

'What Gets Measured – Adding Value for Public Services through Effective Contracting'

by
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"Not everything that can be counted counts, and not everything that counts can be counted."

Albert Einstein

Not everything that can be measured matters. And there are things that can't be measured, that make an enormous difference.

Serco manages a young offenders institute called Ashfield. At Ashfield, prisoners are regularly released on temporary licence to undertake activities and make arrangements that will help improve their chance of resettlement on release. The performance measures that govern our contract at Ashfield provide that we will be liable for financial penalties if prisoners escape custody. Release on temporary licence increases the risk of escapes, and there is no obligation on a prison governor to grant the issue of temporary licences for resettlement purposes, if they feel it is risky to do so. Yet, it is a step we often take, even though it does not make financial sense for our company.

Why would a private company do this?

We do this, because it makes a *difference* for the prisoners concerned, and for the public good. We have made it work, and inmate behaviours have improved as a result.

We operate the Docklands Light Railway. There is nothing in the performance conditions in our contract that requires us to keep the stations clean. Yet this is done as a matter of course.

Why would a private company do this?

We do this because clean stations are *important* for our customers using the DLR.

With one of our customers in the education sector, we have an agreement to reinvest any money we earn as a bonus for exceeding our contractual performance targets back into the service. And our customer has agreed to reinvest the cash accrued from any penalties that we incur if we do not deliver the required level of service, back into the service. So all the money remains within the service.

Why would we do this?

We do this because staff from our two organisations share a mutual desire to help *improve* the services for which they are responsible.

None of these actions count towards meeting the performance measures in our contracts, but they do count towards the delivery of an effective public service.

Make no mistake: measurement matters. Serco has been delivering public services for more than forty years, under a range of different performance regimes. As a contractor, performance management is an essential part of what we do. If we fail to deliver our commitments we can be penalised financially, our reputation suffers and we are less likely to win future business.

So it will not surprise you to know that performance measures are something we often think about. Delivery against our contractual measures hits our bottom line.

Yet, at Ashfield, we voluntarily undertake a scheme that puts us at risk of failing our performance measures. We expend our resources on cleaning stations on the Docklands Light Railway, when this is not required of us contractually. With our education sector partner, we reinvest hard-earned bonus rewards back into the service.

When I was invited here today to talk about measurement issues in delivering the efficiency agenda, I decided that I would talk, not only about measurement, but also about the things that don't get measured. I want to capture and share some thoughts about the conditions that motivate and enable service providers to deliver that little bit more – above and beyond what gets measured.

That means added value for taxpayers.

To do this, I will draw on experiences that have been shared with the Serco Institute, over the past year or so, as we have carried out an extensive study of performance measures and incentives in a range of Serco contracts. In our study, we tried to understand what approaches work best for delivering quality services, and what doesn't work – I'll cover examples of both today.

As we strive to achieve measurable efficiencies in our public services, let's ask the question, how do we ensure that we deliver what really counts?

In the words of Sir Michael Barber, former head of the Prime Minister's delivery unit:

'It only becomes delivery when it makes a difference'

From experiences of delivering services under contract, I suggest that attention to just a few key areas can help make the difference that we are looking for, whilst also delivering cost efficiency...

1. Measurement

Measurement itself must be the first step towards quality delivery. Measurement does make a difference – and effective measurement delivers.

There is a clear association between contracting and performance measurement within public services. The policy of compulsory competitive tendering in local government during the 1980s was in many ways deficient. But the tendering process itself can be credited with improving performance specification and public

accountability. In a study for the Department for the Environment in 1991, Kieron Walsh found that:

‘Competition has led to major changes in the monitoring of service, with explicit inspection processes being introduced, and a clear emphasis on standards.’

Fifteen years on, in a Serco Institute survey due to be published next week, our own staff told us that they feel more accountable under contract. Of the former public servants surveyed, 89% felt that:

‘under contract scrutiny is closer and performance more visible than in similar traditionally-managed public services’.

The clarification of purpose that comes with contracting can be used as a means of generating service improvements. The Home Office used the opportunity created by competitive tendering to demand higher standards of the private contractors – more time out of cell, increased levels of purposeful activity, and so on. By setting out clear measures in these areas, the department was able to use contracting to make significant differences. The advent of the private prisons has made a major contribution to the so-called ‘decency agenda’. Indeed, the experience has been so successful, that similar measures have since been rolled-out across the entire prisons estate.

But, of course, to make a positive difference, you have to use the right measures.

We’re all aware of recent media coverage of ‘perverse measures’ such as GP waiting time targets that result in patients being turned back from making advance appointments. There have been numerous such cases when the use of inappropriate measures led to unwanted outcomes.

I interviewed one contract manager running an inner-city light rail service who told me that when the contract was first let, the key contractual performance measure was for the operator to complete each train journey from beginning to end, in the shortest time possible...

Sounds good, doesn’t it? Quick journeys for passengers!

But, as every train operator knows, the most important measure for a light rail system is not the overall time taken for each journey, but the time-delay between trains on the system – in other words, the regularity of the service.

Running a regular service ensures that no passengers have to wait too long for a train, and that passenger traffic is distributed evenly between the trains. By contrast, running each train as quickly as possible down the line, as required under the contract, meant that the trains were bunched, half-empty, at the front of the line, and any passengers unlucky enough to join towards the back end of a service cycle would wait for a long time to join an over-crowded train.

For me, this example demonstrates the importance of involving operational experts when developing business models and setting requirements. Making the effort, and expending the resources, to get a service right from the outset is well worth it, if it improves efficiency at the frontline.

Perhaps the best example of a perverse measure occurred in the mainline rail sector, where early train operator contracts contained a measure for train cancellations, attached to a financial penalty so steep that operators would go to great lengths to avoid it – even if that involved backing trains right along the network, from the Highlands of Scotland to Penzance.

Measurement can contribute to adding value. But for this you need a flexible and dynamic approach to delivery, rather than an approach that sets prescriptive criteria.

And incentives should be balanced. The penalty for train cancellations has now been reduced and balanced against penalties for delays, which allows train operators the freedom to make a decision about the best way to manage the service to meet public needs – whether that means cancelling a train, or not.

2. Motivation

That brings me to the next area that I would like to discuss. Motivation.

Now, I'm sure that most of you are familiar with the maxim that 'what gets measured gets done'. But what interests me is 'what motivates service providers to deliver a service that really adds value for service users, rather than just delivering what is asked of them?'

Serco runs the National Physical Laboratory at Teddington, where measurement is our core business. The National Physical Laboratory, or NPL, is responsible for setting many of the measurement standards which are a familiar part of everyday life – from the weights and measures of food we buy, to the time by which we set our clocks.

Since we took over at NPL ten years ago:

- turnover has increased from £40m to £65m;
- the proportion of income secured competitively in commercial markets has more than trebled;
- total cost savings for the Department of Trade and Industry have been in excess of £30m;
- and the number of scientists employed at the site has risen by a quarter.

So, what has driven these improvements?

Well, first let's consider the incentives. Delivering on our commitments allows us to escape financial penalties for failure. This is a clear motivator.

Secondly, let's consider the rewards. There is an incentive for us to raise commercial income at the site – we get a share in that.

However, when I spoke to our staff at NPL, the incentive that they ranked above all others was reputation. Of course, there is a commercial incentive to develop a good

reputation in order to win further business from our customer. However, even more powerful than this was the incentive of professional pride...

Pride in the ability to deliver high quality science within a defined budget.

Pride in having the capability to enhance the scientific reputation of NPL on national and international stages.

Pride in making a difference through the scientific advancements and efficiency improvements that we can deliver.

And our customer understands the motivating power of professional pride: a key measure of our success in this contract is our performance under peer review carried out by the Royal Society, the UK's national academy of science.

By establishing clear, appropriate performance criteria and accountability mechanisms, by giving management teams the scope and the incentive to innovate and improve, by creating a sense of ownership and responsibility, it is possible to create the conditions that encourage high standards and continuous improvements.

The separation of purchaser and provider under contracting is a useful model for this. When it is done well.

3. Matched Values

And finally, 'matched values'.

To deliver added value, purchasers and providers of services, regardless of sector, need to align their objectives, to establish partnerships based on matched values and culture and to collaborate in the development of effective contracts and quality public service markets that will generate efficiencies, innovations and improvements.

A key target of the Gershon review is to improve value-for-money in public procurement. To deliver this objective requires those responsible for commissioning and buying services to consider carefully in the procurement process what kind of organisation they want to work with, whether the relationship will deliver the expected quality of service (within the budget available) and whether the conditions of the agreement contain the right elements to deliver value.

Commissioners and buyers of services should:

- contract for **quality**, not just for the option that seems to offer the service at the lowest price; the bidder that over-promises and, inevitably, will under-deliver in practice.
- contract for **reputation** – increasingly, services are assessed in terms of the customer satisfaction that they deliver. That assessment should begin early, with bids being assessed and contracts awarded on the strength of a good track record or reputation on the part of the supplier.
- contract for **delivery**, whether by creating the right contractual measures and incentives, by creating conditions in which professional pride and a public

service ethos can flourish, or by establishing effective partnerships which encourage joint-working, joint decision-making and which are driven by mutual objectives.

They should take a long-term approach, developing sustainable markets, where service providers – from the public, private and voluntary sectors – are driven by reputational incentives to deliver quality services, in order to win future business, and because these conditions encourage the spirit of professional pride.

As we strive to deliver cost efficiencies in our public services, I suggest that attention to these three areas, measurement, motivation and matched values, will help to deliver the ‘cashable’ benefits that are required under Gershon, whilst also delivering the ‘non-cashable’ benefits that ‘make a difference’ to the quality of services for end-users.

Not everything that counts can be counted, but given the right conditions, we can achieve, both benefits that can be counted, *and* the added-value service provision that really counts.

Thank you.