

# EFFICIENT GOVERNMENT REPORTING

## FRAMEWORK FOR LOCAL AUTHORITIES IN SCOTLAND

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### CONTENTS

	<b>Page</b>
1) Introduction	1
2) Structure of Efficiency Statements	
3) Publication	
4) Future Developments	
5) Conclusion	
Efficiency Savings – Template	Annex A
Guidance Notes	Annex B
Efficiency Measures Developed	Annex C

## Introduction

1. Efficient Government is a concept that local government has been familiar with for many years and Councils have become adept at delivering improved services within ever tighter financial constraints. A greater focus was placed on efficiencies in the 2004 Spending Review when the Minister incorporated efficiency savings targets across the public sector for 2005/06 to 2007/08.
2. Local authorities recognised that as part of the partnership arrangement with the Scottish Executive that they have a new role to demonstrate the efficiency gains delivered each year. For the first of the three years work was commissioned to assess the arrangements in place across all 32 local authorities to measure efficiency gains and a detailed assessment of the gains achieved in 6 Councils was also undertaken. This work resulted in the publication of 2 reports:
  - Efficient Government –The Next Steps
  - Efficient Government – Proposed Monitoring Framework
3. These reports established a good foundation and it was recognised that to support local authorities with future reporting that a suite of standard measures should be prepared. Work on these measures commenced in October 2006 and they have been developed to a stage to enable local authorities to begin to use them for their 2006/07 statements.
4. Publishing efficiency statements for 2006/07 will add to the accountability arrangements for each Council locally and nationally. The statements should also prove to be of great benefit in the sharing of best practice across the local government community and so further accelerate progress of becoming ever more efficient. This framework document has been produced to assist local authorities in preparing efficiency statements for 2006/07.

## Structure of Efficiency Statements

5. It is important to recognise that efficiency statements are being produced for both a local audience and at a national level. The terminology used by each Council will need to match the local situation.
6. This section aims to establish the standard level of information under eight headings – authorities may well use alternative headings incorporating the information in different ways– the key will be ensuring that the standard information is incorporated in the statement.

### Introduction

7. How is the local authority managing efficient government? Describe the policies and/or strategies that are in place to support the delivery of efficiency gains. Include information on: how the authority identifies efficiencies, their subsequent implementation and monitoring of the outcomes.

### Opening Position

8. This section should provide a description of where the Council assessed that it was placed at the start of the financial year in terms of efficiencies. It is expected that Councils will highlight particular areas of strength and how these are evidenced in terms of national or local performance measures. Reference should also be made to other relevant material such as Best Value Reviews or other independent reports.

9. An indication of how efficiency plans are linked to longer term financial plans should be provided.

#### Key Areas for 2006/07

10. This section provides the opportunity to describe the major projects or aspects of the authority's efficiency programme for the year. It is likely that reference will be made to some or all of the 5 Efficient Government themes identified by the Scottish Executive in this section.

#### **Efficiency Gains Achieved in 2006/07**

11. This section will provide a summary of the total efficiency gains template as reported in detail in the Appendix to the statement. A standard template for the Appendix is provided as Annex A of this framework. The summary should include the total efficiencies achieved under each of the Scottish Executive's Efficient Government themes for both cash and non-cash savings. Other efficiency gains may be reported under a single heading or reported using categories developed locally.
12. The Guidance Notes provided as Annex B provide further information to assist in completion of the template. This includes guidance on calculating cash equivalents for time releasing savings.
13. Councils may find it useful to provide a second summary to match to departmental or other groupings that are used locally for monitoring purposes.

#### Verification

14. The template requires performance measures or other information to verify that savings have not resulted in a reduction in services. This section should be used to provide a summary of the type of information collected by the Council in relation to performance and customer satisfaction to confirm that savings are true efficiencies.

#### Key Areas Targeted for 2007/08

15. This section would confirm that delivering efficiencies is an ongoing process and would outline in summary terms the efficiencies to be pursued in the current financial year. In this context reference should also be included to the longer term financial planning arrangements that the Council has developed. Given the current situation in terms of Spending Review announcements it is acknowledged that longer term financial plans may be very high level at the present time.

#### Conclusion

16. This section should draw together the overall achievements of the Council in delivering efficiency gains and the impact that this has had for the local community. Key points to highlight will be the savings and improvements in performance.

#### Approval

17. The information should be of an auditable standard. There is no expectation that the statements for 2006/07 will be audited. It is expected that the statement will be signed by the Chief Executive and the Leader of the Council. However, if the Leader of the Council did not have a senior role in the Council for a substantial part of the year then the statement will be signed by the Chief Executive only.

## **Publication**

18. Efficiency Statements will be published **separately** from the annual accounts. Authorities may choose to publish the statement with the annual Public Performance Report. It is recommended that the Efficiency Statement for 2006/07 is published no later than 31st August 2007.

## **Future Developments**

19. In partnership with the Scottish Executive it has been recognised that a “light touch” should be adopted to the reporting of efficiency gains. Local authorities must be satisfied that the data collection and reporting regime is commensurate with the benefits that will be delivered from this additional reporting requirement. In developing this framework over the next few years local authorities will aim to ensure that the focus stays on providing information that can be justified in terms of its contribution to continuous improvement.
20. The three statutory Joint Boards account for a significant part of local authority expenditure and where reliable information is available on efficiency gains achieved in 2006/07 these should be included in the efficiency statement for that year. All authorities should aim to incorporate efficiency gains from Joint Boards for the 2007/08 statement. Each council should only include their proportion of joint board efficiencies so as to avoid double counting.

## **Conclusion**

21. There is the potential for substantial additional costs of introducing a new layer of reporting. This framework is the next step for local authorities in Scotland in the development of reports that are meaningful to a wide audience of stakeholders and of real use to authorities in their efforts to become ever more efficient in delivering services to their local communities.



## **GUIDANCE NOTES**

### **Definitions**

22. Efficiency within the 'Efficient Government' programme is defined in two broad ways:
  - i. Achieving the same or a higher level of output on a lower input (cashable) or;
  - ii. Achieving a higher level of output on the same input (non-cashable).
23. The former has been referred to in Scotland as 'cash releasing' efficiency, and the latter as "time releasing". What 'time releasing' means in efficiency terms is problematic and the current English terminology of 'cashable' and 'non-cashable' is preferable.
24. For example, if through improving the efficiency of business processes, 8 staff can now process the work previously done by 10, two posts can be deleted and a cashable saving achieved. If, however, 10 staff, through improved process, can now handle the volume of work that would previously have required 12, no actual cash is released for other purposes. However, a non-cashable efficiency gain, equivalent in value to the cost of the 2 additional staff that would otherwise have been employed to cope with that volume, is achieved. It is recommended, therefore, that Councils report efficiency improvements as cashable or non-cashable.
25. The one area in which the idea of a 'non-cashable' savings has been argued to be applicable is where work previously done by more qualified staff is now undertaken by less qualified staff. In principle, this could release the more qualified to focus on more demanding, higher value work. Examples typically quoted here are classroom assistants doing work previously done by qualified teachers, or a planning technician doing work previously done by fully qualified planners. While the unit cost of the output generated now by less qualified staff will have gone down, the efficiency of "time releasing" this way entirely depends on how more qualified staff time is used. Defining and measuring the 'higher value' output these staff now deliver has proven problematic, and this category of efficiency improvement should be ignored unless such a measurement system is in place. If more qualified staff are wholly replaced by less qualified staff, and output level and quality are maintained, then a cashable efficiency will have been achieved and should be reported as such.

### **Efficient Government Themes**

26. Reference to "Building a Better Scotland" and in particular the 5 themes. Also refer to the fact that local authorities are likely to have other efficiencies that don't neatly fit into any of the 5 themes.
27. The national Efficient Government Plan highlighted 5 key areas where efficiency improvement was a priority:
  - Procurement
  - Absence Management
  - Asset Management
  - Shared Services
  - Streamlining Bureaucracy

28. However, these were not prescriptive and it was understood that Councils would sensibly look for efficiency improvement across the whole range of their services and functions. The efficiency measures produced by the collaborative project are based around 8 thematic groups of services and functions as a basis for monitoring and reporting. These cover the national priorities but also the broad range of Council activities and functions. It is also totally legitimate to monitor and report efficiencies at a disaggregated service by service level if that is how the Council has designed and managed its efficiency programme.
29. The focus and scope of reporting should reflect the focus and scope of a Councils efficiency improvement activities. It is unlikely that Councils will target all service areas and all activities within a given year, and therefore monitoring and reporting should be focussed on targeted areas. If a Council has operated a budgeting model that requires all services to make a % 'efficiency improvement' in a given year (e.g. 1.5%) then a judgement needs to be made about how much of that was intended to be achieved by improving operational efficiency (input/output efficiency) and how much was to be achieved through re-prioritisation, rationalisation of low priority services, etc. Only those elements directly based on improving operational efficiency (input/output) are relevant for monitoring under the Efficient Government Plan.
30. Efficiencies need to be considered in the round. For example, an efficiency could be generated in one area by redeploying staff while still producing the same output. That would produce an efficiency for that area/project, but would only produce an efficiency for the council overall if the redeployed member of staff increased productivity/output elsewhere (i.e. there is a danger that an efficiency in one area may create a compensating inefficiency in another!)
31. To sum up, there is no expectation that Councils will report on year on year efficiency changes across all of their service areas and activities, and they should not attempt to do so. All that should be reported for 'Efficient Government' monitoring purposes are areas where relevant efficiencies have been sought and achieved. Councils may choose to report other matters relating to efficiency for corporate governance purposes, but these would not be relevant to 'Efficient Government' monitoring.

## **Efficiency Measures**

32. The following methods will be of assistance to enable cashable efficiencies to be quantified:
  - a. Appropriate measures of input cost, output level and, if possible, quality.
  - b. A baseline position on measured input cost and output (typically previous year).
  - c. A current position on measured input cost and output (year being reported).
  - d. A comparison of baseline and current position that demonstrates reduced input cost for the same or a higher level of output level and/or quality.
33. In essence, the cost per unit of output will have demonstrably improved. As the aim of efficiency improvement is to achieve a given level and quality of output at a lower unit cost, quality controls are important. 'Quality crosschecks' by service areas are available through the collaborative (Aspiren) measures, and the English guidance provides a complete list of quality crosschecks used by English Councils.

34. For a number of efficiency gains local authorities will be able to demonstrate savings that arise from specific changes and new ways of working. It will not be necessary to express all of these savings in unit cost terms where other methods are more suitable. Examples are: 1. Procurement savings relating to specific contracts; 2. Council Tax collection and other income collection; and 3. Energy savings.
35. Where a non-cashable efficiency is claimed, the same measures are necessary and a baseline: Current position comparison that shows higher output for the same level of input. Again, quality crosschecks should apply to ensure level of output has not been increased by reduction in quality. These are the basic template measures for 'Efficient Government' monitoring and the insight from the collaborative (Aspiren) project is that both types of efficiency improvement would be captured by reduced unit cost over time. If the same output is achieved on a lower input, the unit cost will have come down. Equally, if more output is achieved on the same level of input, the unit cost will come down. Unit costs are not direct measures of efficiency, but they will reflect efficiency improvement over time.
36. Two variants exist on the basic 'same for less' or 'more for the same' definitions of 'cashable' and 'non-cashable' efficiency improvement. First, if reduced input results in a proportionately lower reduction in output, a cashable efficiency has been achieved. Second, if an increase in input results in a proportionately higher increase in output, a non-cashable efficiency has been achieved. Exactly the same measures of input, output and quality crosschecks would need to be in place to show this, and again, both variants would be captured as reduced unit cost.
37. The typical "baseline: Current" comparison is going to be year on year and input will typically be valued in cost terms and output in unit of service provided (e.g. total cost per use in a swimming pool; staff cost per place in residential care; cost per desktop in ICT support). For comparisons of cost, one year to the next, inflation needs to be allowed for, and the default measure for adjusting the later year for comparison with the previous year is the GDP deflator. However, the wage and other inflationary pressures faced by Councils are not necessarily the same as for the economy as a whole, and more specific indexes of inflation may be appropriate for certain efficiency comparisons over time (see English guidance). (Note that cost pressures determined by Councils themselves, e.g. single status, should not be adjusted for in comparisons) Note also, if a Council kept input costs static in cash terms from one year to the next, i.e. do not compensate for inflation, and maintained its output constant, it would have achieved a cashable efficiency improvement equivalent to the value of inflation (e.g. 2.6% of wage costs; 2% of other costs).
38. In reporting efficiency improvements, it will be useful to differentiate those that are recurrent and those that are one-off. (e.g efficiencies through business process transformation will typically be recurrent: Procurement gains through a supplier trying to get established in a market will more typically be one-off) For annual reporting, this does not matter but for estimating cumulative efficiency improvements over time, the distinction is critical.
39. In summary, efficiency improvements can be categorised as follows:
- Reduce the level of inputs for the same outputs (cashable gain);
  - Get greater outputs for the same inputs (non-cashable gain);
  - Increase outputs by a proportionately smaller increase in inputs (non-cashable gain);

- Decrease outputs in return for a proportionately larger decrease in inputs (cashable gain);
- Improvements in service quality for the same inputs (non-cashable).

All cash valued inputs should be adjusted for inflation in comparisons with a base year.

## **Some Illustrations**

### **Cashable and Non Cashable : Process Improvement**

40. Authority A handles 1000 benefit applications with 10 staff at a cost of £350,000 in 2004/05. Following a review of its internal processes, it is able to either:
- Handle the same number of benefit applications with 9 staff; or
  - Handle 1,100 benefit applications, but still with 10 staff.
- (a) This is a cashable gain equal to £35,000 (the resource – salary and overhead costs – released by being able to deploy the 10th person away from this area of work (assuming the person leaves the organisation or their salary costs are picked up by another area).
- (b) This is a non-cashable gain equal to £35,000 (the productivity improvement is equivalent to the cost of engaging an 11th person in this area of work, but no resources have been released for reallocation)
41. Note that in both cases, cash figures net adjusted for inflation 2005/06 on 2004/05 : The example makes the point that, depending on circumstances, the same efficiency improvement could be taken as cashable or non cashable.

### **Cashable Efficiency Through Better Procurement**

42. Authority B runs an on-line auction for provision of school text books and secures X 000 books at the same cash unit cost as the previous year. This is a cashable efficiency saving equivalent to the annual rate of inflation for books (e.g 2.5% of total cost of X 000 books)

### **Non : Cashable Efficiency Through More Effective Resourcing**

43. Authority C provides an additional admin assistant to each area social work team to support more efficient caseload management and better use or qualified social work time. This increases input costs by 5% but output in terms of caseload dealt with goes up by 15%. This is non cashable but the increased productivity can be valued by comparing the cost per case on the old model and the cost per case on the new model. The latter subtracted from the former then multiplied by the total number of cases would provide the relevant value. Again, inflation needs controlled for in comparing across years.

### **Cashable Efficiency Through Better Energy Management**

44. Authority D pursues an aggressive energy management strategy in support of its sustainability and climate change commitments. Its total electricity consumption comes down by 5% in 2006/07 in comparison to 2005/06. The saving equals 5% of the total cost that would have been incurred had the 2005/06 consumption volume been

maintained. Note the saving should be valued in 2006/07 prices to take account of specific inflationary trends in the energy sector.

### **Cashable Efficiency Through Better Asset Management (1)**

45. Authority E moves away from immediately disposing of surplus assets in favour of a strategy of maximising capital growth within local market conditions. As a result, capital growth of 20% is achieved 2006/07 on 2005/06 on the surplus portfolio. A cashable efficiency has been achieved if the 20% growth was greater than the council could have achieved by selling the assets the previous year and making alternative investments and any costs incurred by the council because a capital receipt was not available (e.g loan charges) are deducted from the net capital growth achieved. If the end figure is positive, an efficiency has been achieved. This is more complex than earlier examples but a number of councils are exploring capital growth strategies.

### **Cashable Efficiency Through Better Asset Management (2)**

46. Authority E is committed to rationalising its asset base and achieving more effective asset utilisation within the council and with partners. This is tracked by a broad indicator of sq. metres space per FTE staff member. This indicator shows a reduction of 5% between 2005/06 and 2006/07. The improvement can be valued by estimating the average cost per square metre across the councils property assets multiplied by the sq. metre equivalent of a 5% reduction per member of staff : This is in principle realisable therefore a cashable efficiency could exist. Alternatively, staff growth can now be accommodated without deploying new assets, and a non cashable efficiency exists. (Valued as the costs difference of operating on the previous basis and the new basis) The example assumes that appropriate national standards are still met.

### **Further Support**

47. The notes above, and the examples, indicate both the expectations of how efficiency will be reported and the basis on which reports may be judged. Substantial detailed guidance and support is available from 3 key sources.
- i. The “Dept of communities and local government” in Westminster has issued detailed guidance to English councils. This guidance is particularly useful on basic measurement templates, and on the potential treatment of efficiency gains related to capital expenditure. It can be accessed at [www.rce.gov.uk/rce/aio/19186](http://www.rce.gov.uk/rce/aio/19186) It also gives links to all quality cross checks used in England (p36).
  - ii. The Improvement Service has all the output from the collaborative (“Aspiren”) project on its website at [www.improvementservice.org.uk](http://www.improvementservice.org.uk) and this provides full guidance on the suite of measures, their baselines and their calculation for reporting purposes. Over half the measures could be retrospectively baselined to 2005/06 as they are deliberately based on data sources Councils keep for other purposes.
  - iii. The Scottish Executive has issued and updated “Technical Notes” on “Efficient Government” which provide a reporting framework used by the rest of the public sector in Scotland. The framework has all the requirements noted above (clear input, output and quality measures; baselines) but it is useful as it gives full evidence on how other public bodies have calculated and reported efficiency gains

: cashable and non cashable. This can be accessed at <http://www.scotland.gov.uk/Publications/2007/03/21120816/0>

## Efficiency measures developed

### Unit cost measures

CHN 1	Unit cost of education management and support services per school child
CHN 2	Unit cost of delivering educational and social services for children & young people
CHN 3	The average cost per child transported
CHN 4	Average cost of residential care for children
SW 1	Unit cost of care management and assessment for cases that have been open during reporting year
SW 2	Average cost for basket of services (home care, residential care, day care and respite care) per case
SW 3	Unit cost of providing equipment and adaptations per case for full year
RG 2	Average repairs and maintenance expenditure per house per year
RG 3	Average supervision and management expenditure per house per year
CS 1	Cost of council tax collection per property
CS 2	Cost of human resources per 1,000 employees
CS 3	Workstations supported per support specialist
CM 1	Percentage utilisation of assets
CM 5	Cost per square metre of utilisation of property
EC 1	Gross cost of municipal waste collection per premise
EC 2	Maintenance cost per kilometre maintained for all road types
EC 4	Gross cost of municipal waste disposal per tonne
CL 1	Unit cost per visit to museums, libraries and sports and leisure facilities

### Total cost measures

RG 1	The total annual rent loss due to voids expressed as a percentage of the total amount of rent due in the year
CM 2	Cost of corporate and democratic core as a % of relevant expenditure
CM 5	Percentage savings between current cost of a fixed basket of goods & services vs. historic cost
EC 3	Gross cost of council procured transport per 1000 population
PP 1	Gross cost of trading standards services per 1,000 population
PP 2	Gross cost of environmental health services per 1,000 population

### Sickness absence

CM 3	The number of days lost through sickness absence expressed as a percentage of the total working days available
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