

The efficiency agenda - What is it?

The economic climate is fast moving and organisations have to change just to keep pace. Technology is helping to increase global competition, which means organisations in every sector have to be able to compete on the basis of many factors, such as speed of delivery, cost efficiency, assured quality, innovation, flexibility and probably most important customer-responsiveness.

Customer choice is driving organisational change as the customer wants faster, cheaper, better, friendlier and more flexible availability of products and services. This has created an even greater burden on the procurement professional to deliver efficiencies whilst faced with a number of conflicting priorities during their activities.

This is particularly prevalent within the public sector, but could equally be prevalent in a number of private sector organisations. Traditionally, the objective for the private sector purchasing function is to help increase profit whereas in the public sector the objective was to achieve the defined service level. The differences have become less apparent due to the government commitment to introduce best private sector practices and also many previously public organisations have been privatised. The Public Finance Initiative (PFI) funding mechanism and the subsequent Public-Private Partnerships (PPP) have also blurred these objectives as the private sector joins the public sector in their responsibility to the general public through collaborative projects.

The law and regulations have a significant affect on how procurement is managed within the private and public sectors. Company law, employment law, product liability law and intellectual property law and so on regulates private sector activities and most of these apply equally to the public sector, but additional regulations apply such as EC procurement law and best value. These laws and regulations have given the public sector procurement professional a foundation of commercial awareness. Private sector buyers can often cut through bureaucracy if there is a sound business case to do so, but public sector buyers are constrained to follow the established

procedures and when the private sector become involved with the public sector they too are bound by these regulations.

In July 2004, an independent review was carried out of the UK public sector led by Sir Peter Gershon. The review established whether public sector organisations made best use of the resources available for the provision of public services. The review identified that the UK public sector was capable of providing auditable and transparent efficiency gains of over £20 billion by 2007 – 08. This has created the biggest public sector transformation in the world at this current time.

During the review, the following were identified as the potential areas for efficiency gains:

- Back office – Those functions providing essential support to the delivery of frontline services
- Transactional services – Those functions responsible for the payment of benefits and pensions, the collection of taxes, charges or fees (income tax, TV licenses & Road Tax), registration of births and deaths and benefit calculations
- Policy, funding and regulation of public sector – Those functions who develop policy, provide funding, inspect or regulate other parts of the public sector such as the relationship between the Department of Education and Skills (DfES), Office for Standards in Education (OFSTED) and the schools, colleges and Universities

- Policy, funding and regulation of private sector – Those functions responsible for the development of the government's relationship with private sector, which is continually growing particularly through the increase in partnering. These interventions should remain cost efficient and have an effective output on public services
- Productive time of frontline staff – Frontline staff are there to deliver services to the end-user and any reduction in the time away from this activity will increase the effectiveness of the service

And as a considerable contributor to the efficiency gains;

- Procurement – The review team focused on the £100 billion a year spend within a number of key markets namely: construction and facilities management of buildings, social housing, commodity goods, social care, environmental services, highways, defence, police, education and health-specific procurement.

The Office of Government Commerce has been tasked to make these proposals a reality and the OGC established the Efficiency Team to oversee this process. The “Gershon Review” and therefore efficiency gains have become one of the key priorities or driving forces for procurement activity for the public sector, but was the review the real driver for efficiency?

Definitions

There are numerous technical definitions which involve the word efficiency for example energy efficiency, fuel efficiency, mechanical efficiency.

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The Cambridge Advanced Learners Dictionary defines efficiency as:

“when someone or something uses time and energy well, without wasting any”

The Collins Dictionary defines it as:

“the quality or state of being efficient; competence; effectiveness”

or “the ratio of the useful work done by a machine, engine, device, and so on to the energy supplied to it, often expressed as a percentage”

The “Gershon” review applied these definitions to the public sector and identified efficiencies as reforms which:

- Reduced resources (eg, people or assets), whilst maintaining the same level of service provision
- Resulted in additional outputs, such as enhanced quality or quantity of service, for the same resources
- Remodeled service provision to enable better outcomes.

Each of these reforms will differ in scale and impact between organisations depending on the existing level of procurement professionalism. Over 50 per cent of the gains identified by each government department must be 'cashable'. Cashable savings can be defined as those where there is a direct financial saving or benefit, with money released that can be spent on improving front line services. An example of this is where government departments are collaborating together to gain economies of scale and overall reduced prices from a supplier.

The remainder of the gains are 'non-cashable', which are those where the savings do not necessarily lead to lower prices or costs, but which lead to improved performance for the resources used, for example, increased productivity. An example of which maybe to use an e-auction to procure a standard product.

The argument of savings now versus savings later has been in existence for sometime, but the need to serve the public will be here for many years to come so there needs to be a healthy balance. In the external supply chain, stronger supplier/buyer relationships are required to ensure that the reduction of waste is carried through to the whole supply chain. Whole life costing and not just lowest price should be the rationale for an efficient process.

Further Reading

- “Delivering Better Services for Citizens” – The Byatt Report
- “Releasing Resources to the Front Line” – The Gershon review
- “The Atkinson review of the Measurement of Government Output and Productivity for the National Accounts”

Useful Websites

www.ogc.gov.uk
www.dclg.gov.uk
www.hm-treasury.gov.uk
www.cipfa.org.uk
www.improvementnetwork.gov.uk

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