹⁶ Sir David Varney (2006) pp 8-13

Comprehensive Spending Review 2007 (CSR07)

- 18 SR04 had a three-year life. From 2005 the Government started preparing for CSR07. The 2007 budget included proposed changes to the efficiency agenda for councils¹⁷. The annual efficiency target will rise from 2.5% to 3% and all savings must be cashable to maximise the funding available for frontline services and other new priorities¹⁸.

¹⁷ HM Treasury (2007) Building Britain's long-term future: Prosperity and fairness for families. London: HM Treasury, p 139

¹⁸ HM Treasury (2007) p 139

Progress towards achieving efficiency

- 19 There is little independently validated data on local authorities' process towards their efficiency targets in England. The evidence that is available, however, gives an indication of the progress that local authorities are making towards achieving efficiencies, with some analysis concentrating upon back office functions. There is very little data about how non-cashable gains such as better services result from efficiency drives.

Annual Efficiency Statements (AES)

- 20 Councils demonstrate the efficiency savings they have made ('backward look'), together with their plans for achieving future savings ('forward look'), in an Annual Efficiency Statement (AES). Much of the existing evidence about the progress of councils towards their efficiency targets is based on analysis of the AES.
- 21 Local councils already demonstrate that efficiency gains made in back office functions can make a major contribution to the delivery of the 2.5% efficiency target and, in particular, to realise cashable gains. The backward look AES for 2005/06, indicates that back office efficiency gains contributed half of the overall target (£514 million - 50.29%) and almost four-fifths (£407 million - 79.6%) of the cashable target for all councils in 2005/06¹⁹. Moreover, these figures may be an under-estimate of the total back office efficiency gains. Some gains will be reported under service headings rather than the corporate back office headings included in the AES.
- 22 Analysis of the AES by Cipfa showed that councils were expected to achieve their 5.0% efficiency target by the end of 2006/2007 and that the greatest gains were made in adult care services, corporate services, and through procurement²⁰. The majority of the gains were cashable rather non-cashable, possibly because councils have gone for the 'low-hanging' fruit of easy economy and efficiency gains²¹.
- 23 Cipfa also highlighted the variance in the efficiencies made by types of councils, with district councils delivering the highest efficiency gains. Cipfa noted a decrease in efficiency gains as those expected in 2006/07 were less than those in 2005/06²². The report also highlights areas of weakness of the AES including the fact that the AES can over/underestimate efficiency gains in certain service areas, but the report is silent on the non-cashable savings from efficiency drives²³.

¹⁹ Annual Efficiency Statements do not use the same classification of back office functions as Gershon. These figures are taken from the corporate services, procurement and transactions elements of the 2005/2006 'backward look' AES and are based on analysis by the Audit Commission.

²⁰ Cipfa (2006) The Efficiency Agenda - Where Are We Now?. London: Cipfa, p 4

²¹ Cipfa (2006) p 5

²² Cipfa (2006) pp 5-6

²³ Cipfa (2006) p 8

Efficiency in central government

- 24 A major aspect of the Gershon efficiency programme is the efficiency gains to be made by central government. The National Audit Office (NAO) has followed progress on the efficiency agenda in central government. The 2007 report *The Efficiency Programme: A Second Review of Progress*, highlighted that central government had achieved 62% of their three-year target (£13.3 billion) and that 9,412 (70% of target) central government posts had been reallocated to the 'front line' of public services.
- 25 The NAO report concluded that 74% (£9.8billion) of the £13.3 billion efficiency gains were based upon measurement uncertainties, £3.1billion of which may be "substantially incorrect". This highlights the problems associated with assessing non-cashable efficiency gains in financial terms.

Ways of achieving efficiency

- 26** Councils use a variety of approaches to achieve efficiencies in back office functions. Analysis of local authority Annual Efficiency Statements indicates that councils use a range of approaches:
- Process Redesign
 - Corporate centralisation
 - Efficiency reviews
 - Improved procurement and contract management
 - Increased income
 - Increased level of information processing with IT
 - Increased staff productivity
 - In-sourcing
 - Management restructure
 - Outsourcing
 - Commercial trading
 - Public - public partnerships
 - Public - private partnerships
 - Shared services
 - Joint procurement
 - Reduced fraud
 - Sale of assets
 - Tighter budget control
- 27** Although we know which methods local authorities are using, and their contributions to overall efficiency gains; there is little knowledge about which approaches give the greatest gains and in what circumstances. Very little is also known about how local authorities make the choice of approach.

Partnerships

- 28** One method to achieve efficiency gains is partnership working in a variety of forms. The *Strong and Prosperous Communities* White Paper suggests councils should:

'achieve economies of scale and scope, where this is sensible, rather than being restricted by local authority spatial boundaries and direct responsibilities. For example authorities might consider co-locating services, sharing back-office functions or making joint appointments for senior posts²⁴.'

Shared services

- 29 The shared service approach has been widely promoted to local government. The CBI, for example, suggested that the Audit Commission should encourage councils to introduce shared services²⁵. Shared services can include joint ventures, a centralised in-house service for one council, or a shared service such as HR for more than one local authority. Some commentators consider that sharing services across organisations will enable councils to deliver higher efficiency gains than those delivered through rationalising in-house services.
- 30 The CBI estimates that partnership and shared services across government departments could bring savings in the order of £560 million during 2006/07 and 2007/08 and see 'great potential' for savings in local government²⁶. iMPower have also noted that shared services are becoming popular amongst local authorities²⁷ and quote ex-Cabinet Office Minister, Jim Murphy:

'Departments that share corporate services such as HR and finance could create 20% efficiency savings ... shared services mean building more effective links between central government and local government and the wider public sector.'²⁸

The Institute of Public Finance suggests there are benefits to be gained from the economies of scale and standardised processes that can arise from the shared services approach²⁹. These economies of scale include large joint venture initiatives, such as the NHS-Xansa joint venture of business services.

- 31 While a large number of councils appear to be interested in sharing services, fewer are doing it³⁰. In its recent research on local government procurement³¹, the Institute of Local Government Studies (Inlogov) found that 48% of councils were considering a shared service but only 17% of local authorities were actively involved in creating shared back office services.

²⁴ Communities and Local Government (2006) p 110

²⁵ CBI (2006) Transformation through shared services: Improving quality, increasing efficiency. London: CBI, p 18

²⁶ CBI (2006), p 18

²⁷ iMPower (2006), *Share now or pay later* (online), iMPower, p 1. Available at http://www.impower.co.uk/images/uploads/Share_now_or_pay_later_2006.pdf

²⁸ iMPower (2006) p 2

²⁹ IPF (2006) Shared services: The opportunities and issues for public sector organisations. An IPS occasional paper: 4/06, London: IPF

³⁰ A Brand (2006) The politics of shared services. What are the underlying barriers to a more successful shared services agenda?, London: New Local Government Network, London, 2006

³¹ Presented to the National Procurement Strategy Steering Group, February 2007

- 32 Cipfa's analysis of 40 AES statements suggests that most councils (87%) make changes to internal work processes before shared services are considered³². A recent I&DeA report, though, highlighted political divisions, staffing problems, and resourcing issues as obstacles to shared service solutions.³³

Problems with partnership working and shared services

- 33 It is not clear from the current evidence that either a partnership or shared services approach will deliver higher levels of efficiency than other approaches. Sir Peter Gershon recently commented that³⁴:

"There were significant savings to be made [in back office services] in a variety of approaches, through simplification of processes in the back office, through standardisation of processes, through the sharing of back office services between different public sector bodies and outsourcing.

I was concerned in the immediate aftermath of my review and I remain concerned that actually in the public sector as a whole too little effort was being applied to simplification and standardisation and sharing, and there was too much emphasis, fuelled of course by the private sector, on the opportunities for outsourcing.

I still believe in many public sector organisations there are huge gains to be made just by looking at existing processes and seeing what can be done to simplify them before getting into anything sophisticated like outsourcing.'

Indeed, shared services do not always deliver the anticipated levels of performance improvement."

Current evidence does not demonstrate any particular benefits that partnership and shared services can bring in comparison to other approaches to efficiency gains.

- 34 The practical difficulties of implementing a partnership or shared service were emphasised by the NAO (2006). The NAO used case studies of different approaches towards achieving efficiency gains. Southwark Council developed a contact centre to create value for money in back and front office services: they found that high levels of financial and resourcing input were required before efficiency gains could be realised³⁵.

³² Cipfa (2006) p 13

³³ IDeA (2007) The future shape of local authorities' workforces, London: IDeA, pp 5-7

³⁴ Speech to the IDeA's Efficiency Matters Conference, October 2006

³⁵ National Audit Office (2006) *Progress in improving efficiency*, London: National Audit Office, pp. 30-33

- 35 There are other difficulties associated with partnership working. Watt considered problems in specifying, monitoring, and measuring the performance of a partnership³⁶. In its *Governing partnerships: Bridging the accountability gap* study, the Audit Commission recommended that partners put appropriate governance arrangements in place that strike a balance between ensuring value for money and innovation and collaboration³⁷. The study also highlighted different types of partnerships that exist in the public sector, including Local Strategic Partnerships and how many of these partnerships do not often provide or deliver value for money³⁸. The report showed how many partnerships have difficulties with using resources effectively, managing finances and integrating services; problems which often lead to not providing value for money³⁹. In showcasing successful partnership arrangements particularly relating to procurement and integrated back office functions, the study showed how these difficulties need to be managed to allow a partnership to be successful⁴⁰.

Outsourcing

- 36 Outsourcing can be complementary to, or an alternative to, shared services. Some local authorities have outsourced back office services through strategic service delivery partnerships (SSPs). CLG has published extensive advice on the use of SSPs, including caution about their appropriateness⁴¹.
- 37 The I&DeA has highlighted the role of outsourcing as a means to achieve efficiency gains, particularly in IT and HR⁴². They demonstrate, though, that the private sector also has a role in supporting *internal* rationalisation⁴³.
- 'The few authorities who have managed to release substantial savings through re-engineering their back office functions have done this in conjunction with outsource contractors or strategic partners.'*⁴⁴
- 38 The Audit Commission's national study on procurement through partnerships looks at these issues in more detail. ['For better for worse' was published in January 2008].

³⁶ PA Watt (2005) Information, cooperation and trust in strategic service delivery partnerships, Public Policy Administration, Autumn, 20 (3), 2005

³⁷ Audit Commission (2005) *Governing partnerships: Bridging the accountability gap*. London: Audit Commission

³⁸ Audit Commission (2005), pp 15-25

³⁹ Audit Commission (2005), pp 15-28

⁴⁰ Audit Commission (2005) pp 27-28

⁴¹ ODPM (2004) *Strategic Partnering Taskforce Final Report*, Office of the Deputy Prime Minister, London

⁴² IDeA (2007), p 4

⁴³ IDeA (2007) p 4

⁴⁴ IDeA (2007), p4

Lean thinking

- 39 Lean Thinking, or 'Lean', originated in the manufacturing sector. It is based on the principle of finding value in each work process and rationalising these processes to create products that are valued by the customer. Parts of the public sector, including the NHS⁴⁵ have adopted this approach. As yet it has had only partial application in local government, with some tools needing adaptation to respond to the greater process flexibility in services designed to meet the needs of the customer. Lean Thinking can make efficiencies in specific areas of the public sector rather than being an overall efficiency solution⁴⁶.

IT and technological solutions

- 40 An important part of the UK government's public service reform programme is a push to increase the use of IT and 'e-government' to improve back office functions, frontline transactions, and the delivery of public services. One element of this programme is the drive towards making public services available online (e-government).
- 41 Research highlights the use of shared IT services, web portals, and improved technology to improve services and achieve efficiency gains. SOCITM Insight's *Modern public services: shared services: "Bigger, cheaper better"*, demonstrates how IT is used in shared services as a mechanism to achieve efficiency gains⁴⁷.
- 42 One *transformational* issue is the role of IT in increasing access to public services. In *Better answered? A snapshot of local authority telephone responses*, however, SOCITM Insight found out-of-hours services and websites that were inaccessible to many citizens including services users with a disability⁴⁸. The report also highlighted the variance of useful information available on local authority websites including contact details and opening hours⁴⁹. SOCITM has documented how users of public services have rising expectations of e-government initiatives and that public providers rarely meet these expectations⁵⁰.

⁴⁵ Health Management Specialist Library, Lean Thinking (online), Health Management Specialist Library. Available at <http://www.library.nhs.uk/healthmanagement/ViewResource.aspx?resID=126358>

⁴⁶ Z Radnor, P Walley, A Stephens, and G Bucci, (2006) Evaluation of the lean approach to business management and its use in the public sector, Edinburgh: Scottish Executive Social Research

⁴⁷ SOCITM (2006a) Modern public service: shared services: Bigger, cheaper, better?, London: SOCITM Insight, November 2006, p 6

⁴⁸ SOCITM (2006b) Insight, Better answered? A snapshot of local authority telephone responses, London: SOCITM Insight, December 2006, pp 52-60

⁴⁹ SOCITM (2006b), pp 52-60

⁵⁰ SOCITM (2006b) pp 52-60

Benchmarking and cost benefit analysis

- 43 Recent academic literature highlights the roles of benchmarking and cost benefit analysis tools underpinning value for money improvements in local government. Davis⁵¹ discusses the rise of benchmarking in the British public sector, particularly in relation to procurement and performance management. Bowerman et al found that cost benefit analysis and benchmarking were used in local government to modernise and create value for money⁵². Asenova and Hood found that partnerships were also used as mechanism to benchmark and modernise government⁵³. From an international perspective Kulmala et al, found that cost benefit tools could be used in making outsourcing decisions for the Finnish central government, but only where there was easily available unit cost data⁵⁴.
- 44 The difficulties of finding adequate data to effectively understand service provision and create efficiency gains, is highlighted in a Scottish Council for Voluntary Organisations report⁵⁵. This shows how many Scottish public services, including adult care service and other welfare services, can find it hard to achieve efficiency gains due to difficulties in measuring outcomes, particularly when looked at from the users' perspective⁵⁶.

'The conventional measurement of inputs and outputs [...] is increasingly being subordinated to the measurement of outcomes, the desired improvement in the welfare of the service user. But outcome measurement is difficult. The more the outcome is identified in terms of the welfare service user the more difficult it is to quantify.

[...] And in a service model which takes a holistic view of service need requiring coordination across a range of service it become difficult to link particular outcome to particular services or even to discrete packages of services.⁵⁷

- 45 Service transformation - linking the traditional 'back office' and front line service delivery to create better outcomes for citizens and service users - will make these discussions more pressing on 'back office' efficiency in the future.

⁵¹ Paul Davis (1998) 'The burgeoning of benchmarking in British local government', *Benchmarking for Quality Management and Technology*, Vol. 5 No 4, p 264

⁵² Mary Bowerman, Amanda Ball and Graham Francis (2001) 'Benchmarking as a tool for the modernisation of local government', *Financial Accountability & Management*, (17) 4, p321

⁵³ Darinka Asenova and John Hood (2006) 'PFI and the Implications of Introducing New Long-Term Actors into Public Service Delivery', *Public Policy and Administration*, Volume 21 No. 4, p 23

⁵⁴ Harri I Kulmala, Mika Ojala, Lea Anthoniemi and Erkki Uusi-Rauva (2006), 'Unit cost behaviour in public sector outsourcing', *International Journal of Public Sector Management*, Vol. 19 No. 2, p 130

⁵⁵ SCVO (2007), *Quality through diversity: Emerging models for Scotland's public services*. Edinburgh: Scottish Council for Voluntary Organisations.

⁵⁶ SCVO (2007), p 11

⁵⁷ SCVO (2007), p 11

- 46 In the meantime, however, the Audit Commission has worked with the NAO, Audit Scotland, the Wales Audit Office and Northern Ireland Audit Office, to produce a set of Value for Money (VFM) indicators for benchmarking the performance of core 'back office' business functions (estates management; finance; HR; IT; procurement) to assist councils understand their costs and performance of back office functions⁵⁸.

⁵⁸ Audit Commission, National Audit Office, Northern Ireland Audit Office and Audit Scotland (2007) Value for Money in public sector corporate services.

The impact of efficiency gains

- 47 The impact of efficiency gains can be measured in direct financial terms, as well as non-financial benefits such as an increase in service quality or user satisfaction. Efficiency gains can also have mixed impacts on the public service workforce.

Service quality and delivery

Improved service quality

- 48 There is some evidence of efficiency gains linked to a positive impact on the delivery of public services. The Varney Review cites improvements made to customer contact by Tameside Metropolitan Borough Council. Figure 2 illustrates how Tameside developed the Web as a primary means of contact with citizens; and indicates efficiency gains made across 3 types of customer contact between 2003/04 and 2004/05. Tameside claimed that the changes have improved user satisfaction and the Council received the Take-Up Award at the e-Government National Awards in 2005⁵⁹.
- 49 There is also evidence of back office efficiency gains designed to benefit service users and taxpayers. For example, the Anglia Revenues and Benefits Partnership has enabled Breckland District Council to reduce the number of days taken to assess a new benefit claim from 122 to 15 days and to improve rates of council tax collection from 93% to 98%⁶⁰. The Audit Commission has also identified savings in revenues and benefits services arising from partnership working and from relocating back office functions⁶¹.

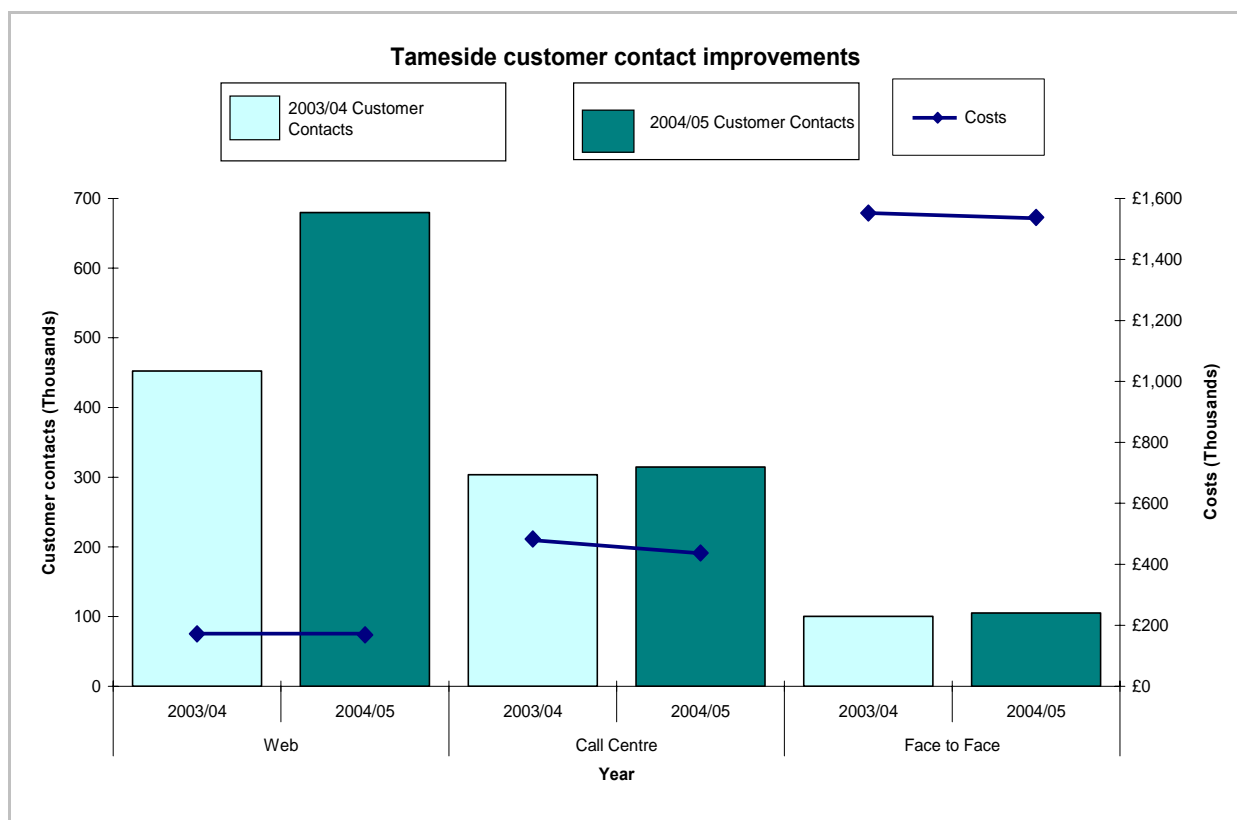
⁵⁹ Sir David Varney (2006) p 13

⁶⁰ C Everett (2006), Shared services take hold in public sector, Computing, 23 March

⁶¹ Audit Commission (2005) The efficiency challenge: the administration costs of revenues and benefits, London: Audit Commission.

Figure 1 Citizen contact

Tameside increased customer contacts and reduced costs between 2003/04 and 2004/05



adapted from Varney, 2006

Service delivery to citizens and users

50 According to Quirk, the public expects

*'[...] public services to be as well managed and as well delivered as standard private organisations.'*⁶²

It is therefore important that councils deliver service improvements alongside service efficiencies and changes that must ultimately benefit citizens and users.

51 Both the Gershon report and the ODPM Efficiency Technical Note stressed the importance of maintaining service quality whilst making efficiency gains. Sir David Varney developed this theme further⁶³. He said that an improved citizen or business experience was a critical component of successful service transformation⁶⁴. Varney also suggested that service transformation in the public sector is being influenced by users and citizens who are increasingly making comparisons between the public and private sectors.

⁶² Barry Quirk, (2005) Localising Efficiency - More than Just Saving Money, Local Government Studies, Vol. 31, No. 5, p 620

⁶³ Sir David Varney (2006), Service transformation: a better service for citizens and business, a better deal for the taxpayer, London: HM Treasury

⁶⁴ Sir David Varney (2006) p 10

- 52 However, there is a danger that efficiency gains can compromise user equity. This risk must be addressed as councils design projects to deliver improvements, especially as solutions increasingly involve new technologies including the creation of call-centres or websites. The key is to deliver 'user or citizen-focused' services. Indeed, in noting some of the complexities associated with the service efficiency/effectiveness question, Varney said that:

'Citizens and businesses should experience a personalised service that meets their specific needs, but which operates to high quality standards and is joined up across the public sector'⁶⁵.

Councils must take care to avoid creating services that are least accessible to those that need them most. In particular, councils must avoid transferring social and financial costs to those who can least afford them.

Efficiencies and the public sector workforce

- 53 The private sector is a major player in the delivery of efficiency savings to the public sector - including the provision of outsourcing services, joint venture initiatives, shared services, and consultancy support to internal changes. Private sector companies have published a range of literature commenting on the efficiency agenda in the UK and analysis of current attitudes of the public sector workforce towards efficiency. Kable Ltd commissioned such a report in 2004 which surveyed senior managers in local government, to ascertain their views about the Gershon agenda⁶⁶. The report found that many local government officers were very enthusiastic about Gershon and the promise of customer-focused public services⁶⁷. The report also found that despite this enthusiasm towards the efficiency agenda many officers had concerns about getting departments to share services and work in partnerships and many saw the efficiency review would lead to public sector job losses⁶⁸.
- 54 A report commissioned by Serco in 2005 also found that many public sector officers saw Gershon as key to the future of the delivery of public services (including the use of shared services and IT to meet efficiency targets) but that there were perceived obstacles including delivering services in partnerships and the affect upon public sector jobs⁶⁹.
- 55 There are different perceptions about employees' contribution to efficiency gains. The NAO suggested that only 30% of public sector employees believe they can make a difference to the efficiency of their organisation, compared to 43% in the private sector⁷⁰.

⁶⁵ Sir David Varney (2006) p 20

⁶⁶ Kable Ltd (2004) *What do they mean by "yes"? Shared services and the Gershon agenda*, Kable Ltd, p. 6

⁶⁷ Kable Ltd (2004) p 6

⁶⁸ Kable Ltd (2004) p 6

⁶⁹ Serco (2005), *Shared Services as a Long-term Solution for Local Government: Delivering on the Gershon Report*, Serco, p III

⁷⁰ National Audit Office (2006) p 28

Efficiency in the private sector

Shared services in the private sector

- 56 Czerniawska⁷¹ suggests that private companies will typically save 10-20% of their administration costs by moving to a corporate shared service solution and indicated that Logica CMG generated savings of 35% by establishing a shared service centre for finance and administration⁷². AT Kearney⁷³ found that, on average, private companies realised cost reductions of 14% by implementing corporate shared services and that cost reductions largely related to a decreased headcount.
- 57 AT Kearney researching international experience of shared services in the private sector, however, found that many private sector companies had not realised the gains that they expected from shared services.
- 'Although executives in 85% of companies expected performance to improve through shared services, only 66% believe they had achieved improvement ... Similarly, 76% expected increased productivity, but only 56% have realised this goal. Finally, whereas 53% of companies expected improved internal client satisfaction, only 42% report success in this area.'*⁷⁴
- 58 AT Kearney suggested these failures were due to short-term approach to cutting costs rather than a strategic approach to making efficiency gains. This is reinforced by research by Jetuah, who found that most private firms have efficiency targets between 1% and 3% per annum and 90% fail to meet them⁷⁵..
- 59 An important point about these shared services in the private sector is that they are overwhelmingly intra-organisation. 'Shared services' bring together the back office functions that had previously been devolved to different departments - or had remained untouched by mergers and takeovers.

⁷¹ F Czerniawska (2006), Share and share alike, Management Consultancies Association,

⁷² F Czerniawska (2006) p 9

⁷³ AT Kearney (2004), Success through shared services, Chicago: AT Kearney

⁷⁴ AT Kearney (2004), op cit, p 1

⁷⁵ David Jetuah (2007), 'Lax corporate cost controls trigger hostile takeover alert', Accountancy Age, 15 February

International efficiency programmes

- 60 There is a varied range of literature that highlights public sector efficiency programmes in different countries. This literature is mainly available from the USA, Australia, New Zealand, and European countries.

Efficiency in the USA

- 61 US public service efficiency drives over the last two decades use similar methodologies to the UK. In *Transforming the Back Office: Why and How*, Mechling discusses transformed back office functions in public services in the USA⁷⁶. Transformed back office functions brought benefits in:

- new/better production possibilities
- information and controls
- flexibility/granular standards
- labour (location) or capital (scale)⁷⁷.

The benefits gained from transforming back office functions require public organisations to adopt new styles of leadership.

- 62 This new leadership has to take risks, and must be happy with:

- Levering economies of specialisation and scale
- Preparing for possible privatisation
- Preparing for equity and transparency
- Committing to back office reforms as organisational change projects
- Negotiating and managing service level agreements
- Reinvesting for continuing innovation
- Developing governance standards for IT related investments⁷⁸.

- 63 Mechling highlights how US public organisations used a number of methodologies to achieve efficiency gains, including:

- outsourcing,
- IT and technological solutions
- shared services (an enterprise-wide service)⁷⁹.

Each of these methods has benefits and risks which are associated with them.

⁷⁶ Jerry Mechling (2006) *Transforming the Back Office: Why and How*. Harvard University, for the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and the National Electronic Commerce Coordinating Council (eC3)

⁷⁷ Jerry Mechling (2006) p 2

⁷⁸ Jerry Mechling (2006), p v

⁷⁹ Jerry Mechling (2006) pp 9-17

Outsourcing

- 64** Mechling gives examples of public organisations in the USA that used outsourcing as a method to transform back office functions and therefore achieve efficiency gains. San Diego County outsourced its IT infrastructure and services⁸⁰. The outsourcing facilities included an integrated email system, a centralised helpdesk, and IT support services⁸¹. This produced efficiency gains including a 61% reduction in problem calls⁸². San Diego took a corporate strategic approach to the outsourcing project, enabling effective implementation.
- 65** Ineffective implementation can cause many problems: and the efficiency gains may never materialise. Ward highlights this in his paper about outsourced library services in the USA and the use of New Public Management (NPM) techniques such as outsourcing to achieve efficiency gains⁸³. Ward cites Calabaraz, Los Angeles County, where the unit cost of the outsourced service rose by 6%⁸⁴. The company that ran the service was not accountable for quality, and did not provide the facilities that library customers required. Ward highlights the importance of strategic management and accountability in outsourcing public back office functions.

IT and technological solutions and shared services

- 66** Mechling highlights a number of public organisations that have used IT to transform back office functions in the USA. The Federal government has developed a large and extensive IT and shared services system to change HR functions. This has enabled a project to roll-out an 'E-Payroll' system by 2008. The number of payroll centres will reduce from 26 to 4. This project should save the Federal government \$100 in payroll processing costs per federal employee per year⁸⁵.

Efficiency in Australia and New Zealand

- 67** The public service efficiency programmes in New Zealand and Australia also illustrate the range of methods used to improve back office functions and the associated problems with these methods.

⁸⁰ Jerry Mechling (2006) p 8

⁸¹ Jerry Mechling (2006) p 9

⁸² Jerry Mechling (2006) p 9

⁸³ Robert C. Ward (2007) 'The Outsourcing of Public Library Management: An Analysis of the Application of New Public Management Theories From the Principal-Agent Perspective', *Administration & Society*, Vol. 38 No. 6

⁸⁴ Robert C. Ward (2007) p 635

⁸⁵ Jerry Mechling (2006), p13

Outsourcing in New Zealand

- 68 In New Zealand the efficiency agenda has focused on the rationalisation of public services (especially local government) through outsourcing. In the later 1970s, the New Zealand government opened services to market competition; encouraged service improvements, and ran efficiency drives⁸⁶. By the mid-1990s, the existing gains were reinforced as state-owned companies were privatised and local councils were encouraged to outsource services⁸⁷.
- 69 This system of encouraging outsourcing allowed councils to develop efficiency gains and work with other councils to develop cross-authority shared services. McLeod and Kurian, show how the use of outsourcing and shared services brought mixed blessing for councils⁸⁸.

Shared services in Australia

- 70 In 1996 the Australian government established the Central Corporate Services Unit (CCSU) to establish the use of shared services in the Australian public sector and therefore to allow public organisations to reap the expected benefits of shared services⁸⁹. Many regions in Australia, including New South Wales (NSW) have developed shared service strategies and implemented these in public sector organisations⁹⁰.
- 71 The NSW government developed a shared service strategy in 2002, for itself and other public sector organisations to achieve efficiency gains⁹¹. The government had expected to achieve £297 million of savings by 2006, but found that by June 2003 that it had only achieved £13.6 million or 5% of the expected efficiency target⁹². Reasons for the shortfall included:
- Many of the expected partners had not signed up;
 - Shared services were not compatible with existing IT systems;
 - Shared services could not deliver the savings they were supposed to achieve⁹³.

⁸⁶ Quamrul Alam and Malcolm Sykes (2003), 'Australian New Public Management in the State of Victoria: A Study of Three Local Councils', *Public Administration and Policy*, Vol 12 Pt. 2, p 117

⁸⁷ Quamrul Alam and Malcolm Sykes (2003), p 117

⁸⁸ Anne McLeod and Priya A Kurian (2004), 'Contracting Out Local Government Services: A Comparative Study of Two New Zealand Regional Councils', *The Asian Pacific Journal Of Public Administration*, Vol 26 No 2,

⁸⁹ R J Sendt, (2004) *Shared Corporate Services: Realising the Benefits including guidance on better practice*, Auditor-General's Report, Performance Audit, Auditor-General New South Wales, p i

⁹⁰ R J Sendt, (2004) p i

⁹¹ R J Sendt, (2004) p 2

⁹² R J Sendt, (2004) p 2

⁹³ R J Sendt, (2004) pp 2-3

- 72 The NSW government also found that the original shared service strategy did not allow the flexibility to redeploy surplus staff after efficiency drives and that this inflexibility meant that the government would not be able to achieve their efficiency target by 2006⁹⁴. The targets in the initial shared services programme were hard to quantify and were measured differently across organisations; resulting in inadequate baseline and benchmarking data for analysis⁹⁵. The NSW government's experience with shared services, highlights how shared services may fail to deliver efficiency gains expected if they over-promise, if they are not properly prepared for, if they increase inflexibility, and if they fail to produce useful information about what they are achieving.

Efficiency in Europe

- 73 A focus of efficiency programmes internationally and in the UK, has been the rationalisation of back office functions and frontline services, through changes to IT technology and the drive for e-government. European countries have used a range of methods to transform public services through IT, including contact centres, e-government web portals, and web based government services.

E-government programmes in Europe

- 74 In a report commissioned by the European Commission, Millard et al highlighted how e-government initiatives transformed back office functions across Europe⁹⁶. Four strategic models were used to achieve change in back office functions through IT and e-government solutions:

- one service, one stage approach - e.g. simple payment services
- multi service, one stage approach - e.g. integration of HR services
- one service, multi stage - e.g. benefits assessments
- multi service, multi stage - e.g. integration of multiple back office functions⁹⁷.

Each of these approaches is applicable in different types of back office functions. For example a 'one service, one stage' approach would be used for a back office function for simple payment services; where as a 'multi service, multi stage' service approach would be used when changing the back office functions of a whole service.

- 75 Millard et al also highlighted how EU countries used practical approaches alongside the strategic models to achieve back office efficiencies. These approaches included:

- digitisation of largely unchanged back offices;
- deep reorganisation of back offices;

⁹⁴ R J Sendt, (2004) p3

⁹⁵ R J Sendt, (2004) p3

⁹⁶ Jeremy Millard, Jonas Svava Iversen, Herbert Kubiack, Hilmar Westholm and Ralf Cimander (2004), Reorganisation of government back-offices for better electronic public services - European good practices (back-office reorganisation): Final report to the European Commission Vol. 1: Main report, European Commission,

⁹⁷ Millard et al (2004) pp 16-18

- centralisation of back office and de-centralisation of front office functions;
- back office clearing house;
- generic types of interaction between user and agency;
- portals;
- pro-active services⁹⁸.

The 29 case studies highlighted in the study illustrate how e-government can be used with practical approaches to achieve back office transformation including the use of digitisation of back office functions in Austrian customs declarations and the use of web portals such as the Spanish business tax web portal⁹⁹.

76 In showing how the use of IT and e-government initiatives can transform back office functions, Millard et al highlight that public sector organisations wishing to undertake similar projects need to be aware of issues surrounding back office transformation. These issues include:

- meeting user needs and expectations
- managing change and human resources
- costs and efficiencies
- institutional and legal structures
- technological issues¹⁰⁰.

E-government in Denmark

77 The use of IT and technological solutions to transform public services has been used in Denmark since the 1970s. The Danish government used automation in the 1970s and 1980s to create efficiencies in the public sector and in the 1990s used new IT technology to develop new e-government services¹⁰¹. The 2004 *eEurope benchmarking exercise* rated Denmark's online services as 'sophisticated' and the most interactive in Europe¹⁰².

78 Since this award Denmark has continued to develop its online public services. In 2006 it became compulsory for all Danish citizens to nominate a single online bank account to receive all government payments¹⁰³. The government has also made it compulsory for all public sector workers to receive payslips online and all government contractors must submit invoices electronically rather than on paper¹⁰⁴.

⁹⁸ Millard et al (2004) p24

⁹⁹ Millard et al (2004), pp 27-37

¹⁰⁰ Millard et al (2004), p 25

¹⁰¹ OECD, (2005) Peer Review of E-Government in Denmark, OECD, p 6

¹⁰² OECD (2006) p 6

¹⁰³ Michael Cross, '(2006) The Viking streak always wins: its' more efficient', Guardian Unlimited (online), 26 January 2006. Available at <http://politics.guardian.co.uk/egovernment/comment/0,,1694626,00.html>, accessed 21 May 2007.

¹⁰⁴ Michael Cross, '(2006)

Conclusions

- 79 This scan highlights the range of current evidence available from a number of different sources with regards to efficiencies in back office functions in England, the UK and internationally.

Efficiency policy context

- 80 The various government policy initiatives that have informed the development of the efficiency agenda for local authorities in England highlight the importance of back office efficiency gains. Gershon argued that councils can use a variety of approaches to achieve savings in back office functions and that these efficiencies should not compromise the delivery of public services.
- 81 The Local Government White Paper set out a significant agenda of change for local authorities including achieving efficiency gains through the preferred methods of shared services and cross-sectional working. The use of partnership working in its various forms is described in the paper as the way forward for councils to achieve efficiency gains. The Varney Review also emphasised the use of partnership working and particularly shared services as a means of transforming frontline services and therefore changing the interaction between the back and front office functions. The various efficiency policy developments have more frequently emphasised partnership working, particularly shared services; emphasising central government's preferred approaches to achieve efficiency gains.
- 82 CSR07 changes the targets for local authority efficiency savings from 2.5% to 3% and emphasises cashable gains rather than the non-cashable savings that can be made from efficiency gains.

Progress towards achieving efficiency

- 83 There is little literature available about the current performance of councils with regards to their efficiency targets. The evidence that is available highlights the progress of local authorities in terms of the cashable savings rather than the non-cashable savings associated with efficiency gains. The literature available concentrates upon analysis of the AES and does not provide a broader overview of councils' progress towards efficiency.
- 84 The evidence shows the progress of central government towards its efficiency targets and it highlights the number of problems associated with assessing efficiency gains. As with local government, this literature highlights the cashable gains rather than the non-cashable savings.

Ways of achieving efficiency

- 85 There is a wide body of evidence currently available about the different approaches that local authorities are using to achieve back office efficiencies. This evidence shows the variety of approaches are being used including partnerships (incorporating shared services), outsourcing, Lean Thinking, IT and technological solutions, and cost benefit analysis. The current literature also highlights how many local authorities are focussing upon in-house rationalisation of services rather than concentrating upon partnership working/shared services.
- 86 The current literature has shown that approaches such as outsourcing are often used in conjunction with other methods such as shared services and that they can be effectively used to produce efficiency gains. Other approaches such as Lean Thinking are used to produce efficiency gains relating to service delivery and quality, rather than more cashable efficiency gains.
- 87 IT and technological solutions are increasingly used by local and central government as a means of achieving efficiency gains. The current evidence available shows how solutions to back office transformation such as web portals and online services can achieve efficiency gains, but that they can have problems with giving equal access to services for different users and citizens. The use of costs benefit analysis has also helped councils to achieve efficiency gains, but there can be difficulties in benchmarking cost data, especially when relating that information to customers.

The impact of efficiency gains

- 88 The literature that is available about efficiency gains shows that efficiency drives can have a varied impact of service quality and delivery and that these impact upon the delivery of these services to customers; an issue that was emphasised in the Gershon Review. The issues of the impact of efficiency gains upon the user and/or citizen is particularly the case with hard to reach groups and therefore efficiency gains should not impact these groups adversely.
- 89 Another impact affect of efficiency gains is the impact of efficiency drives on the public sector workforce. The current evidence shows that many employees in local government are keen about the efficiency agenda and see it as important to the future of local government. However many also see the efficiency agenda as a mechanism to execute extensive job losses in councils and that efficiency gains may not be achieve through current approaches.

Efficiency in the private sector

- 90 The evidence from the private sector reviewed in this environmental scan, emphasises the lessons learnt from implementing shared services. Shared services in the private sector are intra-organisation, not inter-organisation as proposed for local government. Although this approach has allowed some private sector companies to realise efficiency savings in the short-term, the implementation of the partnership has not been strategic. This has meant that many private sector firms have not used realised the full potential of efficiency savings from a shared service.

International efficiency programmes

- 91 There is a wide range of literature available that highlights efficiency programmes internationally. The evidence illustrates how efficiency programmes in public sector organisations in the USA, have been using similar approaches to the UK for the last twenty years. Many American public sector organisations have transformed back office functions to help drive efficiencies and have used approaches including outsourcing, IT, and shared services to do so. The current literature highlights the benefits and risks of each approach and emphasises how strategic and forward planning are key to make the approaches a success.
- 92 The current evidence available also highlights the efficiency programmes in New Zealand and Australia. In New Zealand, outsourcing and competition have been extensively used to achieve efficiency gains. In Australia many public sector organisations have used shared services to achieve efficiency savings, with some organisations not realising the gains predicted from the shared service.
- 93 Back office efficiency programmes in Europe have invariably taken the form of IT, technological and e-government solutions. The evidence available has shown that European countries take a variety of strategic and practical approaches including web portals, online services and digitisation to achieve efficiency savings. In Denmark the development of online services has led to the government making it compulsory for citizens, users and contractors to use online government services.

Contacts

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- <http://www.audit-commission.gov.uk/nationalstudies/backoffice/>.

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