

Public Service Delivery – Metrics for Performance Measurement

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Public service

- Public service is a service which is provided by Government to people living within its jurisdiction, either directly or by financing private provision of services.
- The term is associated with a social consensus that certain services should be available to all, regardless of income. Even where public services are neither publicly provided nor publicly financed, for social and political reasons they are usually subject to regulation going beyond that applying to most economic sectors.

Efficiency of public service delivery

- India could save as much as Rs 3.3 trillion in annual expenditures by 2025 by increasing public-sector efficiency by 1.11 per cent a year -- enough to close the gap.

"Increasing public-sector efficiency gives government leaders an option beyond just the traditional choices of cutting services and raising revenue and, our research showed, citizens want government to provide services in a more cost-effective way,"

Something to remember

Cost minimisation is a sign of management success. Cost cutting is a sign of management failure.

Cost and Cost Terminology

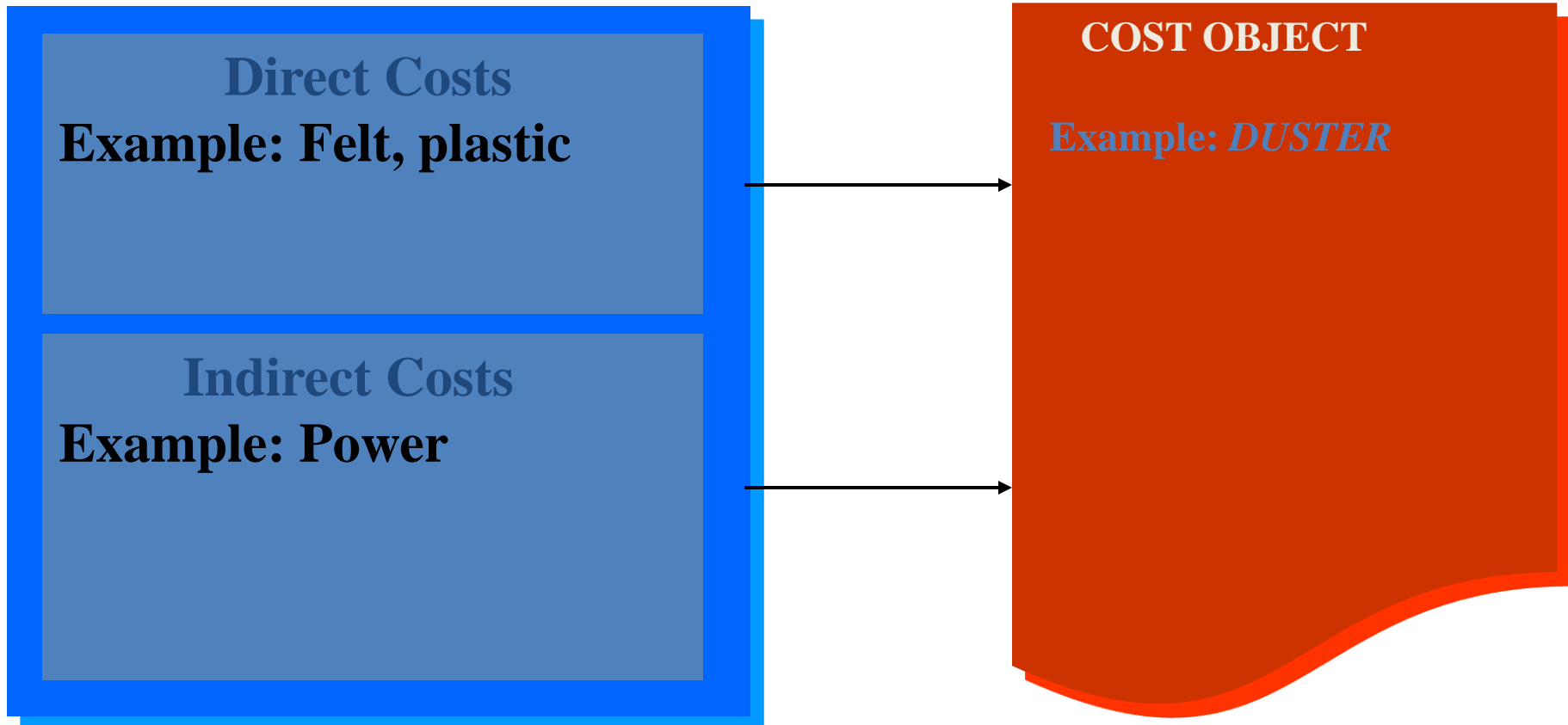
***A cost object* is anything for which a separate measurement of costs is desired.**

Example – product/service, project, dept

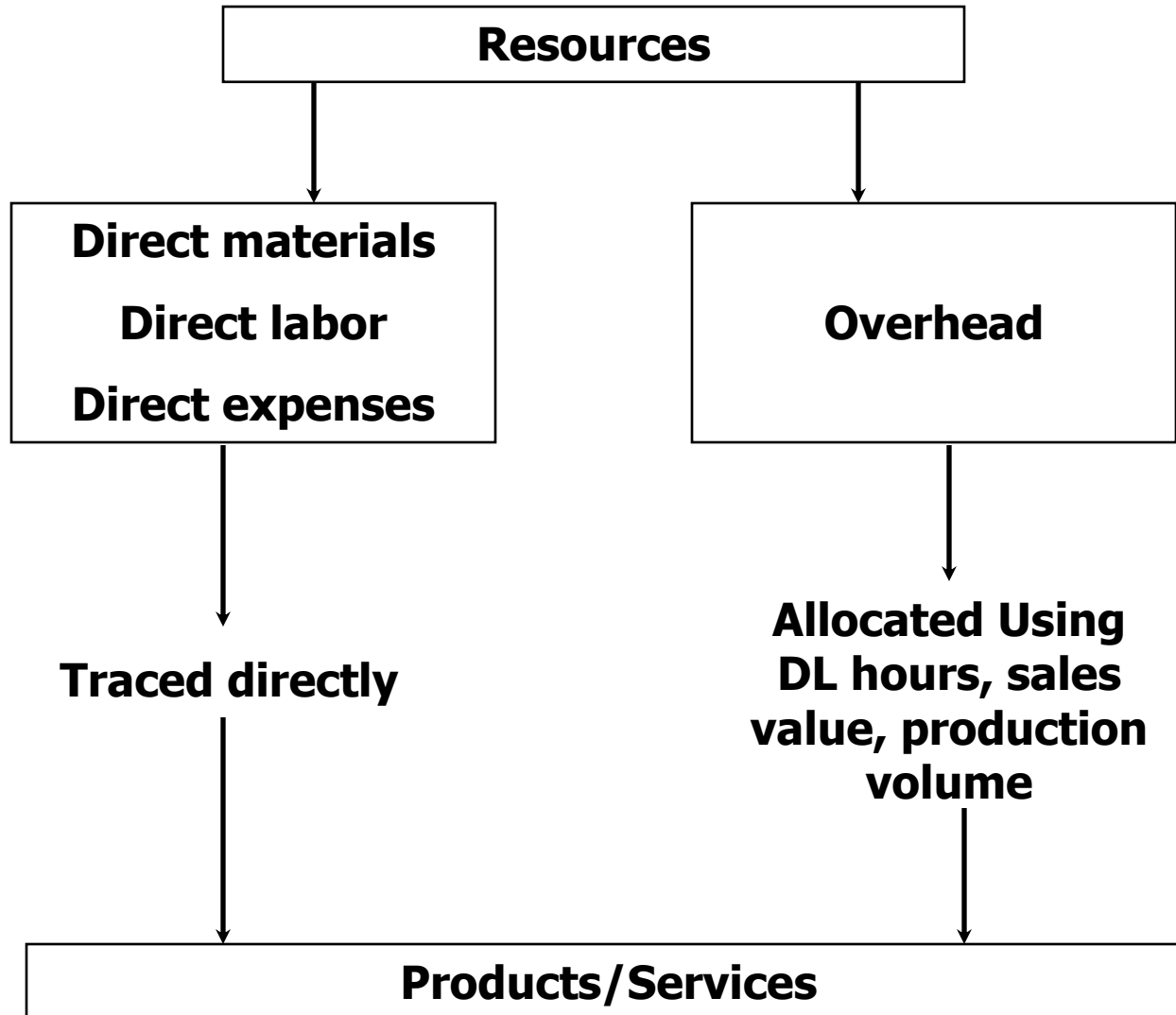
Different Cost for Different Decisions

- Traceability of cost objects
 - Direct costs and indirect costs
- How cost behave as volume varies
 - Fixed costs, variable costs & mixed costs

Direct and Indirect Costs

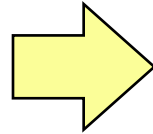


Traditional Costing System



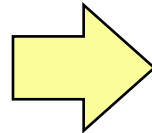
Elements of Product/Service Cost

- Direct Material
- Direct Labour
- Direct Expenses



• **Direct Cost**

- Indirect Material
- Indirect Labour
- Indirect Expenses

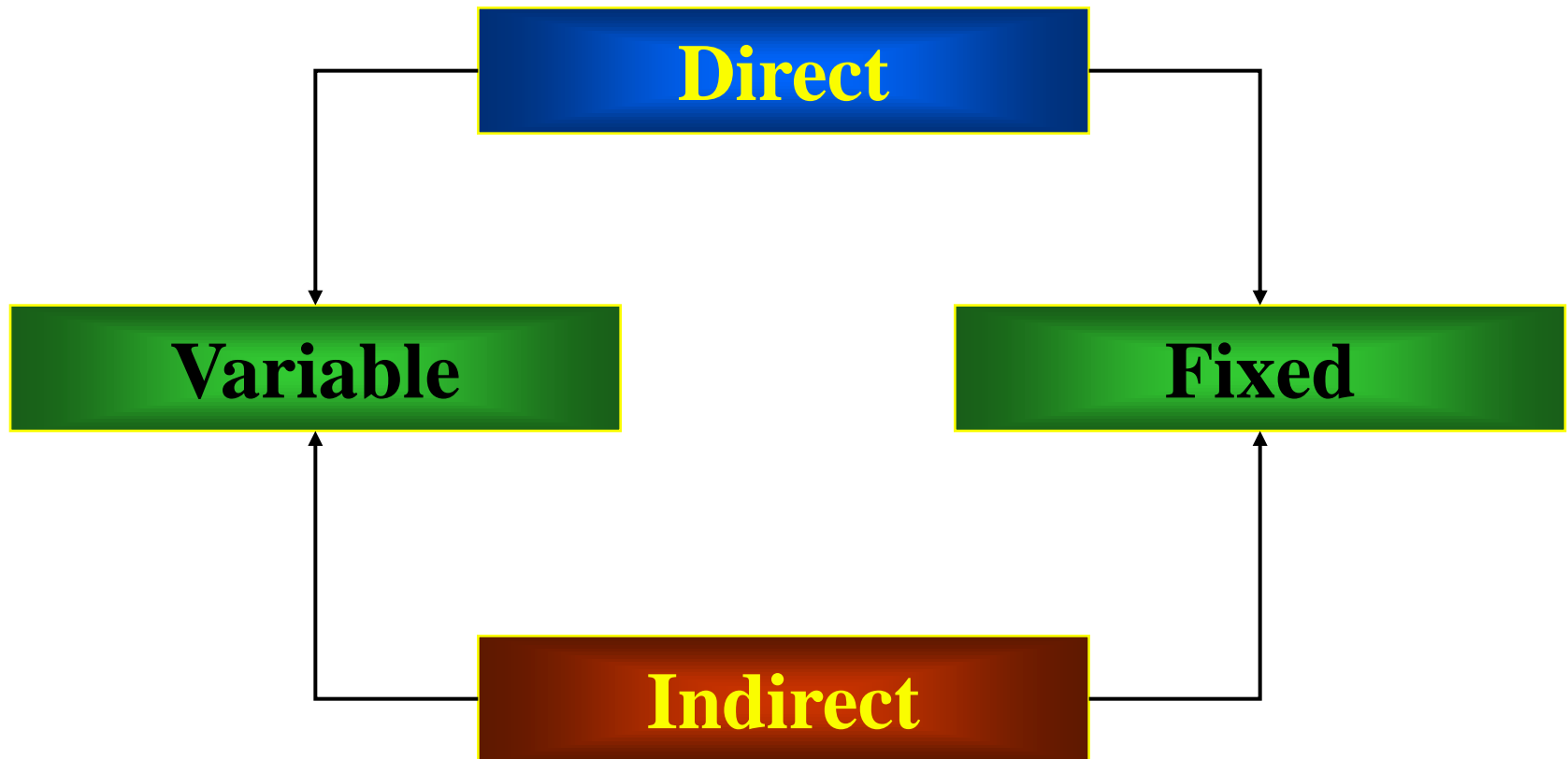


• **+Overhead**

• **=Total Cost**

Direct Cost (Power & Fuel + Rent +opex) + Admin Expenses + Interest + Profit = Sales

Relationships of Types of Costs



Price-Volume-Profit Analysis

An Example

Present Sales Price	5.00
Present Variable costs	2.00
Contribution Margin	
Present Fixed costs	150,000
Unit Volume	
<i>Present</i>	<i>150,000</i>
<i>Expected with price reduction</i>	<i>170,000</i>
Profit	
<i>Present</i>	
<i>Expected with price reduction</i>	

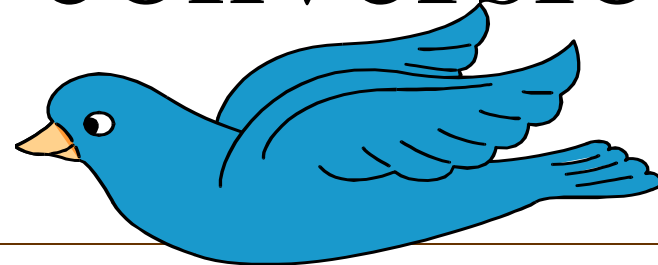
- *What is the present profit*
- *If the sales price is reduced by 10%, what will happen to profits (with no change in unit volume)?*
- *If the sales price is reduced by 10%, what will happen to profits (with an increase in volume to 170,000 units)?*

EFFECT OF TECHNOLOGY ON PRODUCT PROFITABILITY

	PRODN/SALES		
EXISTING TECHNOLOGY			
	150	250	350
REVENUES	1500	2500	3500
VARIABLE COSTS	750	1250	1750
FIXED COSTS	1000	1000	1000
NOI	-250	250	750
IMPROVED TECHNOLOGY			
	150	250	350
REVENUES	1500	2500	3500
VARIABLE COSTS	450	750	1050
FIXED COSTS	1540	1540	1540
NOI	-490	210	910
SALES	40%	40%	
NOI	200%	333%	
DOL	5	8.325	

Value Added Time

VAT comes from the processing time and includes cost of direct materials and conversion costs.



Value-Added versus Nonvalue-Added Activities

- **Value-added activities** increase the worth of a product or service to customers.
- They involve resource usage and related costs that customers are willing to pay for.
- Value-added activities are the functions of actually manufacturing a product or service.
- Examples include engineering design, machining, assembly, painting, and packaging.

Value-Added versus Nonvalue-Added Activities

- **Nonvalue-added activities** are production- or service-related activities that simply add cost to, or increase the time spent on, a product or service without increasing its market value.
- Examples include the repair of machines, storage of inventory, moving of materials, maintenance, and inspections.

WAT



WAT consists of Set-up time (**SUT**), Inspection time (**IT**), Movement time (**MT**), Waiting time for the warehouse (**WT**), Storage time until sale (**ST**), which includes warehouse and distribution costs and other waste added cost (**OT**) denominated time like rebates, discounts, special deals or zero percent finance and sale returns.

Free Provision of Public Services

- Pure Public goods
 - Indivisible
 - Individual beneficiaries cannot be identified
- Wastage is less if provided free
- Pricing the service can restrict the use of the service.
- Welfare of the community is involved
- Cost of collecting the price is high.
- Sewage, sweeping street, streets lighting, etc.
- General Taxation

No-Profit No-Loss Policy:

- Full-cost prices cover average total costs of production and also yield a fair return on the capital investment.

Marginal Cost Principle

- Selling price equal to short-run marginal costs while keeping productive capacity constant.

Two-Part or Multipart Tariff:

- Direct Costs and Overhead Costs
- Telecommunications, power and water systems have large overhead costs and small direct costs.
- Overhead costs fall as production is increased
- Price of the service or product is revised to cover the cost of providing the service plus a mark-up leading to multipart tariff.
- Another way is to charge a fixed annual rent from, say, the users of electricity and a further charge for the actual units consumed every month.

Profit-Price Policy

1. Large investments
2. Modernisation and expansion of the plants in PSEs.

- Finally, there is evidence that suggests that *performance-related pay* can increase overall effort by public officials and hence, improve public service delivery ([Berg et al. 2016](#)).
- Measuring performance requires both qualitative and quantitative criteria

The Balanced Scorecard's Premise Is That Measurement Motivates and Communicates

Measurement Motivates

**What you
measure is what
you get**

**It's not what you
expect ... it's
what you
inspect**

**If you can
measure it, you
can manage it**

Measurement Communicates

Vision and Strategy

Financial

Customer

Process

Learning & Growth

Objectives

Measures

Targets

Initiatives

Strategy Translation Process