

Putting **People First**

Transforming Adult Social Care

Internal versus External (services) toolkit

Efficiency delivery - supporting sustainable transformation

This toolkit is designed to help councils to:

- Reconcile differences in costs between internally provided services and their external equivalents
- Identify potential opportunities for efficiency gain

The issues councils face

The following examples illustrate the issues using home care as an example:

- Over 2006/7 the average reported unit cost of own provision home care was 76% higher than that reported for others; many councils struggle to explain this differential;
- Research in one region indicates that the reported figures are highly unreliable. Quite often activity levels are overstated and activity based costs are understated (favourably distorting unit costs);
- When considering externalising services, councils underestimate the impact of 'retained costs'; and
- The high level nature of reported unit costs can mask opportunities for efficiency improvement within in-house services.

The internal versus external toolkit

The toolkit provides a structured methodology and associated templates for analysing the detailed nature of such costs. It takes into account scope, quality and performance dimensions which may partially explain any differences.

How does it work?

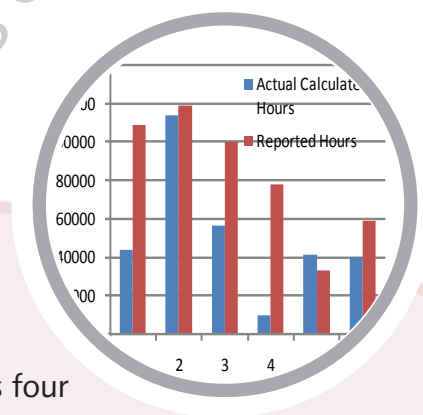
The toolkit collates four types of information:

- the nature of the services delivered by the providers (in-house or external) to ensure a like-for-like basis for comparison;
- the quality and performance of each provider in order to determine if there are any differences worthy of a premium;
- detailed information concerning the activities and associated costs of in-house services, including how indirect costs and central overheads are allocated; and
- pricing details for the external providers.

The information collected provides a basis for normalising the analysis so that costs are being compared on a like-for-like basis.

Benefits of adopting the methodology

The toolkit provides a more robust basis for making decisions about in-house services. Costly outsourcing mistakes can be avoided and in-house practices made more efficient as a result of the analysis.



Nature of the services delivered

This part of the toolkit consists of a matrix of service characteristics against each provider.

The service characteristics are chosen on the basis of those which might drive the cost (e.g. in the case of home care; remoteness, special requirements, double-handling, out-of-hours support, responsiveness).

On the whole, we have found that, whilst in-house teams may believe they are doing the more costly type of service, external providers are often doing exactly the same - often more.

Quality and performance

In theory, the quality dimension should be addressed via the regulatory inspection framework. In practice many councils have told us that they often have a different perception of their providers than do the inspectors. This matrix therefore collects information over and above inspection ratings - in particular objective data around complaints, user survey results and the council's own quality ratings.

The performance perspective includes productivity, responsiveness, placement refusals, and transaction efficiency as dimensions for consideration.

Overall, as expected, in-house services are usually of higher quality but exhibit lower performance. In objective terms, we have found that there are individual external providers who fare just as well as in-house teams.

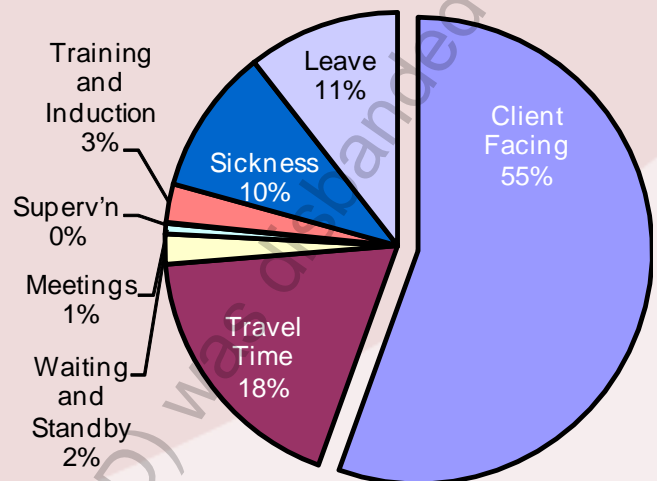
In-house activities and costs

This part of analysis collects information about the staff making up the departments/teams included within the in-house service:

- the numbers of staff (full-time equivalents);
- how they spend their time (approximately);
- the labour costs (direct and indirect); and
- all allocated costs (overheads, etc)

Once collected, this data is analysed from two perspectives;

- how individuals spend their time; and
- which individuals, teams, activities and allocated costs would be retained if the service were to be externalised.



The above pie-chart is not untypical, demonstrating that many in-house teams only spend 50% of their time facing the client (equivalent to the basis on which external services are normally measured). It is this part of the analysis which lends itself to efficiency opportunity assessment - especially if it includes a cost breakdown analysis.

The 'retained' costs analysis is useful because it illustrates that, even if the service were externalised, other things would have to happen to realise the full benefit (retained costs typically amount to 30% of the total).

Costs of equivalent external services

The final part of the toolkit prices and costs the in-house services as if they were being delivered by external providers (normalising them).

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