



Efficient Government Monitoring in Scottish Local Government

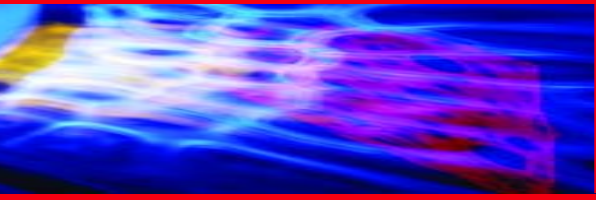
Briefing Note for Finance Committee
of the Scottish Parliament

Colin Mair, Chief Executive

Dr Mark McAteer, Senior Development Manager

Improvement Service





Background

1. Local Councils across Scotland are planned to make over £300million of efficiency gains across the period 2005/06 and 2007/08. £168million were top sliced off the local government settlement for this period and Councils are expected to find efficiency gains to make that good, and to make a further contribution of around £140million to efficient government targets.
2. 2005/06 is year 1 of the efficient government plan and the process of developing the monitoring framework for efficient government is still ongoing. There is a clear commitment at local and national level that 'efficiency improvement' should not be a cover for reductions in service and increased costs to service users. *In essence, efficiency gains would be the provision of the same level and quality of service on a reduced resource base or the provision of a higher level or quality of service on the same resource base.*
3. In May 2005 the IS was asked by COSLA and the Scottish Executive Efficient Government Delivery team to assess the potential of using Council's Budget planning and monitoring frameworks as a "light touch" basis for monitoring delivery of "Efficient Government" savings. Information from 29 councils was examined between May 10th and June 17th 2005. It was concluded that current budgetary information would not suffice for monitoring EG as it had been prepared prior to clarification of criteria through the Technical Notes and that few Councils had an explicit and developed EG programme for 2005/06. Although the timing of councils financial planning and the rolling out of EG guidance was an important factor, the study revealed a number of other factors that needed to be addressed if a consistent and reliable monitoring of EG was to be achieved. These were:
 - The separation of financial and performance monitoring and reporting in Councils which means that the impact of financial savings on the level and quality of output is hard to assess
 - The absence of nationally consistent and relevant measures of productivity and output. The major investment in SPLs does not provide adequate measures but resource investment in returning these means that resources have not been available to develop more useful measures
 - The practice in many Councils of achieving savings by setting % savings targets for services without a developed narrative of how they are to be accomplished, or their impact on service users and partners
 - The tendency in most Councils to quantify growth and cuts in expenditure separately so that the flow of resources, and the link between net loss in some areas and net growth in others, is hard to track . As EG is concerned with the shift of resources to customer service then the flow of resources needs to be established
 - The necessary focus of budgetary documentation on finance means that efficiency gains are captured only if expressed as financial savings (as opposed to time releasing gains that improve both service quality and resource utilisation)

These issues are not analytically complicated but they required an agreed and consistent approach between Councils. The report concluded that a more detailed study was necessary to provide a reliable assessment of the scale of cash and time releasing efficiencies 2005/06 and, on that basis, to set a consistent framework for future years
4. Subsequently the IS undertook to establish a reliable estimate for 2005/06 of the efficiency gains level achieved by the 32 Councils, and to undertake work to develop an agreed consistent monitoring framework for subsequent years. The work on estimation was commissioned from a team from IPF (CIPFA's consulting arm) and Bishops Consulting. The team was chosen to provide a blend of finance and audit skills and a steering group from the IS, Scottish Executive, COSLA, CIPFA and SOLACE oversaw this work.

The Study

5. The study, and therefore the estimate provided, was based on detailed and rigorous case studies of 6 Councils and a survey of the other 26 requiring the return of data in a standard format. The 6 case study were supplemented by completed questionnaire returns from the corporate centre of 17 further councils, and a further 43 returns received from 150 service-focused questionnaires issued to a sample of common service areas. The corporate returns provided the most important information for this review. The 65% response rate to the corporate survey – combined with the detailed work in the six case studies - provides a strong basis for extrapolating the key messages from the analysis to Scottish local government as a whole. Taken together, the case study and corporate questionnaire responses reflect feedback from more than 70% of Scottish councils. The case studies involved Councils making a return and then the detailed interrogation of that with corporate and service managers. The aim was to test the efficiencies identified and also to check where other efficiencies might exist but had not been identified.
6. Through this process of challenge and scrutiny, the total efficiency gains identified across the 6 Councils were £37 million. This total was made up of the gains initially identified by Councils, minus non-efficiencies included in the initial estimate, plus additional efficiency gains identified by the study team working with corporate and service managers. The uniform trend across the case study Councils was for the initial estimate by the Council to underestimate overall efficiency gains by 10%.
7. The survey of the other 26 Councils generated a response from 15 authorities. There was no consistent scale, urban, rural or political bias to responses and non-responses. Two of the Councils who responded did not complete the proforma as they could not assemble the data within the timescale. The total efficiencies identified by the responding Councils were valued at £46 million. This survey data was not challenged by the study team but (a) controlling for scale the level of efficiency gains identified is lower than in the case studies where challenge occurred and (b) the case study Councils initial self-assessments were below the actual level of efficiency gains being achieved. As such this total is likely to be an underestimation of the real levels of efficiencies being generated within the councils who participated in this study. Overall from the 21 participating councils a figure of some **£83 million** in efficiency gains has been identified.
8. The research team also undertook an extrapolation from their research findings for all 32 Scottish councils. In this extrapolation they used the insights gained from the case study and survey findings to establish a figure for the total efficiency gains generated for the year 2005/06. The research team were able to estimate an overall efficiency gain for **all 32 Scottish Councils of £122 million for the year 2005/06**. This estimate of £122 million was controlled in a variety of ways to prevent an overestimation of efficiencies:
 - First, all of the detailed case studies showed that Councils underestimated, rather than overestimated, efficiencies but this was not factored into the extrapolation that underpins the estimate.
 - Second, two of the Councils who responded to the survey made blank returns. As they returned the proforma, their efficiency achievement was counted as zero within the estimate.
 - Third, the extrapolation controlled for scale of spend by Councils.
9. The critical difference in this study and others (e.g. the work undertaken by Audit Scotland) is that we have focussed on efficiency gains in frontline as well as back office services, and we have not restricted our examination to the themes within the Efficient Government Plan. The Scottish Executive has repeatedly indicated that the plan themes were indicative not prescriptive. Furthermore, the proportion of Council spend that is back office is small in comparison to that deployed on customer services and therefore efficiency gains are likely, of necessity, to be sought in frontline service areas.

10. In seeking to develop an agreed monitoring framework the research project proceeded from the position that the monitoring framework would first and foremost be developed for and in partnership with councils. As such, it should aid management and decision-making within each council. Any national efficiency 'return' would be a 'light touch' abstraction of the key messages in the framework, rather than a detailed annual submission. With this in mind, there are two different kinds of efficiency gains that should be included in the monitoring framework:

- Those that produce the same level of service from less inputs or less resource
- Those that result in greater levels of service from the same levels of input or resource.

As a result, the monitoring framework should explicitly re-state that efficiency gains must be those that:

- a. Reduce inputs (money, people, assets, etc) and produce the same outputs
- b. Reduce prices (procurement, labour costs, etc) and produce the same outputs
- c. Deliver additional outputs or improved quality (extra service, productivity, etc) for the same inputs
- d. Improve ratios of cost/output (unit costs, etc).

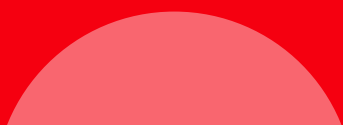
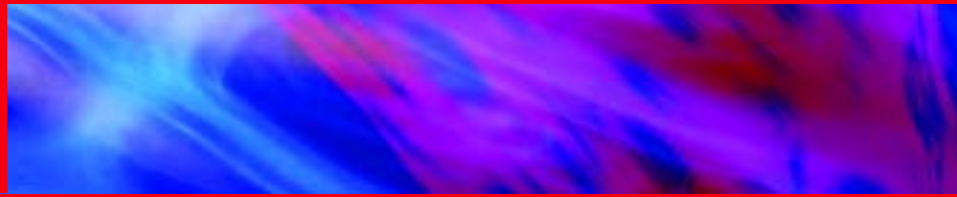
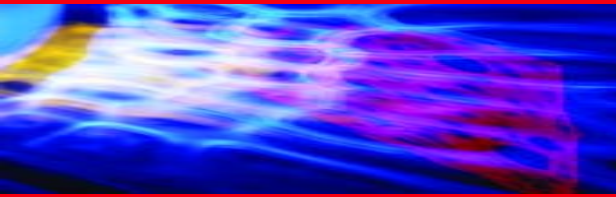
11. The research suggested that there should be three main requirements placed upon councils as part of any new efficiency monitoring framework. These were that council:

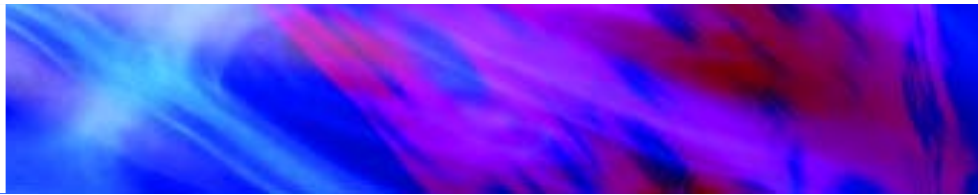
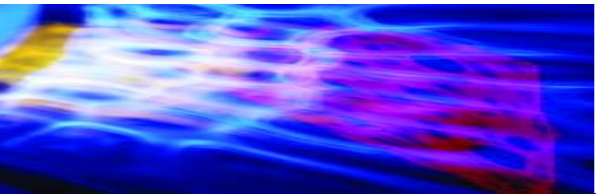
- a. Identify genuine efficiencies (rather than cuts), and allocate these between cash and non-cash categories;
- b. Adjust financial systems to allow the identification of planned cash efficiency gains, and either adjust departmental operational systems for recording non-cash items or design a standard recording template for departmental non-cash gains; and
- c. Ensure that quality cross-checking evidence is available and cross-referenced to individual efficiencies as part of the framework return completion process.

12. In applying such a framework councils should have the requisite freedom to determine how they wish to pursue genuine efficiencies, on either a corporate, service or crosscutting theme basis. The proposed monitoring framework would allow for this information to be presented and reported to local communities while still retaining a comparative dimension to encourage collaboration and learning between councils as the EG agenda develops further. Moreover, the framework will include past performance against a council's efficiency targets and forward actions to further pursue those targets. The initial proposed framework is attached to this report in appendix one.

13. Overall the research team were able to conclude that local government in Scotland is making good progress in finding genuine cash efficiency gains and are ahead of their expected position for the year 2005/ 06. The team further concluded that additional work remains to be done to advance their proposed monitoring framework and recommended a series of actions for the partners involved in the steering group. As a consequence a technical working group involving all the partners plus Audit Scotland has now been formed to further develop the detail of and implementation supports for the monitoring framework. The IS will co-ordinate this group on behalf of the partners.

14. All of the above relates to the measurement and monitoring of efficiencies. The IS is also working with local government and the Scottish Executive to practically improve efficiency. In the last year, we have undertaken work on procurement, absence management and recruitment costs, and we are currently doing work on public notices and infrastructure sharing. We will be happy to expand on any or all of these in evidence. The core point is that it is necessary to balance proving improvement with actually making improvement.





Westerton House, Westerton Road
East Mains Industrial Estate
Broxburn EH52 5AU

T. 01506 775558

F. 01506 775566

E. info@improvementservice.org.uk
www.improvementservice.org.uk

Improvement Service is devoted to improving the efficiency, quality and accountability of public services in Scotland through learning and sharing information and experiences.