

David Hume Institute Seminar

Improving productivity in Scotland's public services

In a packed seminar at the Royal Society, 22 November, Jo Armstrong gave an impressive report on her research into the tangled problem of how to improve productivity in the public sector in Scotland, a country often associated with public ambivalence towards intervention of any kind into the affairs of the public sector other than in the provision of additional funding.

Jo Armstrong's method of analysis, as prelude to the application of her remedial proposals, was received with considerable interest, judging by the questions and discussion that followed, and which could have continued well beyond the extended time which was graciously conceded by the chairman, Robert Black, Auditor General for Scotland.

Undertaking such an ambition to improve productivity to improve the public service was worth it because there was a 'big prize' from doing so, and the tightness of the recent Scottish budget could act as a 'catalyst' for change. The more that productivity improves the more that could be done from the same budget or what is done could be achieved on a smaller budget, allowing relief to other important budgets for other public purposes.

Jo Armstrong cited the experience of Scottish Water from 2003, with which the Water Industry Commission for Scotland (Sir Ian Byatt, Chairman, whom you may remember led a David Hume Institute seminar in 2006) the regulator, had worked closely to improve its performance. This had been successful, saving £160 million in 2005-6. It had also broken the trend by which the water authorities had had secularly rising expenditures and confident projections of them continuing in the years ahead. As a result, substantial changes in performance, providing an improved service, higher quality of water and sewage treatment, and increased modernising investment had been achieved.

The obvious questions were whether this kind of intervention, or something like it, could be replicated in the wider public sector and if so, how might it be instituted?

Four basic lessons were identified as essential in any such programme:

1. Clarity of Objectives, which should be made explicit and shared with the stakeholders, stating what is wanted, over what timescale, and at what cost.
2. Effective forms of competitive pressure and regulation are important, which may not be easily identified in some of the candidates and may face stiff resistance from local management, employees and users. Regulation is a second-best option to competition but like all second-best options it is better than a third-best option of doing nothing.
3. Suitable benchmarks are closely linked to no 2. In the absence of obvious sources, the necessity of accurate, meaningful and relevant data for benchmarking performance is absolute. Unfortunately, much data are separated from objectives (no 1) and will need urgent attention if suitable benchmarking is to succeed.

4. Incentives matter and should be assembled 'creatively' and used to recognise and reward achievements by organisations and their management and employee teams for exceeding their targets.

The three case studies (social housing, care services and waste disposal) reported by Jo Armstrong were exceptionally well documented in both the data she had collected and in her application of the four basic lessons of the Scottish Water and Water Industry Commission for Scotland. I considered this the keystone to her report, because she had clearly considered the many issues of applying her general criteria in the very different circumstances of each sector she had been asked to survey.

At the dinner that followed, the discussion was intense and overran the time allotted to it. Broad agreement was evident, though the expected divide was between those who were pessimistic that much could be changed without top-level political support across the parties and deep cultural change ('producer interests') in many agencies in the public sector, and those who were convinced that change was the only way forward and much thought had to go into how to take the agenda forward.

Budgets tend to be concerned with inputs; public service is about outputs. On the same theme, 'outputs equal people; expenditure equals institutions'. Purchasers of supplies to the public sector are concerned with 'value for money', but where procurement skills are not 'high', value for money is at risk. Some debate centred on 'efficiency' versus 'effectiveness', and concerns about the use of 'language' which provoke negative reactions, such as 'privatisation', 'competition', 'systemic', 'culture', and freedom from 'political interference'.

The language of 'Accountability' needs to be used more widely; there is 'no such thing as a free service'; and competition works, e.g., the prison service. 'Champions were needed', but without a means of gaining acceptance for trying some version of these ideas within the dominant culture of the public sector, the problem will remain, as will the level of productivity.

Joe Armstrong summarised the importance of making a start; it was not essential for the 'model' to be perfect to make considerable gains. Clarity of objectives would be a good place to start as would deciding on the collection of appropriate data to make some progress in benchmarking, plus deciding on suitable forms of reward.

Personally, it was a pleasure to see a former student (1982) and to hear such a polished performance based on her thorough research, keen analytical skills, and command of her research brief.

Professor Gavin Kennedy 23 November 2007