

# Summary

The municipalities are responsible for providing a considerable proportion of welfare and public services, including various types of care, social services, education, cultural and leisure activities, etc. Strong indications suggest that in the future the municipalities will encounter problems financing welfare and public services at current taxation levels, primarily because of an ageing population, but also because expectations on the quality of services provided tend to increase over time. One way of dealing with the financing problem is to raise taxes; another way is to lower welfare ambitions. However, neither of these options seems particularly attractive.

A third way of addressing the financing problem is to increase the efficiency of municipal schools and care for the elderly. More efficient activities means the same work can be carried out at a lower cost, or more or better activities can be run at the same cost. According to some earlier studies, the potential for more efficient municipal activities is significant. For example, about ten years ago the Swedish Taxpayers Association presented a series of studies that were said to show that major savings could be made.<sup>6</sup> A study by the National Agency for Education presented at the same time drew similar conclusions.<sup>7</sup> A later report identifying efficiency opportunities is a study by the Swedish Agency for Health and Care Services on municipal care of the elderly.<sup>8</sup>

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<sup>6</sup> See, DN Debatt, 9 August 2005, *En myt att kommunerna inte kan spara pengar*, (A myth that the municipalities cannot save money), by Robert Gidehag et al, Skattebetalarnas Förening (2006), *Lägre skatt är möjligt i alla kommuner* (Lower tax is possible in all municipalities).

<sup>7</sup> Skolverket (2005).

<sup>8</sup> Vårdanalys 2013:10, *Produktivitetsskillnader inom äldreomsorgen – variationer, förklaringsfaktorer och utvecklingsbehov* (Productivity differences in care of the elderly – variations, explanatory factors and development needs).

Taken together, these studies indicate that the resource-intensive education and care activities of municipalities could be considerably more efficient. The purpose of this study is fourfold:

- to investigate efficiency differences among Sweden's municipalities in the areas of compulsory school, upper secondary school and care of the elderly;
- to investigate the significance of different external conditions for municipalities' efficiency;
- to discuss the possibilities of enhancing the efficiency of municipal activities; and
- to contribute to the development of tools for municipal benchmarking.

#### *What we have done*

The report contains a series of efficiency analyses of municipal activities in the areas of compulsory school, upper secondary school and care of the elderly based on the 'DEA method',<sup>9</sup> which we have applied in three ways: an initial, simple cost and performance model, and two models that also take account in various ways of differences in conditions for municipalities' activities.

The periods studied are 2005–2014 for upper secondary school and care of the elderly, and 2009–2014 for compulsory school. The analyses are based on statistics on the municipalities and municipal activities produced by Statistics Sweden, the National Board of Health and Welfare, the National Agency for Education, the Swedish Association of Local Authorities and Regions, and others. A large proportion of the national statistics is compiled as key indicators for comparison and analysis by the Council for the Promotion of Municipal Analysis<sup>10</sup> in the Kolada database, where most of the data used in the study was obtained.

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<sup>9</sup> DEA, data envelopment analysis, is a method of systematically comparing production units with similar production conditions; see a more detailed description in Chapter 3.

<sup>10</sup> The Council for the Promotion of Municipal Analysis is a non-profit organisation with central government and the Swedish Association of Local Authorities and Regions as members ([www.rka.nu](http://www.rka.nu)).

### *Conclusions*

One initial conclusion for all three areas is that there are considerable efficiency differences between the municipalities. The degree of difference varies between activities, between the models we used and between the periods we analysed, but differences are found in all the analyses.

Another conclusion is that the results are influenced by whether and how structural conditions are considered, which is shown by the efficiency figures for the ten municipality groups in the three different DEA models. The differences in relative efficiency between the municipality groups consistently decrease when we move from the simple models that do not take account of differences in conditions to the models that use established joint measures for structural conditions (standard cost models), and they decrease further when we move to the models in which the joint measures for external circumstances are broken up and used individually (structural models). The simple models therefore appear to largely reflect differences in conditions rather than differences in the ability to use resources well, whereas the models that more adequately take account of municipalities' observable conditions show true differences in efficiency.

With the simple model, average efficiency is around 80 per cent for compulsory school and 70–75 per cent for upper secondary school and care of the elderly, which indicates an efficiency potential of 20–30 per cent. This can be compared with an efficiency potential of approximately 10–15 per cent in the structural models. In monetary terms, the results of the structural model – which we consider to be most reasonable and credible – mean that compulsory school could save up to SEK 8 billion, upper secondary school approximately SEK 3 billion and care of the elderly approximately SEK 12 billion based on the annual cost of activities for 2014. It appears, therefore, that large sums could be saved each year by the municipalities running activities more efficiently.

It must be stressed here that it has not been possible within the framework of this study to control for all possible differences in conditions and that the performance measures used in the study cannot capture all aspects of the municipalities' performance for

the activities in question. We also wish to point out that it is not always desirable for municipalities to increase efficiency simply through lower costs; efficiency can also mean improving services at the same cost. What should be done is both a matter of actual conditions in each municipality and which priorities are made.

It is clear, we believe, that greater efficiency is possible, but we also see signs that this is not always that easy. In a comparison of relative efficiency across several periods, we find that the results at municipality level are stable over time, within each model and activity. This means that municipal activities appear largely to 'be stuck with an efficiency level', suggesting that it would be difficult to implement sustainable efficiency gains. An alternative explanation could be that many municipalities are simply unaware of their low efficiency level. Our study's most important contribution to practical benchmarking between municipalities is that it shows how the DEA method can be used to find the municipalities from which the most can be learned by municipalities wanting to compare themselves with other municipalities in terms of efficiency. Besides being useful for identifying relevant municipalities for purposes of comparison, the DEA method can also be used to show the variables that form the basis of a municipality's efficiency together with the target values that need to be achieved for the municipality to catch up with the most efficient municipalities. We show in concrete terms how this can be done using examples in the analyses of compulsory school, upper secondary school and care of the elderly.

#### *Proposals for further work*

All municipalities should have access to a tool that helps them identify relevant municipalities for comparison, and thereby be able to enhance their efficiency in terms of reduced costs and better results. A first version of such a tool could be devised based on the models used in this study and subsequently developed through practical use. Over time it would then be possible for activities other than compulsory school, upper secondary school and care of the elderly to be included in the tool and, data allowing, it should also be possible to use the tool to compare individual entities, such as schools and homes for the elderly.

In Norway, regular studies have been conducted over the past ten years, with results similar to those we present here. We believe that regular studies of this kind in Sweden could result in an increasingly solid picture of the efficiency differences between municipalities and thus help to provide better guidance for increasing efficiency in municipalities.

The proportion of welfare services offered by private service providers has risen steadily since the mid-1990s. In the analyses of compulsory school, upper secondary school and care of the elderly, we have looked at how efficiency is affected by the proportion of activities conducted by actors other than the municipality. Regarding compulsory school, we saw no significant correlation between the efficiency of municipal schools and the proportion of pupils attending independent schools, but for upper secondary school we found a negative correlation and for care of the elderly a positive correlation between efficiency and the proportion of pupils/users in privately run activities. Thus the picture of how provision relates to efficiency is a varied one.

There appears to be a positive correlation between volume growth in activities and efficiency enhancement. Reduced efficiency during periods of reduced numbers of pupils or users, and vice versa, could be due to difficulties in adapting services to needs and thus achieving long-term efficiency. This is a specific area for development, which involves better linking budget work to demographic projections. 'Planning for shrinkage' is not very attractive and is thus a politically problematic path. Nevertheless, our results point to the necessity of being able to both see and take this path.

National statistics are a key building block in effective benchmarking and need to be developed in terms of both relevance and quality – relevance because for many activities there is currently a lack of comprehensive statistics, and the lack of good quality and performance indicators is the biggest shortcoming. The quality shortcomings in certain statistical areas can probably be addressed through increased quality control by statistics producers. But ultimately, it is the municipalities' task to ensure that correct data is supplied at the right time so that analyses of various kinds can be conducted based on complete and appropriate documentation.