

Re-thinking efficiency and value

This article sums up the key themes of 'efficiency' and 'value' as discussed at the plenary session of the Sustainable Funding Project's first Annual Public Service Delivery Network Conference: Better Value = Better Services on 24 November 2006.

It argues that societal expectations of services are changing, and that 'good value' means more innovative and people-centred services. It also discusses what efficiency means for the voluntary and community and public sectors and whether this should be revised in light of the 'added value' that voluntary and community organisations provide.

The plenary session, 'Re-thinking efficiency and value', was chaired by Ann Blackmore, Head of Policy at NCVO, Richard Piper, Head of Performance Improvement at NCVO and Sophia Parker, DEMOS associate.

That the voluntary and community sector (VCS) has always been value-led is indisputable. In the sector's case, passion, mission and knowing what matters sets it apart from the public sector's target driven agenda or the private sector's chase of the bottom line.

Voluntary and community organisations (VCOs') unique qualities place them in an ideal position to deliver public services. They are trusted by users whose frequent involvement in the design and delivery of services results in joined-up, cross-cutting services free of a silo mentality. Their independence, governance structure and flexible means of resourcing themselves can also deliver value for money.

But VCOs face increasing pressure from Government and public scrutiny to demonstrate this value. The terms value and efficiency are problematic for the VCS because Government understanding of efficiency

focuses on economy. However, the VCS delivers outcomes – or benefits derived from services – rather than outputs. How can that value be quantified? Measuring efficiency is similarly ambiguous.

Statutory funders need to understand that VCOs, in the added value they provide, have a different concept of efficiency to that of business; VCOs measure efficiency through how effectively they use their budget to achieve their mission and make an impact, be it social, economic or environmental.

And while VCOs are not driven by shareholder value, they are nonetheless keen to promote efficiency and plough cost-savings back into the organisation. The fact VCOs often target hard-to-reach, highly specialised services means there are hard as well as soft outcomes whose impact needs to be demonstrated.

Relationship with Government

There already exists a strong working relationship or commitment between the two sectors: 98 per cent of local authorities now have a Compact between local public bodies and the VCO that is either published or in development.

The growing emphasis on Local Area Agreements is also stepping up the sector's involvement in setting priorities and delivering services. The political environment has never been more favourable for public service delivery.

The Local Government White Paper, published in October 2006, showed a strong commitment to the VCS in wanting "the best local partnership working between local authorities and the third sector to be the rule, not the exception, and for the third sector to be placed on a level playing field with mainstream providers when it comes to local service provision."

The 2007 Third Sector Review is focusing on the relationship between the sector and the state, examining existing provision of VCS services as well as the outsourcing of state services. Barry Quirk's Review of Community Ownership and Management, published in Spring 2007, will try to dissolve the barriers that hinder transfer of assets to local communities. Finally, the Comprehensive Spending Review will further accelerate the role of the VCS in civic society.

Reviews, however, are not enough. To properly understand the concepts of efficiency and value, partnership and dialogue with other sectors is imperative. VCOs do not have a monopoly of virtue, as public sector agencies are also hard-working and value-driven. Similarly, private sector agencies can be creative and cost-effective. This means that a new understanding needs to be forged in order to bring about a transformation of public services.

Efficiency in context

Being highly efficient does not necessarily make an organisation effective. Efficiency is about how cheap something is to produce but it doesn't address outcomes.

The current efficiency climate was created by the Gershon Review. This found that with tax increases and further borrowing not an option, the only way to invest more in public services was to improve efficiency. It focused on operational efficiency such as cutting inputs and increasing productive time. Efficiency gains were to be made from such processes as more collective and professional purchasing, shared back office services, slashing absenteeism and simplifying supply chains.

It is reflected in the Government's notion of transformational Government where the proliferation of service channels can harness and distribute customer data and promote e-efficiency. The current environment is characterised by such ideas as competition and contestability, competitive procurement, commissioning and value for money.

Two models can be seen to be driving this efficiency focus – the manufacturing model and the consumer model. The manufacturing model uses precise specifications to commodify services. Twentieth century notions of business, begun under Henry Ford, have brought the model of mass production into service provision. Consumers see services as models to be delivered at low cost.

Increasingly, however, it has been usurped by the consumer model, for instance, the Government agenda of promoting choice as the solution to disempowerment. In this, Government has created a market with targets and pressure to perform in the belief that this will snap the public sector out of its slumber and sharpen its focus to the consumer values of responsiveness, customer focus, and efficiency.

However, both manufacturing and consumer models only see services as commodities to be delivered at the lowest cost.

Something is not working. Despite having richer, freer lives, people are still not happy because of a gnawing sense of powerlessness. Public services often do not understand the intricacy and complexity of individual lives.

Squeezing out cost can work in the short term, but can only be done once. In the longer term, it is necessary to innovate. Markets and contestability can be processes that VCOs operate effectively within but many conventional approaches to procurement and commissioning preclude innovation and can hamper VCO approaches to reach real need. Focusing on outcomes rather than outputs will encourage innovation and efficiency.

People do not see services as products but as journeys. DEMOS research shows that when asked what matters when considering services, people cited human interaction and dialogue. The value of the service wasn't simply the product delivered but in the accompanying social contact which had a role in reducing isolation. This demonstrates a broader approach to efficiency. Good services are more than efficient operations. Their quality lies in the feeling of support derived from that particular service.

Where value goes next

If the 20th century was about mass production, the 21st century needs to be about participation. Societal expectations of the state's role are rising. The state is no longer about crisis management but is becoming increasingly people-centred. This will see a move away from efficiency to value and from process innovation to service innovation. Models will move from being deficit-based to asset-based, from being institutional to people-centred, from expecting satisfaction to earning trust and from making transactions to creating relationships.

Services are being viewed as human interactions made up of relationships, not simply commodities. The nature of the service offer is also going to change towards 'lifestyle offerings' – from education to health to recycling services. It will be the interactions between services and people that matter rather than the internal mechanisms of the service alone. In short, services will move from process innovation to social innovation.

Measuring added value

Individual voluntary and community organisations need to devise ways to measure their own value rather than looking to the sector. There are challenges, however. The technical challenge is how to assess the outcomes and benefits of a service. There is also a political challenge – which outcomes or benefits actually matter?

Procurers should give contracts to VCOs because of the extra benefits that VCOs offer. These include the capacity to build users' trust, the experience and independence to innovate, an ability to be flexible and offer joined-up service delivery and a knowledge and expertise about complex personal and community needs not matched by the private or public sectors.

Value is what matters. VCOs need to take a much more radical approach to their own organisation and not be shy of communicating their inherent value. VCOs should brainstorm, focusing on everything they do that matters to someone or that values others. This is called value listing. For instance, they could consider the multiplier approach which recognises that using the local sandwich shop keeps investment in the local area. But different stakeholders have different views of what matters. In these cases, VCOs can produce sub-sets of the value list for different audiences, situations and purposes.

There are, of course, dangers associated with producing added value. Sometimes the extra benefits are appreciated, but contracts do not reflect this or the extra benefits are

expected but not paid for. Sometimes contracts to VCOs are conditional on these benefits. That VCOs seldom operate on a level playing field becomes manifest when conditions apply only to VCOs. All these factors mean that VCOs must think more creatively about the value they can offer and consider carefully before jumping in.

In conclusion

The concept of efficiency must be revised to take into account the added value that VCOs provide. VCOs must be involved in the transformative experience and not just be a vehicle for contracting with the public sector. This dovetails with the principle of co-production where the users of a service are not just passive recipients but are actually engaged in the design of those services.

Simply rushing into public service delivery can result in shoehorning services into the Government's models. It is important to work on what makes an individual organisation distinctive and bear in mind the underlying theme of remaining focused on people rather than institutions.

It is up to the VCS to help Government to define what happens next. The third sector needs to raise questions and help Government to deal with such issues as scales of measurement such as wholelife costings or the economies of scale involved in Gershon's proposal to aggregate contracts.

Both the sector and the Government must agree to clarify barriers and solutions. The debate needs to be focused on the real issue which is how to transform public services.

Further information and support

If you are interested in following up on any of the issues raised in this article, the following provide a good starting point for action.

For an overview of income diversification and tools and resources to support sustainable funding, visit NCVO's **Sustainable Funding Project** at www.ncvo-vol.org.uk/sfp

The Public Service Delivery Network is a network both for those working in, and with, the voluntary and community sector, with a responsibility for negotiating and managing public services contracts. The Network aims to develop the capacity of VCOs by providing a forum for peer support, networking and professional development opportunities.

See www.ncvo-vol.org.uk/psdnetwork

The **Performance Hub** works to help organisations achieve more to make a greater difference to the people, communities and causes they support.

Their website at www.performance-improvement.org.uk includes information and resources to help improve performance and track progress.

NCVO's Policy Team provides up-to-date responses and information about policy issues, including those related to public services.

See www.ncvo-vol.org.uk/policy/publicservices

Demos – the think tank for everyday democracy – provide analysis and debate on social and political change. From their homepage at www.demos.co.uk, go to 'themes' for a link to 'public services'.

Compact Advocacy is a scheme that provides practical support and wider campaigning for the VCS in cases where the Government has breached the Compact.

See www.ncvo-vol.org.uk/compactadvocacy for general information and to view the *Compact Codes of Good Practice*.

The Sustainable Funding Project is an NCVO initiative working in partnership with the Big Lottery Fund and Charity Bank.

The Sustainable Funding Project encourages and enables voluntary and community organisations to explore and exploit a full range of funding and financing options to develop a sustainable funding mix.

The Sustainable Funding Project
funding in the round
Website: www.ncvo-vol.org.uk/sfp
Tel: 0800 2 798 798
Email: sfp@ncvo-vol.org.uk