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## Efficiency, Value for Money and LAAs

### Key points

- The 'efficiency agenda' is now firmly seen as part of the wider 'value for money agenda', with a concern for effectiveness as well as efficiencies.
- Value for money will feature prominently in Comprehensive Area Assessment (in Use of Resources assessments as well as more widely in terms of partnership effectiveness in tackling shared priorities). The Audit Commission understands the nature of the challenges in achieving these outcomes, and will wish to explore the *plausibility* of partners' plans to achieve LAA targets. In this, they will be looking for partners to demonstrate their understanding of cause and effect: how are current interventions expected to lead to outcomes, and what is the evidence to back this up?
- Being clear about cause and effect matters: setting out underlying models or Theories of Change is often a key step to providing the basis for learning and improving, evaluating impact and demonstrating value for money.
- CAA self-evaluation also means that LSP partners need to give greater priority to assessing the difference the LAA makes to achieving outcomes.
- Public sector partners remain subject to challenging targets for 'efficiency savings': annual 3% 'cash-releasing' efficiency gains, ie, those which free up funds for work to achieve priorities.
- The search for efficiencies must be embedded in strategies and delivery planning as well as operations. Partner staff typically need to become more accustomed to measuring costs, efficiencies and other benefits.
- Key questions may relate to:
  - the balance of activities in pursuit of priority outcomes: eg, greater efficiencies over time may be achieved by a shift to early interventions
  - whether there are gains to be had in looking at shared functions within the partnership, eg, research and analysis, joint workforce development
  - where there is potential for efficiencies and improved outcomes through looking at the paths people and businesses follow through services which cross organisations (a focus on 'customer journeys' and 'end-to-end processes').

### Introduction

Most attention in the new LAAs has given to agreeing priorities and negotiating targets, and to an increasing extent, to allocating resources. In a context of growing pressure on budgets and the wider recession, finding more efficient ways of using resources and achieving value for money (VfM) becomes ever more significant. This is not always easy where the focus is on *outcomes* defined using indicators of community well-being, where many factors come into play often outside the direct control of local partners. LSP partners commonly recognise the need for more attention to VfM and evaluation, but often put these into the 'difficult to do' box which, in reality, attracts little priority.

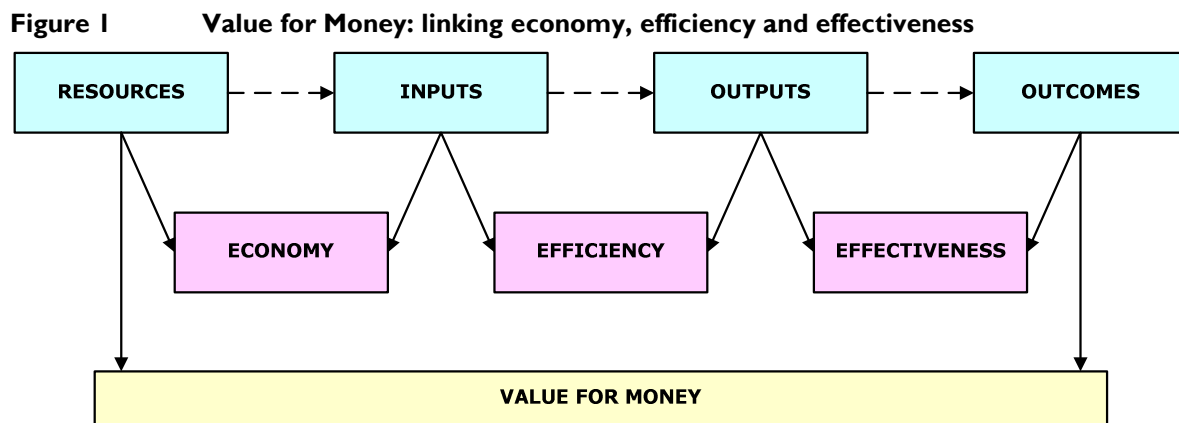


*“The government’s aim for local government through its ‘VFM agenda’(recently known as the efficiency agenda) is to ensure that the resources available to local government are used in the optimum way to deliver better public services according to local priorities. [The challenge set] for councils is to improve services while making them more efficient and sustainable. This may require innovation in service delivery, investment in technology, rationalisation of back-office functions and/or organisational development.”*

AUDIT COMMISSION: USE OF RESOURCES AUDITOR GUIDANCE (DRAFT) - COMMENTARY ON KLOE1.2 FOR LOCAL GOVERNMENT

## Thinking about ‘efficiency’ and ‘value for money’

Figure 1 sets out the linkages between resources, inputs and outputs through to improved outcomes for local communities which taken together provide the basis for overall value for money evaluation.



**Economy** relates to **minimising the cost of resources** (people, money, premises, etc) needed as inputs to achieve a given output.

**Efficiency** relates to **how well organisations and partnerships transform inputs into outputs**, in terms of quantities (eg, numbers of people being taking advantage of health screening or basic skills training) and the quality of those outputs (eg, as measured by user satisfaction).

**Effectiveness** relates to the **extent of success in achieving intended outcomes** (eg, increasing the proportion of residents who see the area as a good place to live; reductions in crime levels and fear of crime; and a higher employment rate for lone parents and people with health conditions).

The distinctions may usefully be thought of as:

- the cost of assembling service or project inputs (economy)
- the best way of doing things (efficiency)
- doing the right things (effectiveness)

Decisions in relation to *doing the right things* have fundamental ramifications for efficiency: partners can perform tasks and functions very efficiently, but they may not be activities which will have significant impact on community outcomes – and therefore, they ultimately represent poor value for money.

Furthermore, within the context of LSPs and LAAs, there can be clear connections between inputs, outputs and outcomes (eg, on net additional homes provided). On the other hand, such linkages may be quite tenuous, and partners may find it difficult to be confident about the likelihood that what they are doing will achieve the results in terms of outcomes they are seeking (eg, in increasing the percentage of people who feel they can influence decisions in their locality).

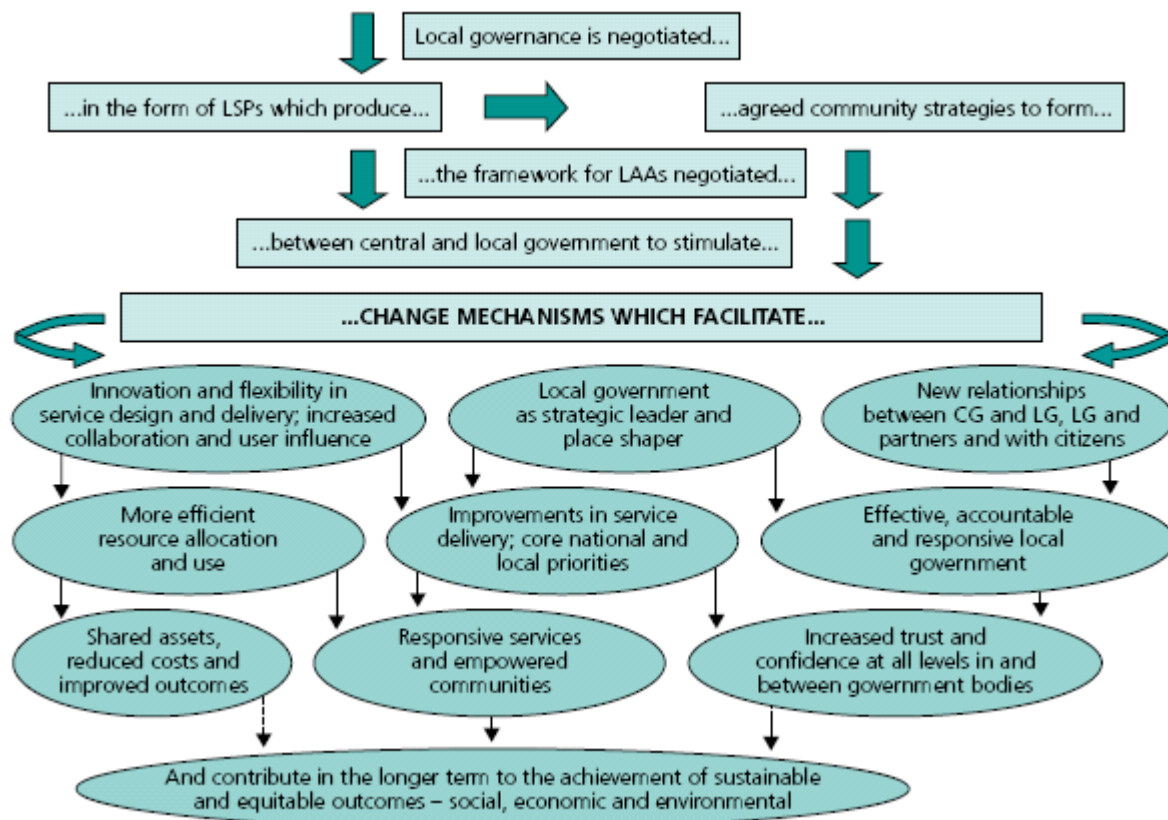
In the context of Comprehensive Area Assessment, the Audit Commission will seek to explore the *plausibility* of partners' plans to achieve LAA targets, and in this, they will be looking for partners to demonstrate their understanding of cause and effect.

### ***Logic models and theories of change***

A focus on cause and effect leads to questions about the logic lying behind LAA delivery plans, about the 'theories of change' that underpin what partners are trying to do. The national evaluation of LAAs and LSPs has developed such as a theory of change (ToC) which is being used to assess impact on organisations and on community well-being. It aims to clarify the thinking behind LAAs and LSPs "*by specifying the long term outcomes and the associated strategies for change and then developing appropriate methods and measures in order to 'test' the theory in practice*". The evaluation focuses on three streams within (and across) which mechanisms for change operate. The three streams are efficiency, service improvement and trust and relationships; while the change mechanisms are the new performance and funding arrangements; supporting collaborative action; and the new arrangements for planning and target setting between central government and localities. For each change mechanism, the evaluators describe:

- the problem to be addressed
- the key drivers for change
- the proposed remedy and rationale
- the policy levers that provide support for this remedy
- the change processes that are triggered by the application of these levers
- the anticipated outcomes
- the risks and factors that might inhibit the operation of the change mechanism

**Figure 2 Long term evaluation of LAAs and LSPs: Theory of Change**



CLG (2008) *Developing a 'theory of change' (Long Term Evaluation of Local Area Agreements and Local Strategic Partnerships)*

This provides the framework for case studies and thematic research undertaken as part of the national evaluation. Importantly, part of the ToC method is to test the underlying assumptions during the course of the evaluation, and amend the theory as necessary.

Elements of the model can be adapted to meet evaluation requirements with the descriptions of the change mechanisms broken down in ways which lend themselves to local application, concentrating on the aspects that relate to actions by *local* partners. For example, assessing 'efficiency' would look for evidence of improvements in relation to:

- reductions in time and resource devoted to performance reporting
- increased flexibility in use of funding (mainstream as well as Area Based Grant)
- rationalised management and administration costs and setting up of 'shared services' activities (eg, research and analysis; joint workforce development)

## Partnership added value

The added value that LSPs and LAAs can bring is part of the VfM picture, in terms of efficiency and effectiveness (Figure 3):

- **effectiveness** through **greater impact**, with LAAs providing the vehicle for partners to plan and work together to achieve more than they could individually
  - which may include **attracting more resources** through reward funding and more robust plans which draw in further public private and public investment
- **efficiencies** through:
  - a spur to innovation, **finding new and better ways** to manage partnership working and deliver services, not least through harnessing *mainstream* resources more effectively in pursuit of common goals, and finding more effective ways of engaging communities
  - gaining *efficiencies* in use of resources, or **sharing resources**, eg, on research, analysis and performance management or on common IT systems
- **economies**, through **reducing costs**, eg, in administering joined-up funding streams and in performance management and reporting

**Figure 3 LAA added value from a local perspective**



### **Attribution, Contribution and Additionality**

There can be big questions about the extent to which the actions of partners through LSPs and LAAs lead directly to gains in achieving community outcomes. Uncertainties and expected costs of evaluation can deter partners from beginning to answer these, with fears of getting bogged down in a fruitless search for ‘attribution’, trying to find precise answers.

At the same time, it is important to learn from what’s worked and what hasn’t, and to demonstrate value for money in partnership working. This will be a feature of Comprehensive Area Assessment, and highly relevant to the self-evaluation work to be undertaken by local partners in preparing for the first CAA review in 2009.

Given the complex environment of LSPs and their role as catalysts for change it can be helpful to think in terms of ‘contribution’ rather than ‘attribution’. So-called ‘**contribution analysis**’ in evaluation

methodology takes as its starting point the logic behind the intervention. It is then a case of identifying and documenting changes; tracking relevant indicators; blending, or ‘triangulating’ other sources of evidence; and testing alternative explanations - in this case theories of change linking partnership activities with service changes and improvements in community outcomes. The search is for **“plausible association”**: whether *“a reasonable person, with knowledge of what has been delivered and the outcomes that have actually occurred, would agree that the intervention contributed to those outcomes”*.<sup>1</sup>

### **Would the gains have been achieved otherwise?**

Even if the emphasis is on ‘contribution’ rather than ‘attribution’, it is still important to consider, what would have happened if there had not been a partnership approach in place:

- would the identified efficiencies and outcomes been achieved without the intervention?
- if the answer is ‘yes, to some extent’...
  - has the LSP helped them happen on a faster or on a larger scale?
  - is there innovation: new approaches which offer the potential of greater results and benefits in future?

These questions form the so-called ‘*additionality*’ test, a standard in mainstream approaches to evaluation. These questions may be difficult to answer, but there are ways of assembling a picture, eg, by looking at changes in comparable areas and encouraging stakeholders to assess what would have happened otherwise.

### **The ‘Efficiency’ target and LAAs**

Local authorities and most of their public sector partners are expected to achieve annual 3% ‘cash-releasing’ efficiency gains (ie, those which free up funds for work to achieve priorities, especially at the front line)<sup>2</sup>. There is a national target for LAs of realising £4.9 billion of these gains by 2011, and LAA target to go along with it (National Indicator 179)<sup>3</sup>.

In reporting on efficiency savings, local authorities are required to identify clearly those value for money gains that are:

- (a) net of investment and ongoing costs required in securing the savings
- (b) on-going (if savings are one-off the value of the saving must be reduced accordingly)
- (c) cash-releasing: those efficiencies that reduce the level of resource required to achieve the same or better outputs, *allowing resources to be redeployed*

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<sup>1</sup> John Mayne (1999) Addressing Attribution Through Contribution Analysis: Using Performance Measures Sensibly (Office of the Auditor General of Canada) [www.oag-bvg.gc.ca/internet/docs/99dp1\\_e.pdf](http://www.oag-bvg.gc.ca/internet/docs/99dp1_e.pdf)

<sup>2</sup> This is supported by the Government’s Operational Efficiency Programme, which is pursuing four themes: back-office shared services, collaborative procurement, more commercial use of assets, and front-line empowerment and incentives [www.hm-treasury.gov.uk/vfm\\_operational\\_efficiency.htm](http://www.hm-treasury.gov.uk/vfm_operational_efficiency.htm)

<sup>3</sup> [www.communities.gov.uk/localgovernment/efficiencybetter/deliveringefficiency/valueformoneygains/](http://www.communities.gov.uk/localgovernment/efficiencybetter/deliveringefficiency/valueformoneygains/)

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CLG guidance<sup>4</sup> stresses the importance of leadership and change skills, user focus, innovation, business process improvement techniques, smarter procurement, workforce planning and use of technology as keys to achieving these results. There are similar emphases within the NHS, with a guiding set of principles including:

- efficiency strategies in all organisations on the basis of service delivery and quality improvement rather than short term cost reduction
- elimination of waste from health systems, freeing resources without adversely affecting care standards
- considering efficiency across patient care ‘pathways’ not just within single organisations or ‘silos’

One of the challenges in an LAA context lies in gathering and using financial data in order to ascertain the extent of efficiency gains, and, more broadly, establish cost-effectiveness. This is also likely to be important in assessing the business case for early interventions. Often problems arise because financial data is not recorded in a suitable form (eg, because it relates to department rather than an end-to-end process) and/ or there may be significant costs in assembling the data. Outcome data may also be lacking and costly to gather.

One new tool is the **Mietool** (‘Measuring Improvement and Efficiency’ Tool<sup>5</sup>), designed to help local authorities achieve efficiency savings and to facilitate options appraisal, business case preparation, project management and evaluation. It is spreadsheet-based, with training materials available to support its implementation. Potential advantages include:

- a focus on efficiency in service planning and options appraisal – while linked to LAA and local targets
- a discipline in estimating costs/savings, coupled with assessment of the reliability of the data being used – on the principle that it’s better to try to make financial estimates than not do it at all, and then to refine these through experience

Mietool is designed to help the user step-by-step in calculating project or service costs and benefits, including, eg, questions about what other services will not be needed, or needed on a reduced scale. It also considers risk and the intended contribution to specific LAA targets.

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<sup>4</sup> [www.communities.gov.uk/publications/localgovernment/deliveringvalueformoney](http://www.communities.gov.uk/publications/localgovernment/deliveringvalueformoney)

<sup>5</sup> Its development was supported by CLG and it is being rolled out through Regional Improvement and Efficiency Partnerships. See, eg:

[www.lcpe.gov.uk/Pan\\_London\\_Management\\_Strategi/mietool\\_measuring\\_improvement\\_and\\_efficiency.asp](http://www.lcpe.gov.uk/Pan_London_Management_Strategi/mietool_measuring_improvement_and_efficiency.asp).

For advice on its use in the West Midlands, please contact Dominic Tennant at Improvement and Efficiency West Midlands: [dtennant@westmidlandsiep.gov.uk](mailto:dtennant@westmidlandsiep.gov.uk); tel 0121 245 0192

While there are understandable factors working against wholesale change in financial systems, there are methods available to tackle these needs for financial information in different formats. One such is Activity Based Costing (ABC) – see the box below.

### Calculating the costs of delivering public services

A requirement for delivering service improvements, achieving efficiencies and releasing resources for front-line services, is good quality data on the costs of delivering these services. This should enable comparison between areas and exploration of alternative ways.

Typically costs may be analysed top-down or bottom-up. The **top-down approach** starts with the cost data as found in a council's accounts ledger, with elements apportioned to individual services and areas of activity in order to derive a cost per 'unit' (such as how much it costs to process a benefits claim).

The 'bottom'-up approach, called Activity Based Costing (ABC) starts with the activities themselves (eg, how much it costs to keep a park free of litter) and calculates the resources consumed by these. Costs are then assigned, which can then be converted into costs for an 'end-to-end' process.

There is growing interest within local government in ABC, as part of the drive for efficiency savings and service improvement, and it is being promoted by CLG and Regional Improvement and Efficiency Partnerships<sup>6</sup>. ABC also lends itself to applications at neighbourhood level and preparing for participatory budgeting.

In addition, the ABC approach usefully encourages distinctions to be made in assessing how activities contribute to desired results: they may be:

- 'value adding' (activities which directly contribute to achieving service objectives and LAA targets)
- sustaining (activities which are a prerequisite for delivering the service)
- waste (activities which do not create value or are required in delivering the service – eg, poorly chaired partnership meetings)

National evaluation of process improvement pathfinders has highlighted the potential of ABC, even when cost data is not especially accurate, stressing its role as a useful way of exploring and prioritising opportunities for improvement. The Audit Commission, in its guidance on Use of Resources, advocates the use of ABC by local authorities in demonstrating understanding of their cost base and approach to achieving efficiencies. The technique was also recognised by the Flanagan Review of Neighbourhood Policing, as a tool for local evaluation and improvement.

<sup>6</sup> CLG (2008) Delivering Efficiency: Understanding the Cost of Local Government Services  
[www.communities.gov.uk/documents/localgovernment/pdf/730431.pdf](http://www.communities.gov.uk/documents/localgovernment/pdf/730431.pdf)

CLG (2007) Building Capacity to Improve Local Services: Using Business Process Improvement Techniques  
<http://bip.rcoe.gov.uk/rce/core/page.do?pagelD=42675>



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## VfM training in Coventry and Solihull

Coventry and Solihull Councils formed a Value for Money Partnership in 2007 with 4ps, supported by Improvement and Efficiency West Midlands. The purpose is to help the councils improve their capacity to make effective choices about investment decisions, and develop their cultures around performance. At the heart of the programme has been a series of workshops, aimed not only corporate back office functions but importantly, elected members, senior officers and service managers.

There was a compulsory programme, including content on understanding VfM, challenging whether a service represents VfM and introducing tools and techniques to deliver better services. In addition, there were service-specific activities (eg, with the Library Service) and workshops on business case methodology and business process improvement, focusing on lean systems, what matters to customers and eliminating waste. Over 400 people have taken part, and other outputs have included an intranet-based VfM guide.

The Councils have benefitted in staff and councillors developing more of a habit of challenging why and how a service is provided, asking:

- does the activity still contribute to priorities and objectives?
- is there evidence of customer satisfaction?
- what are the strengths and weaknesses of the current provider/ service delivery mechanism?
- could we do it differently to improve VfM?
- could we collaborate with other agencies to deliver better VfM?

Lessons include needs to:

- recognise the scale and nature of the culture change required, including challenging a typical staff mentality where efficiencies are seen as economies (managers were known to talk of “slash and burn”)
- counter established budget setting which focuses on teams and Directorates not on end-to-end processes that deliver value for residents/ service users
- ensure that people take time out to apply Value for Money techniques
- encourage councillors to develop their vital roles not only in challenge but also in evaluation, building into processes questions such as:
  - have we achieved the outcomes we expected?
  - were they delivered on time and to budget?
  - how do we demonstrate we are delivering VfM?

VfM assessment is now built into service planning in Coventry and into the budget setting process in Solihull (where 5% efficiency savings - £4m – were identified for 2008/009). Solihull has adopted a business case template, and in Coventry there is increased demand for the Internal Audit Service to undertake VfM analyses. Coventry has achieved an improved Audit Commission score on Use of Resources, and both Councils report a greater appetite for change and service transformation. With

support from Improvement and Efficiency West Midlands, the approach has been adapted for Lichfield DC needs, with 30 middle managers involved and concentrating on a limited number of service areas.

## Implications for LAAs

In the LAA context it is important to understand ‘efficiency’ as part of the wider VfM agenda, and it can be helpful to distinguish different aspects which, following the arguments of Barry Quirk (Chief Executive of Lewisham Council and Local Government Efficiency Champion)<sup>7</sup> may relate to systems, organisations, services and operational practices (Figure 3):

**Figure 3 Sources of inefficiency by level of organisational and system management**

Four tiers of inefficiency	Four tiers of management
System-wide	Systemic
Organisational	Corporate
Service	Strategic
Practice	Operational

His argument is that inefficiencies can arise from:

- poor practice (at the service interface or at the point of delivery)
- poor operational service management (in the design and deployment of a service)
- poor organisational culture within organisations
- system-wide effects in services or across localities

He argues the case for ensuring that adequate attention is paid to efficiency at each level, and cautions against the risk of focusing too much on outcomes – likely to lead to a proliferation of other types of inefficiency. He also highlights the need to be clear about the focus for driving efficiency: be it a ‘delivery chain’ where there are linear connections between commissioners and service providers in delivering specific outputs (eg, waste collections) or a ‘network’ where partners come together to bring about behavioural change (eg, reducing anti-social behaviour and improving diet and exercise). Business process improvement techniques, designed to deliver significant improvements in the former, may be less well suited to the latter, where typically there are needs for ongoing research and evaluation (perhaps through piloting) to test the effectiveness of different approaches and the validity of underlying theories of change.

Matters of ‘efficiency’ may merge into questions of effectiveness – are we allocating resources in the most appropriate ways to achieve the desired outcomes? Frequently debates arise in partnerships about the need to shift resources towards preventative activities and early interventions. Questions about what is to be commissioned, and from whom may also follow.

<sup>7</sup> B Quirk (2008) *The Future of Efficiency in a World of Outcomes*, in SOLACE Foundation (2008) [www.solace.org.uk/documents/sfi/SFI%20-20Efficient%20local%20government%20June%202008.pdf](http://www.solace.org.uk/documents/sfi/SFI%20-20Efficient%20local%20government%20June%202008.pdf)

There may also be needs to, eg:

- build efficiency questions more explicitly into LAA delivery planning, and seek evidence that efficiencies have been realised
- plan evaluation requirements early, rather than late in the life of an intervention
- encourage partners to improve and share data on costs and outcomes in ways needed to inform decision-making on cross-cutting issues, eg, in commissioning early interventions and on assessing the case for developing neighbourhood management

## Resources

*VfM & efficiency in local government*

Audit Commission (2008) Use of Resources: Draft Auditor Guidance

[www.audit-commission.gov.uk/useofresources/2009guidance.asp](http://www.audit-commission.gov.uk/useofresources/2009guidance.asp)

CLG (2008) Delivering Efficiency: Understanding the Cost of Local Government Services

[www.communities.gov.uk/documents/localgovernment/pdf/730431.pdf](http://www.communities.gov.uk/documents/localgovernment/pdf/730431.pdf)

CLG (2008) Developing a 'theory of change' (Long Term Evaluation of LAAs and LSPs)

[www.communities.gov.uk/publications/localgovernment/laalspevaluationtheoryofchange](http://www.communities.gov.uk/publications/localgovernment/laalspevaluationtheoryofchange)

CLG (2008) Measuring and Reporting Value for Money Gains: A Guide to Compiling the Data for National Indicator 179

[www.communities.gov.uk/publications/localgovernment/reportingvfmguide](http://www.communities.gov.uk/publications/localgovernment/reportingvfmguide)

CLG (2007) Building Capacity to Improve Local Services: Using Business Process Improvement Techniques

<http://bip.rcoe.gov.uk/rce/core/page.do?pageId=42675>

CLG (2007) Delivering Value for Money in Local Government: Meeting the challenge of CSR2007

[www.communities.gov.uk/publications/localgovernment/deliveringvalueformoney](http://www.communities.gov.uk/publications/localgovernment/deliveringvalueformoney)

Coventry and Solihull Value for Money Partnership [www.westmidlandsiep.gov.uk/index.php?page=354](http://www.westmidlandsiep.gov.uk/index.php?page=354) + case study

<http://test.4ps.gov.uk/UserFiles/File/Skills/Coventry%20and%20Solihull%20Capacity%20Building%20Programme%202007-08.pdf>

The National Neighbourhood Management Evaluation has had a strand of work on 'Measuring Public Services at a Neighbourhood Level' undertaken by Cambridge Economic Associates. A toolkit on 'Using Data to Improve Services' and a 'Lessons and Challenges' report are available at [www.sqw.co.uk/nme/reportdownloads.htm](http://www.sqw.co.uk/nme/reportdownloads.htm)

RSe Consulting (2008) Mietool (tool to help measure efficiency gains, potentially valuable for use in preparing business cases, assessing options, and tracking benefits and results). For an introduction, see the Capital Ambition site at:

[www.lcpe.gov.uk/Pan\\_London\\_Management\\_Strategy/mietool\\_measuring\\_improvement\\_and\\_efficiency.asp](http://www.lcpe.gov.uk/Pan_London_Management_Strategy/mietool_measuring_improvement_and_efficiency.asp)

Solace Foundation (2008) Efficient local government

[www.solace.org.uk/documents/sfi/SFI%20-20Efficient%20local%20government%20June%202008.pdf](http://www.solace.org.uk/documents/sfi/SFI%20-20Efficient%20local%20government%20June%202008.pdf)

*VfM in central government*

HM Treasury (2003) The Green Book: Appraisal and Evaluation in Central Government - provides guidance on economic assessments of the social costs and benefits of all new government policies projects and programmes

[www.hm-treasury.gov.uk/data\\_greenbook\\_index.htm](http://www.hm-treasury.gov.uk/data_greenbook_index.htm)

HM Treasury (2008) Operational Efficiency Programme [www.hm-treasury.gov.uk/vfm\\_operational\\_efficiency.htm](http://www.hm-treasury.gov.uk/vfm_operational_efficiency.htm)

*VfM in health and care*

DWP (2007) Towards a Business Case for LinkAge Plus

[www.dwp.gov.uk/asd/asd5/report\\_abstracts/wp\\_abstracts/wpa\\_042.asp](http://www.dwp.gov.uk/asd/asd5/report_abstracts/wp_abstracts/wpa_042.asp)

Department of Health (2008) Making a strategic shift to prevention and early intervention: a guide

+ related CSIP website <http://networks.csip.org.uk/prevention/>

*Treatment of 'attribution and contribution' in evaluation*

John Mayne (1999) Addressing Attribution Through Contribution Analysis: Using Performance Measures Sensibly (Office of the Auditor General of Canada) [www.oag-bvg.gc.ca/internet/docs/99dp1\\_e.pdf](http://www.oag-bvg.gc.ca/internet/docs/99dp1_e.pdf)

