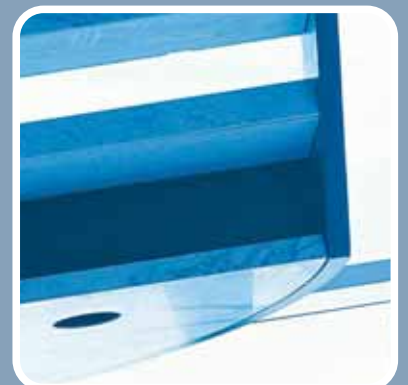


**Xayce**



Point of View

**Achieving Efficiency Gains  
in Local Government  
*... Again and Again***



# Achieving Efficiency Gains in Local Government ... Again and Again



## Efficiency gains – here to stay?

There's an old Chinese proverb that says "*What you can't avoid, welcome.*"

Whilst Local Authorities haven't avoided the need to make efficiency gains in the past, there is now much more clarity as to what's expected of them. The Gershon Review requires gains of 2.5% each year for the next three years to 2007/08. The Office of the Deputy Prime Minister's *Efficiency Technical Note for Local Government* clarifies that at least half these gains must be 'cashable'. It also emphasises that efficiency 'is not about cuts, but about raising productivity and enhancing value for money.'

Corporate Management Teams will be clear about where the bulk of these savings are to come from in the current year. But how many know where they're going to get another 2.5% of gains the following year ... and another 2.5% the year after that?

And what if the requirement to make annual efficiency gains continues beyond 2007/08? What if the figure of 2.5% is increased? Year-on-year targets of 10% or more are not unusual in the private sector. And let's face it, continued investment in front line public services, or reduced taxes, would be far easier for any Government to afford if Local Authorities continue to make efficiency gains for many more years to come!

It would seem reasonable to assume, therefore, that we have entered a period characterised by the need to make significant annual efficiency gains.

With this in mind, we believe that Local Authorities could benefit greatly from taking a fresh look at the way they plan and deliver the programmes of change that make these efficiency gains a reality.

## Programmes of change – a fresh look?

Local Authorities typically finalise their budgets in the last quarter of the *current* year based upon efficiency gains they plan to make in the *following* year. These gains are supported by specific programmes of change consisting of projects that usually finish within a 12-month period.

Next year the process will be repeated with a new set of projects, some of which may - or may not - build upon the achievements of projects finished the previous year.

Another Chinese proverb says, "*When the winds of change blow strong, many build walls for protection, but the wise man builds windmills.*" The context of significant annual efficiency gains means that the winds of change are likely to blow strongly for a while. With this in mind, we believe that the 'wise Local Authority' will take a fresh look at how it builds its programmes of change and think beyond this year into [programmes spanning multiple years](#).

Our research suggests that few organisations (across many industries) plan and execute change on a multi-year basis, or sanction the investment up-front for multi-year programmes of change.

Properly constructed, such programmes should deliver efficiency gains each year in which they run. One major benefit of this approach is that Authorities can start to see where their gains are going to come from in later years. In this way, the task of finding efficiency gains year-on-year is likely to become less onerous and more predictable.

The principle of multi-year programmes of change is equally applicable to the delivery of other non-financial types of service improvements. This will also, therefore, be a valuable approach to responding to other agendas such as a Council's CPA action plans.

Of course this doesn't mean all change programmes must be large-scale and executed over multiple years. Nor does it mean that Authorities must wait longer to achieve any benefits.

Rather, we believe it helps to have worked out steps 2 and 3 before embarking on step 1 – each step realising benefits along the way. This leads to programmes based upon repeated and sustained efficiency exercises, and not tactical one-off fixes or mere belt tightening.

We would expect any programme spanning multiple years to adopt what has come to be accepted as 'good practice' by:

- Understanding and agreeing the likely nature of the whole programme, so that better decisions will be made as a result.
- Breaking the programme down into manageable steps, such that the end of each step is sustainable in its own right.
- Structuring the business case for change accordingly.



## Programmes of change that span multiple years

There are many reasons why programmes of change can, and should, span multiple years.

Perhaps the most significant reason is that people are the key determinant of the pace of change. Most changes involve the existing workforce in some way. If those changes are to be successful, staff ownership and participation in the changes are essential, as are investments in restructuring, role design and training. All this takes time and must be done in parallel with people's 'day jobs'.

Another reason is that change programmes can often be interrupted by critical events. For example year-end and 'closing the books' are always very busy periods for the Finance function.

And some tasks on the plan will be better done sequentially rather than in parallel. It is often more cost effective, for example, to simplify tasks before they are automated. Otherwise, costs are incurred unnecessarily in automating processes that are subsequently made redundant.

### Four basic Change Techniques

Most multi-year programmes of change are constructed from four basic change techniques [see Figure 1 *Four Basic Change Techniques* overleaf].

**Rationalisation** – The reduction of the number of units of work or locations of work in order to create efficiencies. This often entails centralisation of processing, establishing shared services or creating 'centres of excellence'.

**Simplification and Standardisation** – The disciplined removal of unnecessary complexity in the business, such as changes to policies, elimination of exceptions, and the adoption of common procedures.

**Optimisation** – The redesign and/or automation of business processes in order to reduce cycle times and error rates, or to provide support for new propositions and services.

**Collaboration** – The exploitation of third party capabilities and economies of scale so as to reduce costs or improve service. This is often seen as a quick way to 'acquire' new capabilities, and can happen through outsourcing, in-sourcing, co-sourcing, strategic partnerships etc.

In our experience, most transformation exercises involve a combination of two or more of the above 'change techniques'. The challenge is to determine the right mix of techniques and, critically, the optimum sequence in which they should be carried out.

We have analysed the programmes of change chosen by organisations in several industries (notably local government, retail banking and utilities) to see what choices they have made and why. There are many insights to be gleaned by so doing. By way of illustration, three such insights are as follows.

Some degree of **Standardisation & Simplification** is likely to be important for **Optimisation** to be successful. Without this, the complexity that has become ingrained in processes from years of incremental change will make the cost of automation high, or worse, prohibitive. (See *Lessons from Utilities*)

Some organisations focus their programmes of change around **Rationalisation** or **Optimisation** to the exclusion of the other change techniques, and are then disappointed by the lack of tangible benefits. (See *Lessons from Banks*).

Some organisations have jumped straight to **Collaboration** on the basis that they feel a third party will be more successful at achieving efficiency gains. The pressure to make significant cost savings has driven many financial services companies to outsource functions offshore, leaving the outsourcer to reengineer those functions.

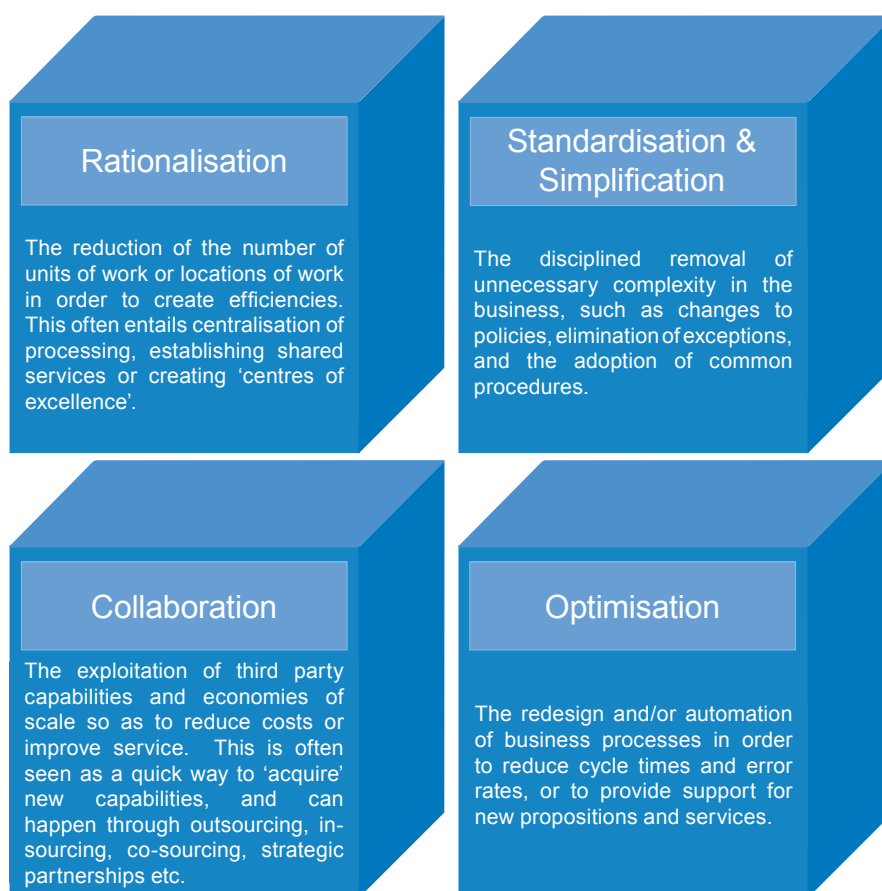


## Practical Application

We believe that considered application of these four basic change techniques will help Local Authorities to plan and deliver multi-year programmes of change successfully.

The change techniques were used recently to shape a two-year programme of change to transport services at a Borough Council.

The main aim of the change programme is to provide more integrated and efficient transport services to 'user' Departments, and to support more collaboration with neighbouring Authorities. Today, there is little integration between Departments.



**Figure 1. Four Basic Change Techniques**

A programme was developed that consolidated the four change techniques into three waves covering an elapsed period of around 2 years. Each wave of change is expected to be self-financing.

The first step - **Rationalisation** - involves bringing together the staff involved in planning, managing and procuring transport services into an integrated transport unit. These people are currently distributed across several Departments. The main focus of this wave is to establish a more stable start point for the changes ahead, and to realise cost savings so that the wave is self-funding.

A more stable start point will also be achieved by ensuring the transport requirements for each of the 'user' Departments are up-to-date, clearly specified, and reflect future aspirations for how transport will underpin any modernisation objectives for these Departments' own services.

A series of 'quick wins' are being implemented to ensure the step is self-funding.

The next two change techniques - **Standardisation & Simplification** and **Optimisation** - will be combined into a single step over a 12 month period, with a view to developing the integrated transport unit into a 'centre of excellence' through investments in people's skills, process improvements and IT systems.

The main efficiency gains here are expected to come from an integrated, standardised and simplified approach to transport service planning. However, this will take time to implement, as many of the existing contracts for transport services are due for renewal at different times over the next few years.

Optimisation is expected to take the form of IT systems to support some specific, time-consuming processes such as route planning and maintenance.

The Council is also keen to explore the benefits of further **Collaboration** with neighbouring Authorities. Whilst it is unclear when these opportunities may become real, entering into any such arrangements is more likely to be successful from a position of 'operational excellence.' In this way the costs and benefits of collaboration will be clearly understood in advance of entering into any arrangements.

The Collaboration step is expected to bring further benefits through service improvements and some cost savings from economies of scale. The earlier steps of change are being planned and managed in a way that will enhance, not detract from, any collaboration opportunities whenever they arise.

## Other Industries

There are some valuable lessons to be learned from the way other industries have chosen to use the four fundamental change techniques. By taking a lead from the experiences of others, Local Authorities can avoid suffering some of the same hard lessons again.

Companies in both the banking and utility industries have undertaken significant change programmes over the past decade. We believe that insights from the experiences of companies in these two sectors are particularly relevant to Local Authorities.

## Lessons from Banks

Over the past decade, all the UK banks have invested in major programmes of change with cost reduction the key driver. All have undertaken 'Rationalisation' to some degree, usually driven by the centralisation of branch back-office processing into a small number of large processing centres.

But the realisation of benefits from their investments has, in general, been poor. There are a number of reasons for this.

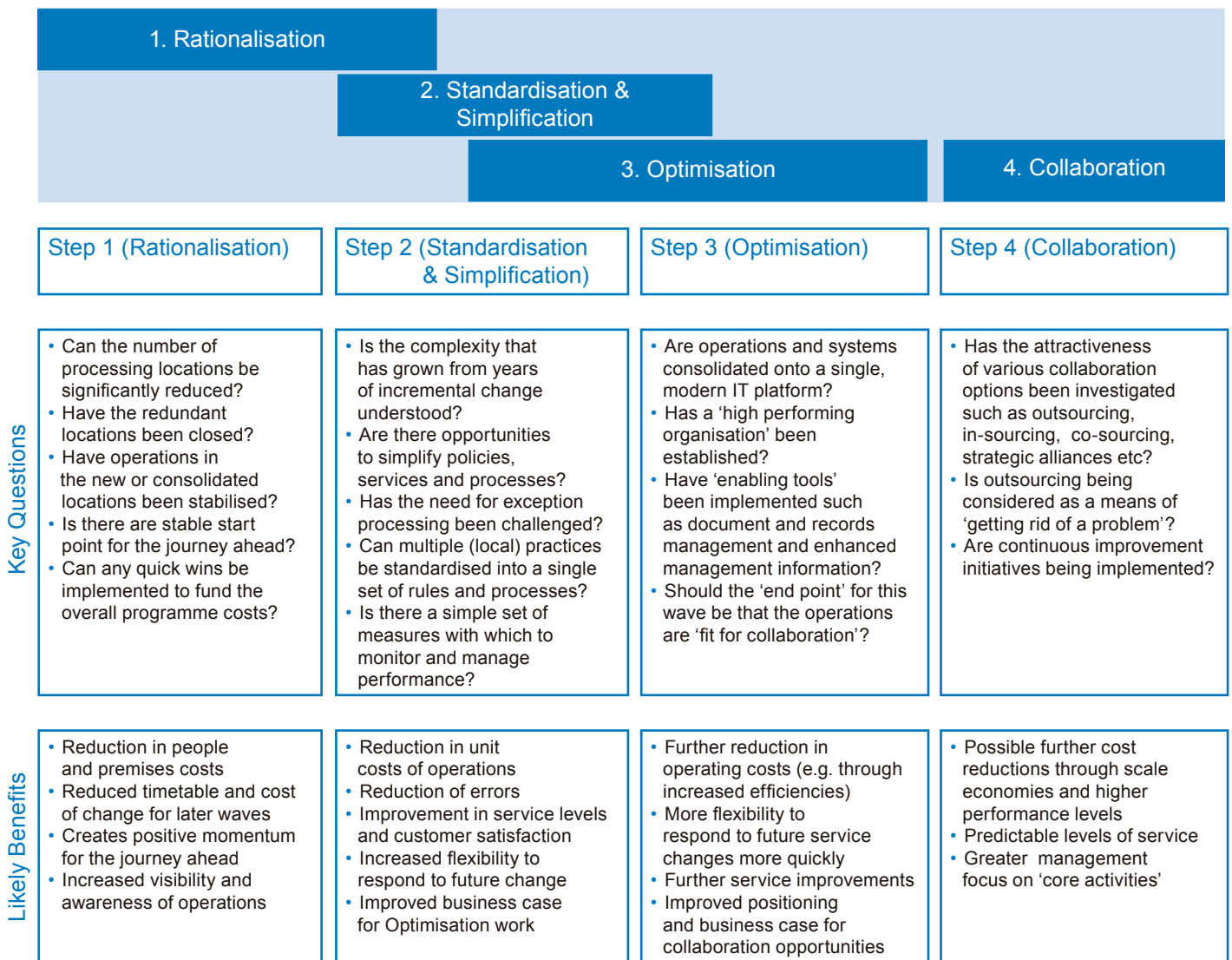
Some banks (at least initially) saw the bulk of their change programmes as a major 'Rationalisation' step and did not foresee the need for 'Simplification' and 'Optimisation' in order to achieve the desired benefits. As a consequence, many banks still have further to go.

Others failed to appreciate that large-scale operations require different capabilities and skills to small back offices.

And some banks tried to define the programmes of change as a major 'Optimisation' step, which they then struggled to execute. They believed the solution lay mainly in the delivery of new, core systems, but failed to design a simpler business, and thereby automated the same complex business instead – or ground to a halt after spending millions.

It is generally accepted that, amongst the major players, Royal Bank of Scotland and HSBC are probably in the best position today – largely as a result of disciplined execution of major programmes and strong commitment to standard operating platforms.

Figure 2 overleaf shows how the four basic change techniques were used recently to shape a multi-year program of change to achieve excellence in customer operations at a UK High Street Bank.



**Figure 2. Illustrative use of the Change Techniques**

The key questions in Figure 2 highlighted the main areas that were considered as the programme was shaped.

### Lessons from Utilities

The introduction of competition took utility companies into uncharted territory in the late 90s. Some succeeded, but others suffered from a reluctance to simplify products and processes.

Up until the late 90s, the supply of electricity and gas was essentially a monopoly business. This disappeared with the introduction of a competitive market, in which utility companies had the opportunity to win and lose customers. The utilities became retailers overnight.

A major UK utility company followed a well-structured journey in response to this business imperative. Prior to the market opening to competition, they rationalised their operations into

one main location, and took the opportunity to standardise their processing. The costs they saved, through reductions in premises costs and staff numbers, they used to help fund the implementation of a modern, integrated IT platform.

With such an IT platform, the utility company was able to introduce new products and deals to attract new customers. They were also able to provide improved customer service by having visibility of all the services received by a customer.

One lesson learnt by the utility company, however, is that not simplifying products and processes in advance of automation significantly increases the cost of implementing and maintaining the IT platform.

Indeed, the reluctance of other utility companies to simplify in advance of automation contributed to a number of high profile, major system failures in the mid-1990s estimated at over £100m nationally.

## Additional Considerations

Experience suggests that the four basic change techniques are likely to overlap in practice. For example, before [Standardisation & Simplification](#), some organisations have invested early in IT solutions for [Optimisation](#). They have done this to secure benefits quicker and to gain early experience of the use of these systems.

There would not appear to be a standard formula for applying the four 'change techniques'. In practice, each organisation's roadmap for change will depend upon start point, desired end point, ambition, funding, delivery capability etc. And so each roadmap will be different – and more likely to reflect a journey from A to D via B and C rather than any more simple, prescriptive route.

## Conclusions

The need to make significant annual efficiency gains provides an opportunity for Local Authorities to take a fresh look at how best they can plan to make these gains a reality.

We believe that, using the four 'change techniques' to shape multi-year programmes of change in the way we describe, will help Authorities to realise significant gains in a far less onerous and more predictable way. [This should help most Authorities to avoid the old Chinese curse "May you live in interesting times!"](#)



## Point of View Series

**This is one of a regular series of Points of View on topics of interest to senior executives in local government. Xayce is a business transformation consultancy that specialises in helping its clients transform their back office operations.**

The views and opinions expressed in this article are meant to stimulate thought and discussion. As each business has unique requirements and objectives, these ideas should not be viewed as professional advice with respect to your business.

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