

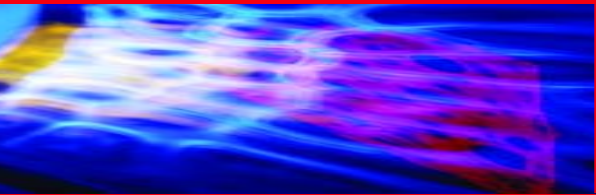


Efficient Government

Proposed Monitoring Framework

December 2005





Contents

1	Introduction	3
2	Background	3
2.1	The EG approach	3
2.2	The Best Value expectation	4
2.3	Building on LGIS' earlier work	5
3	'Next Steps' findings on approaches to monitoring efficiency	7
4	Moving forward - the future monitoring framework	10
4.1	Principles underpinning the proposed approach	10
4.2	Building blocks of the framework	11
4.3	The implementation 'road map'	12
4.4	Building capacity to deliver EG	13
4.5	What would be included in the efficiency framework?	13
4.6	Possible template for local efficiency statements	14



1. Introduction

In October 2005, the Local Government Improvement Service (LGIS) commissioned an independent review of Efficient Government (EG) in Scottish local government. This is the first in-depth review of EG across Scotland. It aims to identify:

1. How councils define 'efficiency'
2. What cash release and time release efficiency gains have actually been achieved as a proportion of overall efficiency gains and resource redeployments in 2005/06
3. What are the mean and median figures for cash release and time release gains within local government
4. What performance indicators are currently being used/ should be used to assess cash release and time release efficiency gains corporately and at service level
5. What should a suitable framework for monitoring EG in future comprise of, and
6. What methods do and should councils employ to report efficiency gains to both elected members and the public and how should this incorporate both national and local efficiency priorities.

Bishops Consulting and IPF were appointed in late October to undertake this review.

This report sets out our recommendations for an efficiency monitoring framework for local government in Scotland. The report acknowledges the 'work in progress' relating to the identification and roll-out of councils' approaches to EG. Crucially, it also recognises that councils are making progress in developing and implementing comprehensive performance management arrangements as part of their Best Value approaches. The recommendations aim to build on this performance management work, rather than set out a separate framework relating solely to EG.

Our findings in relation to the other elements of the brief are set out in a separate report (*Efficient Government Monitoring: The Next Steps*) submitted to LGIS in early December 2005. The key findings are set out in the following section as relevant background information.

2. Background

This chapter sets out key contextual considerations that have help shape our proposals.

2.1 The EG approach

In November 2004, the Scottish Executive issued the document 'Building a better Scotland: Efficient government — securing efficiency, effectiveness and productivity'. This sets out the approach to the efficiency programme being taken across the public sector in Scotland. The five-year programme covers 2004 to 2009 and aims to deliver efficiency gains in excess of the 2.5% target adopted in England.

The programme for cashable gains in local government is aimed at three main areas:

- Improvements in internal organisation and management;
- Better procurement; and
- Joining together to share and rationalise services.

Across the whole of government in Scotland further gains through time-releasing efficiencies are expected to be found. Particular emphasis is given to integrating service delivery, where appropriate, through collaboration and shared working, and in investing in technology and the workforce. In this context, there are five distinct work streams for EG in Scotland:

1. Procurement
2. Managing absence
3. Asset management
4. Shared support services
5. Streamlining bureaucracy.

The Efficient Government Plan contains a series of commitments by Scottish Ministers relating to efficiency gains, including:

- measures to deliver £745 million of annually recurring cash-releasing efficiency gains and £300 million of recurring time-releasing efficiency gains by 2007-08
- the publication of Technical Notes on each Programme Activity and to progress reported to Ministers and the Finance Committee of the Scottish Parliament on a regular basis
- establishment of an Efficient Government Delivery Group to take responsibility for the overall management of the Efficient Government programme. It is not responsible for the individual projects that will contribute towards the £745m target. The primary role of the Group is to support and monitor the delivery of the efficiency gains, supporting the specific Efficient Government Project Teams responsible for delivering the gains as and when appropriate.

The Scottish Executive also launched an Efficient Government Fund (EGF) to assist local government in pursuing efficiencies.

2.2 The Best Value expectation

The requirements on Scottish councils to deliver Best Value are set out in the Statutory guidance issued by the Scottish Ministers under s2(1)(a) of the Local Government in Scotland Act 2003 (and repeated in annex 1 of this report). The guidance sets out a number of characteristics associated with Best Value. These place heavy emphasis on continuous improvement, performance management, and the sound use of resources. The key characteristics of particular significance to the EG monitoring framework - in shaping its design and/or determining its content - include the need for:

Sound Governance at a Strategic, Financial and Operational Level

a framework for planning and budgeting that includes detailed and realistic plans linked to available resources, to achieve the authority's goals (including community planning commitments) at service delivery level;
effective performance management systems, which include the use of external comparison, through which performance issues can be identified, monitored and addressed;

Sound Management of Resources

making the best use of public resources, including employees, contractual agreements, ICT, land and property and financial resources - keeping a considered and appropriate balance between cost, quality and price;

Competitiveness, Trading and the Discharge of Authority Functions

it is conscious of being publicly funded in everything it does; it has regard to obligations under the state aid rules; and it is aware of the need to conduct its business in a manner which demonstrates appropriate competitive practice;
account is taken of the potential economic impact of the authority's activities (particularly new activities) on the local business community and others;

Joint Working

a culture which encourages joint working and service provision where this will contribute to better services and customer focused outcomes;

Accountability

the use of public performance reporting so that stakeholders are told what quality of service is being delivered and what they can expect in the future.

Many of the criticisms in the Accounts Commission's Audit of Best Value and Community Planning reports to date have centred around the extent to which robust performance management arrangements are in place to support the governance and management of the councils in question. In our view, any proposed monitoring arrangements for EG at a local level would ideally build on the evolving arrangements for performance management being put in place to address these criticisms.

2.3 Building on LGIS' earlier work

Finally in this section, it is important to take cognisance of the outcomes from LGIS research in EG in understanding the nature of our recommendations.

2.3.1 The initial analysis

Earlier in 2005, LGIS undertook an initial assessment of the potential of using councils' budget planning and monitoring frameworks as a "light touch" basis for monitoring the delivery of "Efficient Government" gains. Information from 29 councils was examined between May 10th and June 17th 2005 and an interim report submitted. The report 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;
- 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 is an important factor, the study revealed a number of other factors that will need to be addressed if a consistent and reliable monitoring of EG is to be achieved. These are:

- 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 Statutory Performance Indicators (SPIs) 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 percentage 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 will require 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 this year and, on that basis, to set a consistent framework for future years.

2.3.2 General messages from the 'Next Steps' study

Following on from LGIS interim report, the *'Efficient Government Monitoring: The Next Steps'* study aimed to develop a more detailed picture of progress in tackling EG. The research was based on six case study councils' approaches. This detail was supplemented by completed questionnaire returns from the corporate centre of 17 further councils, and a further 43 returns received from c.150 service-focused questionnaires issued to a sample of common service areas.

The corporate returns provided the most important information for this review. The c65% 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.

As part of its wide focus, the *'Next Steps'* study sought specific information on councils' current approaches to monitoring efficiency. These are set out in the next chapter.

At a higher level, the research highlighted a number of more generic considerations for the monitoring framework, including:

1. While most councils appear to have adopted the definitions of efficiency as set out in 'Building a Better Scotland', approaches to addressing the agenda vary across Scottish councils. The vast majority of these approaches build on arrangements already in place in councils as part of their planning and budgeting approaches. Not surprisingly, councils have typically developed their approach dependent upon their own local circumstances and capacity to deliver. Annex 2 to this report sets out the Executive's definitions, and highlights efficiencies that were typically either missed or misinterpreted in some of the case study councils participating in the research.
2. While cash efficiencies are relatively easy to measure, we believe that general performance management weaknesses make it difficult to make fully informed judgements about the impact of non-cash efficiencies on the overall efficiency total at this stage.
3. Some councils appear to be struggling to effectively measure the performance impact of efficiency gains. None of the participating councils appeared to consider that the SPI process is adequate for EG monitoring. The information gathered as part of the study indicates that many councils seem still to be struggling to define efficiency in terms of service improvement, focusing largely on the 'savings' element of more efficient working.
4. For many councils, we believe that EG remains 'work in progress'. Many of the councils participating in our case study work were keen to emphasise two particular points. First, that the five EG strands were at the edge of their approaches to identifying and delivering efficiency, with greater emphasis placed on service/process re-engineering or re-prioritisation of services. Second, there was a broad view that joint working opportunities associated with EG (either with neighbouring councils or community planning partners) demanded an emphasis on local collaboration, rather than greater centralisation.
5. There is little indication from the research that work in the five key EG strands forms the mainstay of council's approaches to EG. In saying that, procurement, asset management and absence management were seen by councils to be particularly important elements of their developing approaches. Procurement and absence management are the two areas where most councils are finding it easier to progress. However, some are still finding difficulty in measuring the time-release efficiency gains aspect of reducing absence levels.
6. A limited amount of funds were identifiable as being redirected for investment elsewhere in the organisation. Even where it is asserted that this does happen, it is difficult to point to a 'trail' that would allow such efficiencies to be clearly identified/quantified.
7. The case study work identified that many councils appear to be struggling with clearly articulating what efficiency means for their organisation. Specifically, problems arise through the quantification of time-release efficiency gains.
8. Councils typically appear to look for efficiencies by applying a top-slice across service budgets. This either takes the form of a uniform percentage cut or a pro-rata allocation (e.g. based on the services' proportion of the total pay-bill). We believe that systematic process improvement within front-line services appears to be given limited emphasis by many councils, with greater emphasis placed on dis-investing in one set of activities and reinvesting in others.
9. Most councils who participated in the work propose further action to integrate EG with their corporate and service planning processes. However EG tends to still be seen as purely a budgetary exercise. In councils where we identified EG as part of a continuous improvement programme, it does appear to manifest itself more obviously in the wider performance management arrangements in place.
10. Many councils appear to make no clear distinction is being made between the front and back office functions however evidence suggests that most efficiency activity does focus on back-office processes.

3. 'Next Steps' findings on approaches to monitoring efficiency

As set out in the previous chapter, the research was based on detailed analysis of the approaches in place in six council case studies, accompanied by questionnaire returns from the corporate centre (of a further 17 councils) and a range of different service areas. The research undertaken as part of the 'Next Steps' work aimed to gather information on:

- current performance management frameworks
- the use of statutory performance indicators
- the measures in place to monitor cash and time-release efficiency gains
- the integration of financial and non-financial reporting, and
- what arrangements are in place for monitoring and evaluation.

Current performance management frameworks

Our case study analysis highlights that only one council has modified their current performance management framework to measure efficiencies. In this case, efficiency is measured through productivity measures that are contained within the council's corporate improvement process. These focus on allowing judgements to be made about whether current levels of service are maintained or improved where efficiencies have been identified. They are predominantly input/output ratio measures. EG is heavily reliant on the establishment of robust local performance management approach – as required by Best Value – as a means of making informed judgements about efficiencies and re-investments. The research points to limited widespread evidence at this stage of councils' performance management approaches being refined to take cognisance of EG.

The use of statutory performance indicators

All councils are drawing on the SPIs to monitor efficiencies. However the SPIs are relatively weak as mechanisms for informing progress in any comprehensive way (although they do point to some efficiencies such as council tax collection). Only one council from our case study analysis consistently uses SPIs to ensure that efficiencies do not detrimentally affect service standards. Based on the responses, the SPIs:

- are not perceived to be relevant to the environment in which the councils now operate, and
- do not provide the basis, nationally or locally, for effectively measuring the performance impact of efficiency gains.

From our corporate survey responses, the use of the SPIs to measure efficiency has been employed where possible. However most councils in our survey have stated that a more relevant measurement framework should be adopted. Whilst acknowledging that SPIs were established prior to the EG agenda, feedback relating to their use includes:

- whilst they are used internally to monitor performance on a quarterly basis, few if any of them are constructed in a way that would assist in judging efficiency
- in some areas they have been useful for benchmarking purposes. They can highlight areas where costs are higher or productivity lower than others. These areas would then require further investigation to establish what scope exists for improving efficiency and performance. The Council has always used the statutory indicators for this purpose and indeed sets targets for many of the statutory PIs including reducing absence levels
- there is a need to link the measurement of absence to productivity, thus making the SPIs more meaningful in terms of efficiency. A small number of councils were keen to stress the particularly significant impact of absences in front-line services, and the lack of sophistication in the current blanket SPIs in acknowledging this.
- although SPIs are used by individual services to monitor performance and as a benchmark against other councils, they do not necessarily cover the areas in which efficiencies are being realised.

Services use of SPIs tends to accord with that of the corporate respondents. They are used where relevant, however the evidence suggests that a more robust efficiency measurement framework is needed for the future. Evidence gathered suggests:

- they are used as part of a wide package of performance measures to promote internal and external benchmarking and true performance and efficiency of service delivery.
- statutory and non statutory PIs are being used more and more to gauge performance on a monthly, quarterly, six-monthly and annual basis. On a monthly basis, several PIs are used circulated to the Executive Team (Chief Executive and Directors) to keep pressure on performance levels.

One case study council also expressed a concern that any new measures about efficiency may focus too much on process rather than outputs, at a time when the focus for councils is on developing an outcome based performance framework.

The measures in place to monitor cash and time-release gains

Table 1 illustrates the measures councils are using to measure efficiency, based upon our corporate returns.

Table 1: Measures of efficiency	
Progress against EG approach milestones	5
Achievement of EG approach targets (cost and time)	7
Statutory PIs (required by the Accounts Commission)	5
Service/process productivity measures (cost and time)	6
Improved project performance (cost and time)	3

Our survey has identified that just over half of councils have adapted their existing performance management/monitoring framework to identify and report efficiencies. This includes utilising a number of measurements including progress against EG milestones, achievement against cost and time targets, existing relevant SPI information and other service/productivity measures. Examples typically include:

- workforce planning and productivity
- procurement benefit tracking
- efficiency tracking through a council assessment model
- focussing on transaction costs (i.e. unit cost/outputs) to measure whether efficiencies are realised by moving to different methods of service delivery
- measures relating to cost and usage to determine whether services have improved within current resources.

It appears that councils find it much simpler to quantify cash release than time-release gains. The difficulty in quantifying time-release gains links to the concerns highlighted earlier about the lack of meaningful performance measures. There is a general concern around how time-release gains should be calculated. Indeed, it may be an area where more guidance is needed. As a result, the emphasis on most council's returns has been placed on cash release gains.

Many councils appear to expect the level of time-release gains to grow over time given the constraints of continually identifying cash gains.

The majority of respondents to our corporate survey do have measures in place to quantify cost efficiencies. Less progress is evidenced with time efficiencies, with less than half of respondents being able to measure the effect. Of those that measure cost efficiencies, the following examples reinforce our message:

- **cost** - Departments are required to deliver continuous service improvement with reduced levels of resources and systems are in place to monitor both service and financial performance on a regular basis. Where specific proposals to reconfigure services are presented to members the service and financial implications are set out
- **cost** - Previous costs vs. revised costs (e.g. energy savings/ computer costs etc)

Where identified, time efficiencies are quantified using the following methods:

- **time** - More efficient processing times allow time to be directed to other priority areas
- **time** - There are specific projects which use measurements of output to ensure efficiencies arise as a result of investment e.g. the Occupational therapy pilot which has formed basis of an Efficient Government Fund bid for Mobile working.

The integration of financial and non-financial reporting

The integration of financial and non-financial measures is mixed across the case study councils. Only two of the six councils have made progress in this area, with one other council putting the emphasis on services to produce their own measurement frameworks. Of the two that have made progress, CS6 are producing performance reports that utilise budgetary and performance measures to quantify outputs that relate to efficiency. In the other example, a key result of the best value review process in CS4, will be the identification of financial and non-financial targets that can be integrated to form a performance framework. Corporate survey respondents are evenly split on the integration of financial and non-financial measures. This tends to manifest itself where there has been efficiency targets set that are budget and performance based. Examples include:

- the publication of Annual Service reports, which cover both the financial performance of a Service, and also its actual achievements in Service delivery
- corporate performance management process linking budgets to service plans (where a database of non-financial performance indicators are linked to budgets).

Examples include:

- the Chief Executive meets on a quarterly basis with each Executive Director to consider a range of performance information, which includes both financial and non-financial data and looks back as well as forward
- our corporate performance management process linking budgets to service plans and through an action planning database performance indicators are linked to budgets
- the Council Annual Service reports, which cover both the financial performance of a Service, and also its actual achievements in Service delivery.

Arrangements in place for monitoring and evaluation

Progress is often monitored largely through the budget process or supplemented by monitoring through established working groups responsible for the overall coordination of EG.

There are a variety of mechanisms employed by councils evaluate efficiency outwith the routine budget monitoring process, these include:

- a Programme Monitoring Group consists of senior Council officers who are tasked, amongst other things, with overseeing the delivery of efficiency gains
- a central register of efficiencies and savings has been established which captures readily recognisable gains from improved procurement arrangements etc. A methodology for measuring and capturing other time releasing gains is to be developed. A summary of the benefits realised of any efficiencies is included in the council's central register
- efficiencies applied to the budget process and invested in capital through the prudential framework are monitored as part of the overall financial monitoring arrangements underpinning the financial management of the Council. In addition, specific benefit tracking processes are in place with regard to procurement efficiencies.
- absence levels are monitored throughout the council, with an overview taken by the Corporate Management Team
- Efficient Government is one of the Council's top 20 key corporate initiatives with key performance measures and expected outcomes, progress of which is monitored by the Corporate Management Team
- a collective challenge process exists which reduces Services budgets and monitors actual spend against the revised budget. This is accompanied by the monitoring of performance through PIs and Service reviews to ensure service delivery is not suffering.

These findings are consistent with our analysis on roles and responsibilities. Where councils have in place effective frameworks for driving the EG process, then these same councils typically have established and effective monitoring mechanisms in place.

4. Moving forward - the future monitoring framework

This chapter sets out our proposals for the development and implementation of an efficiency monitoring framework for Scottish local government. This aims to address the major issues highlighted in the case study/questionnaire returns, namely:

1. Limited evidence of councils' performance management approaches being refined to take cognisance of EG.
2. While SPIs they are used internally to monitor performance on a quarterly basis, few if any of them are constructed in a way that sees them assisting in judging efficiencies.
3. SPIs are not widely not seen as providing the basis, nationally or locally, for effectively measuring the performance impact of efficiency gains.
4. There a range of different measures being used in different ways within and across each Council to measure efficiencies
5. Councils find it much simpler to quantify cash release than time-release gains
6. Councils are roughly evenly split on the integration of financial and non-financial measures, though most of the judgements about efficiencies are made through the budget monitoring process rather than the performance management arrangements.

In addition, it is also important to remember that approaches to EG are not being shaped solely in response to the five EG strands. To that end, the framework needs to allow councils who are driving EG through the strands to record, monitor and report progress in that way; while acknowledging that other councils will wish to point to increased efficiency (through reduced overheads, staff costs and recharges; or process improvement) in terms of reduced service input or increased service output

Our proposals also assume that the monitoring framework is first and foremost for the council. 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.

4.1 Principles underpinning the proposed approach

We believe that there are a number of principles that should underpin any arrangements in place to monitor efficiencies in Scottish councils:

- The arrangements should be underpinned by clear and consistently applied definitions as to what constitutes an efficiency and what does not
- The efficiency monitoring arrangements must take cognisance of the Best Value performance management expectation and the need for continuous improvement. To that end, there is scope to integrate any council efficiency statement with the Improvement Statement required for Public Performance Reporting (under Best Value)
- The efficiency monitoring arrangements should complement (and potentially inform) the wider arrangements in place for internal and external scrutiny of services in each council – there should be no separate 'industry' created in EG monitoring
- Comprehensive monitoring of efficiency can and must add genuine value to governance and service management in every council
- Wherever possible, managers should adopt similar types of measures to judge the efficiency of their service/activities
- Efficiency should be judged through an integrated approach to financial and non-financial performance management and reporting
- The development of efficiency measures should not detract from the need to clearly articulate outcomes. Rather, the efficiency measures will be a means of judging value for money in delivering contributions to these outcomes.
- The information required at a national level should be the minimum needed to make judgements about progress and common opportunities across Scotland

4.2 Building blocks of the framework

In many instances, there has been a tendency to report efficiency gains in terms of a completed (or deleted) activity that delivers a stated level of efficiency. Many councils have not developed approaches that look to capture the impact of a cash or time efficiency (or saving for that matter) on service levels, quality or customer satisfaction. For the sake of a crude exemplification, we might hope to see a statement of the nature:

Efficiency	Input measure	Output measure	Quality measure
10% reduction in staff absence levels	Staff costs remain constant	Number of inspections increased by 5%	Customer satisfaction increased from 80-85%

This type of monitoring requires the development of a set of meaningful performance measures that point to the efficiency of each service. Consistency in the focus of these performance measures across councils and across services would appear to maximise transparency and opportunities for learning, while providing members and senior managers with a consistent basis for decision-making. This would form a consistent basis for refining the performance frameworks of councils and services across Scotland.

It might see measures developed for each service/activity in the following areas:

Category	Potential measure
Inputs	Service/activity budget Staffing levels Staff costs Other costs (materials, utilities, stationery, printing, etc)
Overheads	Management overhead Support service overhead Property and utilities overhead
Prices	Income from charges Materials/supplies costs
Service (or activity) levels	Volume of service Frequency of service Uptake of service
Service (or activity) quality	Levels of customer satisfaction
Productivity	Input/service (or activity) level ratios
Project completion	On budget On time Fit with project plan outcome

Efficiency would be judged by examining the trends over time, with an emphasis on 'more for the same', or 'the same for less'.

If a council wished to gather information relating to the five EG strands, then these generic efficiency measures could be supplemented by additional measures of progress against each of the strands. This could be done at corporate and/or service levels. Care would need to be taken to avoid double-counting of an efficiency gain for a service and that in each EG strand.

Note that these measures are not the statements of cash or time efficiency in themselves. Rather, they are more general performance measures from which these levels can be abstracted. As such, they fulfil an underpinning 'business management' role in any service. They would be supplemented by relevant outcome measures, tailored to the focus/priority of each service. They would present little additional burden to services with well-developed performance management approaches.

We would envisage that the measures would be monitored by each service manager as part of his/her management responsibilities. The headline messages would be abstracted and reported to senior managers and decision-makers through the existing performance reporting routes.

In many instances, these measures build on the principles behind the SPIs. However, there would be greater consistency between different service areas in terms of focus and coverage. We acknowledge, and propose, that further consideration needs to be given as to appropriate variation in these measures between different service classifications; and to the extent to which they can be linked to the outcome measures being developed in many councils to provide a comprehensive picture of performance/progress.

4.3 The implementation 'road map'

There is an inherent and logical link between monitoring efficiency and the Best Value performance management expectation. This is further emphasised by the indication from our research that many councils are aiming to hit efficiency targets through approaches to continuous improvement (such as process re-engineering).

As set out earlier, a number of the initial Accounts Commission Audit of Best Value and Community Planning reports have highlighted weaknesses in approaches to performance management. This manifests itself in a number of issues - ranging from a lack of capacity to identify and drive performance management arrangements, through to a lack of application of identified arrangements at a service level (either due to limited understanding of the expectation, or an asserted lack of resources).

Put simply, it would be unrealistic if not imprudent to assume that a robust approach to efficiency monitoring could be systematically applied under these circumstances. While we have aimed to set out a template for efficiency monitoring later in this chapter, we believe that there are a number of steps that must be progressed prior to (or in parallel with) its introduction. These include:

1. clarification of terminology and definitions relating to EG by the Scottish Executive, including:
 - a. The adoption of the term 'efficiency gain' as a means of describing efficiencies, helping to remove unnecessary ambiguity around 'efficiency savings' and 'actual savings'. This needs to happen prior to the issuing of any efficiency framework in April 2006.
 - b. A re-statement of the need to look for efficiency gains across front-line service activities, rather than mainly in 'backroom' functions. This distinction is artificial and inhibits further development of a 'service chain' culture. It also excludes significant areas of Council activity when deliberately misapplied. Again, this needs to happen prior to the issuing of any efficiency framework in April 2006.
2. Improvements in monitoring EG progress and impact, including
 - a. The establishment of a short term national working group (January - June 2006) to:
 - i. examine the extent to which current external scrutiny arrangements across the UK (including the Best Value Improvement Statement expectations, findings from the Audit of Best Value and Community Planning, SPIs, HMI Inspections, trading account structure/content, the Comprehensive Performance Assessment framework and the English council efficiency statements) might be either tailored or, in some instances, refined to support EG monitoring
 - ii. assess the extent to which the 'balanced scorecard' (or a tailored refinement thereof) might form a sound basis for integrating financial and non-financial performance monitoring and reporting across councils (thus aiding consistent and structured consideration of efficiency gains across services and across councils)
 - iii. assess the opportunity to integrate any council efficiency framework with the Improvement Statement required for Public Performance Reporting (under Best Value)
 - iv. make recommendations about the key elements of an EG monitoring framework as part of more comprehensive council performance management arrangements (including the refinement to/replacement of the SPIs)
 - b. The issuing of Scottish Executive 'guidance' to all Councils to set a stretching efficiency target at the outset of each financial year, providing a baseline for monitoring subsequent progress. The guidance would relate to the need to set a target; it would not specify the target. This needs to happen prior to the end of the current financial year.
3. Immediate Scottish Executive engagement with SOLACE and other professional associations regarding the establishment of service classifications (based on the need for service-specific variations as to the basis for judging efficiency) and the efficiency gain measures to be applied within each classification (in early 2006/07)

4. LGIS-led knowledge transfer around generating and quantifying efficiency gains, including:
 - a. LGIS running a small number of sessions around Scotland (between January and June) to:
 - i. Share the main messages from the research
 - ii. Highlight the areas that were typically missed and incorrectly defined. This includes a number of 'direct' efficiency gains (such as those where no increase in budget has taken place to address increased costs relating to inflation or utilities increases) and 'indirect' gains (where an efficiency gain is a result of a structural review or the implementation of another strategy/policy (such as energy efficiency or recycling/ composting))
 - iii. Share elements of good practice from the case studies and survey returns
 - b. LGIS offering a 'challenge service' to Councils (at an affordable fee and on an ongoing basis) to help shape approaches to EG and/or quantification of efficiency gains. This would draw on the methods applied in the case study councils to challenge their initial approaches and estimates.
 - c. The production of an EG toolkit by LGIS (in time for 2007/08) to help support the further development of approaches to EG across the country.

Taken together, these proposed responses help deal with each of the issues highlighted in the research.

4.4 Building capacity to deliver EG

This journey set out in 4.3 is dependent on there being sufficient capacity within (or available to) local government to progress the 'roadmap'. This would ideally be supported by further discussion between the LGIS, COSLA and the Scottish Executive as to how a national level resource can support the development of performance management capacity at a local level in support of EG and Best Value. This would ideally be through advice and face-to-face support, rather than further guidance.

Significantly more resource has been allocated to the progression of EG in England. The ODPM has the role of co-ordinating and leading the local government efficiency agenda amongst central government departments. It is responsible for implementing the system for measuring efficiency gains made by local authorities and also sponsors the RCEs. Regional Centres of Excellence (RCEs) are the lead change agents for local government in assisting Councils to find and make efficiency gains. As part of this process, the RCEs look to gather data that will identify where improved performance can be achieved and develop opportunities for shared working within their region. The RCEs are supported by, and will look to co-ordinate the activities of, a variety of change agents working both at national and regional levels. These include the LGA, IDeA and the Employers Organisation. Some type of similar local presence would appear to be helpful in Scotland.

4.5 What would be included in the efficiency framework?

Actually defining what is meant by "efficiency gain" is a crucial starting point. Clarity is required on the definitions for cash and non-cash efficiency gains (especially non-cash or time release).

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:

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

For clarity, it should also be re-stated that the types of activity that should be excluded are:

- Re-labelling of activity (e.g. reclassifying inspection as advice)
- Cuts that result in poorer services for the public
- Transferring costs from one area to another without a net reduction, or
- Increases in fees and charges to the public.

The framework should stress that efficiency gains must be correctly categorised into two areas:

1. those that deliver actual quantifiable cash efficiency gains; and
2. those that offer a notional non-cash (time release) efficiency gains to the council.

The definitions we think should be used for Scotland are described below.

Cash Efficiencies

Cash release efficiency gains are where an efficiency measure generates actual cash saving to the Council by delivering the same service with less money.

Non-Cash (Time Release) Efficiencies

Non-cash or time release efficiency gains are efficiencies where the quantification in monetary terms is purely notional. Where Council services deliver additional or higher quality services with the same money then they should be counted as non-cash gains. Some examples could include; absence management improvements, reorganisation of the existing workforce, productivity improvements involving the existing workforce, time saving from the improved use of IT, better administration arrangements and process management improvements.

4.6 Possible template for local efficiency statements

The project remit asked us to consider the nature of a local efficiency statement for Scottish councils. As stated earlier, we envisage that this statement would be a 'light touch' abstraction of the key messages about efficiency identified through each councils' own performance management arrangements.

Such efficiency statements are already being produced in England. The requirement there is for each council to make a 2.5% efficiency gains per annum. Progress is monitored through a formal return basis using backward and forward looking efficiency returns. An example of these statements is included as annex 3.

The *backward looking* statement collects actual information for the last completed financial year. It assumes that councils will have evidence on file to substantiate the efficiencies. Moreover, councils are expected to detail on the statement various quality crosscheck notes showing that services have not been affected by the efficiencies made.

The *forward looking* statement asks for planned efficiencies for the budget year but only asks for key actions that will drive these gains. There is no requirement to quality crosscheck at that stage (since this will be done when the backward looking return is required for that year).

The backward looking statement is a rather cumbersome looking document that is not particularly easy to read or complete. The forward-looking statement is a lot more straightforward and a lot easier to compile information for.

While the detail contained in the English returns is sound, we think there is a case for simplifying the process in any aspirational framework designed for Scotland. Councils face monitoring and regulation from many quarters, so in the spirit of efficiency, it would make sense to make the completion burden as painless as possible.

It is felt that a single return - for actual efficiencies achieved and those forecast - would be appropriate. Councils would also have the facility to allocate efficiencies based on how they are reviewed and monitored within their own organisation. A suggested template, with accompanying completion notes as attached as Annex 4.

There would be three main requirements on councils as part of any new efficiency monitoring framework.

1. Identify genuine efficiencies (rather than cuts), and allocate these between cash and non-cash categories;
2. 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
3. Ensure that quality cross-checking evidence is available and cross-referenced to individual efficiencies as part of the framework return completion process.

All service managers (at budget holder levels) would need to be briefed on the distinction between cash and time-release gains in order that all savings are being offered as efficiencies rather than just cash gains. While the identification of cash gains is well understood, there will be many instances in councils where innovative resource deployment and improvements have led to notional cash gains that are not being recorded.

In the aspirational template, there are three main headings for the recording of efficiencies: corporate, service and crosscutting themes. If a council wishes to adopt a thematic approach to efficiency then they can include these under just the one heading (Crosscutting themes e.g. Procurement) rather than having to split them between corporate or service. The return is designed to allow individual approaches to be accommodated. However, they will still have to show the key actions required to achieve the efficiencies and the quality crosschecks they have in place.

A further difference between the proposed model and that in place in England would be the inclusion of a quality crosscheck requirement for the forward looking statement in general terms with a detailed evidence check as part of the actual return.

Significant handholding will be required in the initial stages of the framework roll-out in Scotland. This means making sure that all councils are correctly defining efficiency and have a good handle on collecting all efficiencies in the council, not just those that are obvious. This cannot be isolated from the more general work needed in many Scottish councils to further enhance or embed approaches to performance management.

Annex 1: The Best Value expectation on Scottish councils

An organisation that secures Best Value will be able to demonstrate:

Commitment and Leadership

a commitment to delivering better public services year on year through Best Value, and acceptance of the key principles of accountability, ownership, continuous improvement and transparency;

elected members and senior managers have developed a vision of how Best Value will contribute to the corporate goals of the authority which informs the direction of services and is communicated effectively to staff;

a commitment to high standards of probity & propriety, to honour the trust given by the electorate;

Responsiveness and Consultation

responsiveness to the needs of its communities, citizens, customers, employees and other stakeholders, so that plans, priorities and actions are informed by an understanding of those needs;

an ongoing dialogue with other public sector partners and the local business, voluntary and community sectors;

consultation arrangements which are open, fair and inclusive;

Sound Governance at a Strategic, Financial and Operational Level

a framework for planning and budgeting that includes detailed and realistic plans linked to available resources, to achieve the authority's goals (including community planning commitments) at service delivery level;

effective performance management systems, which include the use of external comparison, through which performance issues can be identified, monitored and addressed;

Sound Management of Resources

making the best use of public resources, including employees, contractual agreements, ICT, land and property and financial resources - keeping a considered and appropriate balance between cost, quality and price;

Use of Review and Options Appraisal

an approach to review that is rigorous and robust with no areas of work protected from consideration for review; review activity achieves quantifiable benefits for key stakeholders accepting that change may be necessary;

services are expected to remain competitive and to provide consistently good service quality;

in considering opportunities for improvement a fair and open approach will be taken in evaluating alternative forms of service delivery from whatever the sector;

Competitiveness, Trading and the Discharge of Authority Functions

it is conscious of being publicly funded in everything it does; it has regard to obligations under the state aid rules; and it is aware of the need to conduct its business in a manner which demonstrates appropriate competitive practice;

account is taken of the potential economic impact of the authority's activities (particularly new activities) on the local business community and others;

the power to advance well being is not used to raise money, beyond imposing reasonable charges for the work undertaken;

where the authority's activities count as entering into an agreement to supply goods and services, the Local Authorities (Goods and Services) Act 1970 is observed;

the requirement to keep trading accounts under proper accounting practice is observed where appropriate to the authority's activities, in order to provide a transparent audit trail;

Sustainable Development

contribution to the achievement of sustainable development - consideration of the social, economic and environmental impacts of activities and decisions both in the shorter and the longer term;

Equal Opportunities Arrangements

a culture which encourages both equal opportunities and the observance of the equal opportunities requirements;

measures are in place to meet the UK-wide equal opportunities requirements e.g.

Equal Pay Act 1970

Sex Discrimination Act 1975

Race Relations Act 1976 as amended by the Race Relations (Amendment) Act 2000

Disability Discrimination Act 1995

and all relevant subordinate legislation made under these Acts;

adoption of the meaning of "equal opportunities" as is set out in Schedule 5 to the Scotland Act 1998, namely, "the prevention, elimination or regulation of discrimination between persons on the grounds of sex or marital status, on racial grounds or on grounds of disability, age, sexual orientation, language or social origin or of other personal attributes, including beliefs or opinions, such as religious beliefs or political beliefs";

Joint Working

a culture which encourages joint working and service provision where this will contribute to better services and customer focused outcomes;

Accountability

the use of public performance reporting so that stakeholders are told what quality of service is being delivered and what they can expect in the future.

Annex 2: Definitions of efficiency

Our study draws heavily on the Scottish Executive definitions of efficiency contained within the Technical Notes and within 'Building a Better Scotland'.

Defining "Efficiency" and Efficiency Gains

Experience of working with councils on other projects has highlighted the fact that some are already experiencing difficulty in defining what is, and is not, an efficiency gain. In undertaking the review, we looked for evidence that efficiencies are achieved through reforms that:

- Maintain the same level of service provision while reducing the resources needed or deploying fewer staff
- Result in additional outputs, such as enhanced quality or quantity of service, for the same resources; and/or
- Remodel service provision to enable better outcomes.

Efficiency gains must therefore be those that:

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

However, certain types of activity are not acceptable as efficiency gains including:

- Re-labelling of activity (e.g. reclassifying inspection as advice);
- Cuts that result in poorer services for the public;
- Transferring costs from one area to another without a net reduction; or
- Increases in fees and charges to the public.

Our work was structured in such a way as to ensure that, as far as possible, only bona fide efficiency gains (based on the definitions above) are included.

Cash Release and Time Release Gains

Our case study work reviewed existing reporting systems (with attendant performance indicator information) to identify cash and time-release gains. Again, our definitions were important to ensure that only actual gains are counted.

Cash release gains are where an efficiency measure generates an actual resource saving because the organisation or function delivers the same service with less money.

Time-release gains are defined as efficiencies that do not release cash but allows frontline services to deliver **more or better services with the same money** (for example, through workforce reform or better support).

Four important issues were taken into account:

- Inflation
- Quality Cross-checking
- Capital Spends
- Time Lags between Costs and Benefits.

Inflation: Costs that are constant in nominal terms is an efficiency gain, because in real terms their price has fallen by the rate of inflation. The default rate of inflation to be taken into account is the GDP deflator. Current HM Treasury estimates are as follows:

- 2005/6 2.52%;
- 2006/7 2.68%;
- 2007/8 2.70%.

Hence, if output in a given service area in 2005/6 is maintained at unit costs equal to those for 2004/5, this represents a 2.52% efficiency.

Quality Cross-checking: When claiming efficiencies of reduced inputs or lower prices for the same outputs, a major challenge is to demonstrate that quality has been maintained. Councils should adopt a suitable set of quality cross-checks to demonstrate that this is the case. We looked for evidence with the case study authorities that this is the case. Evidence and the audit trail provided by councils therefore should cover both the efficiency gains made and the quality cross-check data.

Capital spend: Efficiencies from capital spend require careful consideration, since one-off projects do not enable year-on-year comparisons of costs and outputs. Nonetheless, capital spend can be undertaken at varying levels of efficiency (e.g. higher or lower levels of procurement costs), differing degrees of delay and varying impact on efficiency of operating processes. Two key ways to achieve efficiencies in capital expenditure processes are:

- Avoid cost-overruns; and
- More outputs for same resource.

Time-lags between costs and benefits: There may be a time-lag between undertaking a project, with its up-front costs, and achieving the desired efficiency gains. In these circumstances, costs should be apportioned on a straight-line basis in line with standard accounting practice on depreciation. Efficiency gains are then reported as the difference between annualized cost and annual improvement for the chosen period.

Incorrectly defined efficiencies from the case study research

Price Increases: On close examination of the budget books for all the case studies authorities, it was clear that they were all including price increases as part of their efficiency drives. While this provides additional income from which to fund a particular service it offers no genuine efficiency by the Council. These were instantly disallowed from the efficiency totals both individually and collectively.

Delayed capital Investment: Many of the case study councils were including slippage on capital and revenue projects as part of the efficiency process. This was particularly noticeable with case study Council 1 (CS1). Such slippage is part and parcel of any organisation and there is always a tendency to include such delayed costs as efficiencies when difficult decisions have to be made in areas such as staffing. Such a tendency to include these costs is perfectly understandable given that the figures involved are usually fairly substantial and they are easy “quick wins” in finding overall efficiency totals. However, such costs have only been delayed and will be incurred at some future point. They have been disallowed for the purposes of this report. It is worth saying that we enquired about the status of projects that were delayed and eventually do not progress. What would happen to the resource? Would it be reallocated or would it be counted as a future efficiency saving? In all cases it was confirmed that the resource would be reallocated to another budget heading.

Efficiencies not included in some of the case studies

Improved Council Tax collection: CS1 had the stated aim of increasing the amount they collect each year. However, they were not including this as efficiency in their calculations. Our team were able to calculate the efficiencies involved and include the figures in the overall totals.

Inflation: In our team's experience, inflation is an area where councils are missing substantial efficiencies. Many of the case study organisations have no general uplift for inflation and they are forcing their service departments to absorb inflation within existing departmental budgets. This is a bona fide efficiency and is an example of where large-scale efficiencies could be missed by many councils in Scotland. A related example of where substantial efficiencies are being made is the absorption of energy costs. Gas and electricity prices have risen substantially in the past year and we have seen (particularly in CS1) that these substantial energy costs are being absorbed by Council departments leading to efficiencies that are being made that while not obvious are being missed from classification.

Absence efficiencies: There is scope for further work in defining and identifying non-cash efficiencies. One example that should be relatively easy to quantify is the inclusion of improvements in absence rates and the quantification of these using the wage bill as a base for the calculation of the efficiencies involved. Our team were able to point out to the case study councils how to do this by using the total wage bill from the Council budget book and by calculating the % improvement in absence rates between 2004/05 and 2005/06.

Rates increase absorption: A number of educational establishments in CS1 were reclassified for rating purposes and the education department found it having to absorb the increase in costs from existing budgets. Again, this is an efficiency that was not picked up originally by the Council but was established following our team's scrutiny of the budget book.

Capital Project efficiencies: Due to a lack of time and information (largely outwith the control of our project team due to the tight LGIS project schedule), our team were not able to properly examine capital projects and whether efficiencies are being made. All the case study councils did not readily have to hand reports that could show us if capital investment is having a subsequent impact on the reduction of revenue costs. We consider that this is an area where large-scale efficiencies are being missed and are not included in the figures here. For example, the construction of new buildings, the refurbishment of existing buildings, or the replacement of obsolete equipment will reduce existing running costs. It is important to have mechanisms to record such gains as efficiencies.

PPP Projects: No attempt has been made to quantify whether gains are being generated from the many PPP projects that are ongoing in the case study councils. No information was made available to us in the time frame available to review this area. Again, efficiency gains may be missed from councils' calculations by not properly analysing the costs they incurred under the previous delivery method compared to the lease payment they currently make under the PPP contract.

Efficiencies being used to Fund Growth: Many councils do not appear to be including efficiencies that are being made to fund growth in some services. There is a clear need for all councils' to ensure that all efficiencies are being recorded irrespective of the how they are being derived.

It is our team's view that councils' throughout Scotland are probably underestimating the efficiencies they are making. This may be as a result of existing exercises being based around a gains agenda rather than efficiency. It is important though that they ensure that they have the mechanisms in place to correctly identify less obvious efficiencies such as absorption of inflation within existing budgets and revenue cost gains from capital projects.

Annex 3: Example backward looking and forward looking statements from an English authority

Backward looking

	Quality Cross Check Met?	2004/05 annual efficiency gains (£)	...of which related to capital spend (£)	...of which related to other spend (£)	...of which cashable (£)
Adult social services	Yes	243,000			0
	<p>Activities undertaken to achieve efficiency gain: Reduction in days lost to sickness.</p> <p>Quality cross-check notes: Reduction in days lost to sickness; 19.35 days in 03/04 and 18.45 days in 04/05.</p>				
Children's services	Yes	0			0
	<p>Activities undertaken to achieve efficiency gain:</p> <p>Quality cross-check notes:</p>				
Culture and sport	Yes	829,000			197,000
	<p>Activities undertaken to achieve efficiency gain: Efficiencies within Libraries; total £359k (of which, £182k cashable). Reduction in days lost to sickness, £190k, none of which is cashable. Culture and sport procurement efficiencies; total £280k (of which, £15k cashable).</p> <p>Quality cross-check notes: Uptake of service relates to the number of books and recordings per head of population. Reduction in days lost to sickness; 13.5 days in 03/04 and 12.8 days in 04/05. The QCC for procurement efficiencies is fact that a procurement strategy is in place.</p>				
Environmental services	Yes	509,000			261,000
	<p>Activities undertaken to achieve efficiency gain: Diversion from landfill £46k. Environmental Services procurement efficiencies; total £147k, none of which is cashable. Reduction in days lost to sickness, £101k, none of which is cashable. Improved efficiency of electricity generation at closed landfill site (£215k) - resulting from investment in new generating equipment.</p> <p>Quality cross-check notes: The QCC for procurement efficiencies is fact that a procurement strategy is in place. Reduction in days lost to sickness; 17.5 days in 03/04 and 17.2 days in 04/05.</p>				
Local transport	Yes	932,000	0	932,000	903,000
	<p>Activities undertaken to achieve efficiency gain: PTA efficiencies £430k, of which £401k are cashable Car Parking - increased demand (net of price increases); £502k, all revenue and all cashable</p> <p>Quality cross-check notes: In respect of the QCC, the following commentary was provided by West Yorkshire PTA/E. 'In common with the other PTA/Es we have been unable to justify using the suggested transport quality cross checks. We have only an indirect influence on bus patronage and even less influence on percentage of buses arriving on time. The two referring to roads are clearly not relevant and the APR score does not appear to be particularly relevant to the types of efficiencies we have demonstrated given that it mainly refers to success in achieving capital spending. We will continue to work with the other PTA/Es and DfT to come up with more appropriate quality cross checks'.</p>				
LA social housing	Yes	6,293,000	1,769,000	4,524,000	3,894,000
	<p>Activities undertaken to achieve efficiency gain: Reduction in days lost to sickness, £216k, none of which is cashable. More efficient management of void property leading to an improvement in income collection rates, £383k (all of which is revenue and cashable). Management of disrepair claims £916k (of which all is capital and cashable). Reduction in transaction costs associated with income collection, £811k (all of which is revenue and cashable). Procurement efficiencies (including significant reductions in the cost of the replacement programme for doors and windows) £1,784 (of which £1,769 relates to capital, £15k other spend and all of which is cashable). Procurement efficiencies, including planned maintenance programme £2,183.</p> <p>Quality cross-check notes: Reduction in days lost to sickness; 15.1 days in 03/04 and 12.6 days in 04/05.</p>				

Forward Looking

Service Area	Efficiencies		
	Cashable £	Non-Cashable £	Total £
Adult social services	1,834,759	1,834,759	3,669,518
	Key actions to be taken during the year Improvements in productive time resulting from absence management Review of staff travel Re-alignment of staffing establishments to improve skill mix Implementation of the Best Value Review of adult residential care		
Children's services	455,822	455,822	911,644
	Key actions to be taken during the year Improvements in productive time resulting from absence management Review of staff travel Re-alignment of staffing establishments to improve skill mix Transfer of agency placements to alternative provision		
Culture and sport	161,375	161,375	322,750
	Key actions to be taken during the year Rationalisation of library book selection procedures Review of cover for sickness in libraries		
Environmental services	265,825	265,825	531,650
	Key actions to be taken during the year Procurement gains in connection with waste management		
Local transport	795,463	795,463	1,590,925
	Key actions to be taken during the year Maintenance of the competitiveness of the in-house trading organisation Implementation of the outcomes of the Best Value and service redesign reviews		
Non-school educational	243,625	243,625	487,250
	Key actions to be taken during the year Reduction in the reliance on the use of Council premises Improvements in productive time resulting from absence management		
Supporting people	235,694	235,694	471,388
	Key actions to be taken during the year Review provision and effect change across all providers of supporting people services		
Corporate services	849,013	849,013	1,698,025
	Key actions to be taken during the year Review of contract administration Implementation of service redesign projects/introduction of new technology solutions		
Procurement	Efficiency gains included in the service sectors		
	Key actions to be taken during the year Roll out of the e-procurement programme across the authority.		
Productive time	Efficiency gains included in the service sectors		
	Key actions to be taken during the year Reduction in employee sickness.		
Transactions	Efficiency gains included in the service sectors		
	Key actions to be taken during the year Maximisation of the benefits arising from the e-recruitment project.		
TOTALS	4,841,576	4,841,576	9,683,152

Completion Notes

Overall Completion Guidance

The form should be used for either the statement of actual efficiencies made in the financial year just ended and for the efficiencies that will be implemented in the Council's current budget.

The form has been designed to allow the categorisation of efficiencies in three main areas: corporate, service area and cross cutting themes. The form should be completed using the easiest form of categorisation for individual Councils. It is important that efficiencies are properly defined and included based on the guidance below

Efficiencies must be correctly categorised into two areas. Those that deliver actual quantifiable cash gains and those that offers notional cash saving to the Council.

Cash Efficiencies

Cash release gains are where an efficiency measure generates a saving that is an actual cash saving to the Council by delivering the same service with less money.

Councils should pay particular regard to the following when identifying legitimate cash efficiencies.

(a) Inflation: Where costs are held at existing levels without a corresponding uplift for inflation then this represents an efficiency because in real terms their price has fallen by the rate of inflation. Examples could include the recent large hikes in gas and electricity costs that have been absorbed by many Council departments and where no general inflation uplift (non-wage) is provided in Council budgets. The default rate of inflation to be taken into account is the GDP deflator. Current HM Treasury estimates are as follows:

- 2005/6 2.52%;
- 2006/7 2.68%;
- 2007/8 2.70%.

Hence, if output in a given service area in 2005/6 is maintained at unit costs equal to those for 2004/5, this represents a 2.52% efficiency.

(b) Capital Projects: Efficiencies from capital spend require careful consideration, since one-off projects do not enable year-on-year comparisons of costs and outputs. Nonetheless, capital spend can be undertaken at varying levels of efficiency (e.g. higher or lower levels of procurement costs), differing degrees of delay and varying impact on efficiency of operating processes. Two key ways to achieve efficiencies in capital expenditure processes are:

- Avoid cost-overruns; and
- More outputs for same resource.

Time lags between costs and benefits: There may be a time lag between undertaking a project, with its up-front costs, and achieving the desired efficiency gains. In these circumstances, costs should be apportioned on a straight-line basis in line with standard accounting practice on depreciation. Efficiency gains are then reported as the difference between annualised cost and annual improvement for the chosen period.

Councils should look to include revenue cost gains as bona fide efficiencies from the implementation of capital spends providing service levels are maintained. Specific spend to save projects should be examined to establish if perceived revenue benefits have been realised. If so, these should be quantified and included in the efficiency return.

(c) Delayed Investments or Project Slippage: Some Councils are including delayed projects as efficiency gains. These projects should NOT be counted as efficiencies because the expenditure is simply delayed rather than saved.

(d) Price Increases: Increases in prices should also NOT be included.

Non-Cash (Time Release) Efficiencies

Non-cash or time release gains are efficiencies where the quantification in monetary terms is purely notional. Where Council services deliver additional or higher quality services with the same money then they should be counted as non-cash gains. Some examples could include; absence management improvements, reorganisation of the existing workforce, productivity improvements involving the existing workforce, time saving from the improved use of IT, better administration arrangements and process management improvements.

This is expanded further below.

- a) **Absence Management:** Improvements in absence management performance should be quantified and included in the efficiency return. For example, a 0.25% improvement in performance should be quantified against the wage bill and the notional saving included in the non-cash column.
- b) **Workforce Reorganisation:** The Council might decide that it could better deploy existing resources. While no cash gains may be evident from a different deployment of staff resources, there may be examples of better processing times or improved levels of service from the revised arrangements. Councils should ensure that they introduce systems to record such improvements.
- c) **Workforce Reform:** In a large organisation, custom and practice will have built up over many years. Changing existing arrangements takes time and invariably involves considerable change management. Where a Council can show that it has changed existing working practices or introduced for example single status and it can show that there is a notional saving through such changes, then quantified details should be shown on the return.
- d) **Improved Productivity:** Councils will have a range of departmental operational indicators in place that will measure financial as well as non-financial performance. The non-financial indicators may indicate examples of increased departmental productivity. The notional element of any productivity gains should be quantified and included in the return.
- e) **Process or system improvements:** Best Value review reviews are increasingly using process mapping techniques to scope out existing procedures and processes and then critically challenging them to establish where improvements can be made. These reviews coupled with improvements in technology can have a major impact in the way services are delivered. Councils have already demonstrated that real cash gains can be made from Best value Reviews. However, there will be many non-cash benefits too that can be quantified. These should be included in the return.

Disinvestment from/investment to

In many instances, the Council will make a decision to re-invest either cash or time efficiencies elsewhere in the organisation – perhaps because a project or activity has come to an end, because of a new policy priority, or because of over-capacity in a particular service area resulting from a process improvement. This may involve a resource transfer to another part of the same service, or to another service area. This part of the template prompts councils to set out where the resource is being transferred ‘from’ and ‘to’.

Changing input/output ratios (eg more for the same/same for less)

In some instances, councils have misinterpreted efficiency as being focused on service or activity cuts. The intention is to look at where Councils can deliver the same activity/service for less, or where they can deliver more for the same. This part of the template simply prompts councils to indicate how the efficiency will manifest itself in these terms. The quality cross-checking (see below) would then ask what measures the council has in place to ensure that service levels are being maintained.

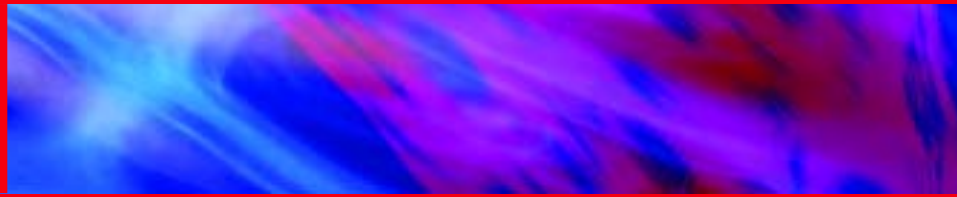
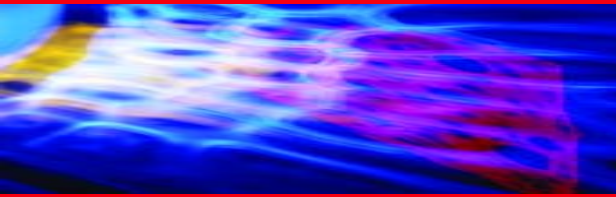
Quality Cross-checking

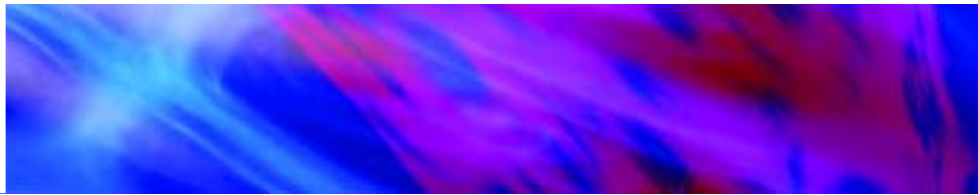
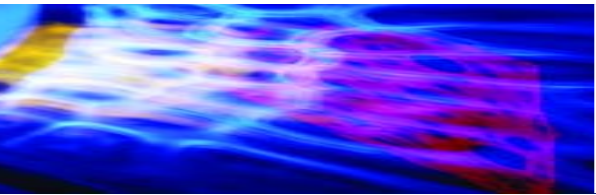
Cuts can be defined as gains with a combined reduction in service. Genuine efficiencies are about maintaining or improving on existing service levels at the same or lower cost. In order that this can be done, Councils must demonstrate that they have arrangements in place to ensure that service levels are being maintained. Provision is made in the return to show what these arrangements are. For example, this could include an analysis of detailed operational performance indicators or statutory PIs where relevant. For the actual return, detailed arrangements should be disclosed including the actual indicators used. A general narrative on quality crosscheck arrangements is sufficient for the forecasted return.

Notes

Notes







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.