

# Summary

The aim of this report is to try to assess productivity trends in certain core parts of the municipal sector, i.e. the 290 municipalities, during the period 2002–2012. The background to the report is a combination of three factors. The first is a lack of cross-sectoral analyses of productivity trends in the municipalities. The municipal sector accounts for a significant share of GDP (around 15 per cent) and faces considerable financing challenges over the coming decades. A deeper understanding of the potential for productivity improvements in municipal activities is therefore to be welcomed. This in turn calls for information about the actual productivity situation in the sector and how it has developed over recent decades. The second factor behind this report is the general discussion about how productivity trends in the public sector can actually be measured. For a long time, accepted practice was to assume that the value of the sector's production was equal to the value of the production factors, i.e. the costs. However, this practice does not fundamentally answer the question of what the considerable resources consumed in the public sector actually achieve. Over the past decade, or rather slightly more than that, a new approach has taken hold in the EU, consisting of radically improved ways of estimating productivity trends in the public sector. There is still a great deal of methodological development work to be undertaken, however, before these new methods can be used seriously. The third factor behind the report is actually a combination of two phenomena: firstly, that the past five to ten years have seen a proliferation of available data on municipal production volumes, use of resources, and outcomes and quality achieved; and, secondly, the development at international level of systematic indicator-based methods using this type of data to monitor developments in public sector effectiveness, productivity and quality. Taking account of these circumstances, this study has

developed a simple indicator-based monitoring model for productivity and quality.

The model uses municipalities' average costs for services performed as a broad indicator and a kind of initial approximation of productivity in municipalities' production of services. 'Services' in this context means services provided, such as pre-schools, schools and other education. The fact that costs rise as the volume of services performed rises, i.e. an increase in average cost per service, could, under certain circumstances, be interpreted as a relatively weak growth in productivity. However, a trend of this kind is not at all unexpected in the context of the well-known Baumol's 'cost disease', which states that labour-intensive services tend to increase in price compared to other goods and services. Average costs rising faster than the general price level may be due to factors that have nothing to do with poor productivity, for example higher expectations or improved quality in the activities. It is therefore essential to, in some way, be able to adjust the cost trend observed in order to take this possibility into account. This is done in the study by monitoring the development of a series of quality indicators within each field studied.

One general finding is that the average unit costs of services (whether the unit considered is a child, pupil or resident, etc.) have risen in real terms in most municipal activities, regardless of the adjustment index used.<sup>2</sup> The exception is elderly care, where real cost increases are much less or even negative if the activity-specific cost index of the Swedish Association of Local Authorities and Regions (SALAR) is used. The finding that unit costs per service for many activities have increased in real terms is in line with previous studies carried out by SALAR and the Confederation of Swedish Enterprise. Does this mean that productivity has actually fallen in these activities? Not necessarily. What looks like a cost increase for an activity may, instead, be a reflection of quality-enhancing additional resource investments.

This raises the issue of whether the higher costs of most activities are associated with improved quality, or the opposite in elderly care where resources have, de facto, decreased. Overall, the quality indicators available for the period in question show an unchanged or, in some cases, improved picture in terms of the quality of the various activities. This applies to elderly care, too.

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<sup>2</sup> The study uses both the activity-specific cost index developed by SALAR and the consumer price index to estimate costs in terms of fixed prices.

Conversely, there is no indication that quality and outcomes achieved have risen faster in compulsory schooling than in any other field, despite a relatively substantial increase in costs. As already mentioned, higher average costs for the services provided, in conjunction with unchanged or marginally improved quality, would, at first glance, seem to suggest lower productivity, with activities becoming more expensive but not actually any better. However, this is probably an overhasty conclusion, because of the difficulty of dealing with potentially changed expectations in the activities. Expectations in terms of service, quality, product functionality, etc. tend to increase in line with economic-growth-driven improvements in living standards for most people. This aspect must be taken into account in analyses of quality developments over time, especially in attitude surveys or user surveys where subjective or perceived quality is being measured. If citizens' expectations and demands on municipal activities have grown during the period of the study, which may well be the case, the unchanged or marginally better level of quality perceived may, in fact, mean that the quality of the activities has risen and that increased resources have made this possible. The extent to which this is the case cannot be concluded from the overall data on which this study is based. The overall conclusion is therefore that it is difficult to state definitively whether increased average costs per service, within our defined meaning of services, are associated with higher quality. It is thus impossible to conclude definitively whether productivity has risen or fallen.

One of the aims of the study was to pilot a previously untested approach in Sweden to generally assess productivity trends in the public sector. In my view, there is a great deal to be said for further developing this approach. It is important to conduct an overall assessment, for the entire sector, of the relationship between invested resources and the quality and outcomes achieved. Many trends in the public sector in this regard can be gauged by using developments in average (real) costs per service as an initial approximation of productivity trends in various activities. If these measurements are then supplemented with developments in relevant quality measures and indicators, a picture starts to emerge of how the relationship between resources invested and outcomes achieved has developed over time. To use a cliché, this approach helps us to see the wood for the trees, which can be seen as a step in the right direction. Furthermore, the pilot of the indicator-based

approach was successful in the sense that the study could actually be carried out for a series of municipal activities. As a rule, the necessary cost data were available for the areas studied. However, access to data for quality adjustment of the observed cost developments left something to be desired and varied markedly between activity areas. In general, the link between resources and quality is either very clear or very general, but the ability to comment on trends within the various areas of activity varies, something that, by and large, is determined by the quality of information that is available and for how long. In certain sectors, e.g. compulsory and upper-secondary schooling, historical indicator data is significantly easier to obtain than in other sectors. In the area of disability services, for example, data is largely missing up until very recently. However, overall, access to data on quality is improving. Over the past two to three years, the number of quality indicators has risen considerably within more or less all the fields studied. This means that, were a corresponding study to be conducted in the future, it would probably be possible to make much more certain pronouncements about productivity trends in all fields.

The opportunity to increase productivity in the public sector is an attractive way of dealing with the growing 'dependency burden' expected over coming decades. The results of the study in elderly care indicate that productivity improvements really are possible, given that, in this sector, lower costs per elderly person have apparently left quality unchanged. It should be remembered that the population actually aged over the period of the study – the proportion of 'older people' (i.e. over 65 years) increased by 3 percentage points between 2002 and 2012. One essential aspect in this development is municipalities' efforts to offer older people support and help in their own home for as long as this is possible. This can be interpreted as a kind of productivity-enhancing 'technological breakthrough'. Technological breakthroughs of this kind may well also be possible in other fields, in particular given the opportunities offered by information technology. For example, teaching in the higher levels of compulsory school and upper secondary school could be made more effective. The equivalent breakthrough here could be a greater use of distance learning. Bright and autonomous pupils could, to a much greater extent than at present, be allowed to study under more flexible conditions. In other words, these pupils could be taught in a way which more

resembles traditional university teaching, but based on modern information technology, which could probably free up resources for pupils needing more input and support. It goes without saying that such educational developments would lead to their own problems that would have to be thoroughly investigated. But the point is that the combination of new technology and the personalisation of activities would probably lead to greater productivity potential which could be harnessed.

The analysis of the study has led to a number of proposals for further studies. One proposal is to conduct a similar study in three or four years. An analysis of the ongoing development of quality indicators in various fields suggests that it could lead to significantly better quality adjustments. Approaches could also be piloted in parts of the central government sector, e.g. the social insurance administration (Försäkringskassan and the Swedish Pensions Agency), the unemployment insurance and labour market policy administration (Arbetsförmedlingen), the Swedish police or the judicial system. The approach could also be piloted in health and medical care services.