

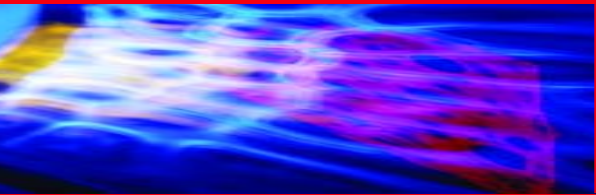


# Efficient Government Monitoring

The Next Steps

December 2005





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## Executive summary

Progress has been made in defining and understanding the EG expectation in Scotland and turning it into both cash and non-cash efficiencies (although there is greater evidence of progress in the former than in the latter).

Councils appear to be using the definitions of efficiency as set out in 'Building a Better Scotland'. The figures set out in this report are based on councils' understanding of these definitions.

Looking across the figures we can assume that the **level of efficiencies in the 21 participating councils is £83 m for 2005/06, extrapolated to £122m for Scottish local government as whole.**

Our analysis involved working closely with six case study councils supplemented by survey returns from across all Scottish local authorities. The incorporation of a challenge element in our case study work has sought to ensure that only valid efficiencies are included in the analysis.

Approaches to addressing the agenda vary across Scottish councils, the vast majority building on arrangements already in place in councils as part of their planning and budgeting approaches. Not surprisingly, councils appear to have developed their approach dependent upon their own local circumstances and capacity to deliver.

For many councils, EG appears to be 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.

In tackling the EG agenda, a number of councils emphasised the range of competing financial interests they have to contend with as well as EG. These have led to savings and cuts, rather than efficiencies. These include

- equal pay
- single status
- increased utilities charges
- inflation rates
- service specific legislative developments.

In this context, our case study work suggests that many councils are looking for efficiencies to close funding gaps, and not simply to re-invest in front line services. These funding gaps are often associated with the re-allocation of budgets to address new policy/legislative expectations.

Our case study work identified that many councils appear to be grappling with clearly articulating what efficiency means for their organisation, in part because the Executive's definitions of what it meant by efficiency arrived after the beginning of the financial year and the production by councils of their budget statements. Specifically, problems arise through the quantification of time-release gains. The time-release numbers presented in this exercise must therefore be treated with caution. We consider that they have been significantly underestimated, and recommend further work in this area to quantify the level of time-release efficiencies.

The analysis indicates that many councils tend 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. linked to each service's total pay-bill. Systematic process improvement within front-line services appears to be given limited emphasis by most councils, with greater emphasis placed on dis-investing in one set of activities and reinvesting in others.

Many councils seem to be embracing the *principle* of collaborative working with other local authorities. Our study found fewer examples of joint working in practice, mainly through submissions to the EG fund. However many of these projects have yet to be progressed. It is therefore too early to quantify the benefits - either financial or otherwise. There is less evidence of joint working with other community planning partners, although many respondents were committed to the idea in principle.

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. One council emphasised the need to focus on supply chain management rather than the front and back-office distinction.

We believe that many councils are finding it difficult to effectively measure the performance impact of efficiency gains. None of the participating councils believe that the SPI process is adequate for EG monitoring. The information gathered as part of this study indicates that many councils are still struggling to define efficiency in terms of service improvement, focusing largely on the 'savings' element of more efficient working. While cash efficiencies are relatively easy to measure, this study provides no basis for informed judgements about the impact of non-cash efficiencies on the overall efficiency total. A further report proposing arrangements for monitoring progress on EG in the future sits alongside this report.

## 1. Introduction

In October 2005, the Local Government Improvement Service (LGIS) commissioned an independent review of Efficient Government (EG) in Scottish local government. The LGIS worked in partnership with the Scottish Executive, COSLA, SOLACE and the Chartered Institute of Public Finance Accountants who formed a steering group to advise on and oversee the Efficient Government Monitoring research project. 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 efficiency 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 findings in relation to Council's current and proposed activities. Our recommendations for a future efficiency monitoring framework are set out in a separate report.

The report focuses on a detailed analysis of six case study councils supplemented by a survey sent to all 32 local authorities across Scotland. The timescale set by LGIS for the project was extremely tight, influencing some councils' ability to respond to the fully to such a detailed study within the identified deadlines. Nevertheless, the majority of councils have participated in the exercise, giving credence to the findings and estimates described in the report.

Our findings are based upon a quantitative and qualitative analysis of the information received. The qualitative section focuses on councils' approach to EG, including:

1. The councils' definitions and approaches to EG
2. Roles and responsibilities within councils with regards to EG
3. Council priorities in tackling EG
4. How efficiencies are measured in each council.

The main thrust of our quantitative analysis is to identify current efficiency gains, present a notional efficiency saving across local government for 2005/06, and set out a projection for 2006/07. Based on the case studies and questionnaire returns we also highlight the areas of activity where efficiency gains are identified and what quality 'cross-checks' councils have in place to monitor the results.

## 2. Background

This chapter sets out the main context for the review.

### 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 efficiency 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 report recognises that efficiencies on the scale proposed require a transformation of administration in the public sector. 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 savings as and when appropriate.

The Scottish Executive also launched an Efficient Government Fund (EGF) to assist local government in pursuing efficiencies. This study was carried out against the backdrop of councils preparing the budgeting and planning process for 2006/07. Consequently, a number of councils, both within our case study analysis and from the questionnaire returns, have indicated that they are still in the planning phase with regard to efficiency projections for the next financial year.

## 2.2 Building on LGIS' earlier work

This in-depth analysis follows an earlier LGIS 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 efficiency gains 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.

## 3. Methodology

This chapter sets out the detail of our approach, and the definitions we have adopted in quantifying cost and time efficiencies.

### 3.1 The detail of our approach

We conducted this review in 5 key stages:

1. Project initiation
2. Case study analysis
3. Survey work
4. Future efficiency framework
5. Reporting conclusions and recommendations

#### ***Stage 1: Project initiation***

Our project team met with the LGIS (the project inception meeting) to establish the detailed research framework/methodology, our mutual responsibilities and our liaison arrangements. We also identified a mix of potential case study councils based on geography and population.

## Stage 2: Case Study Analysis

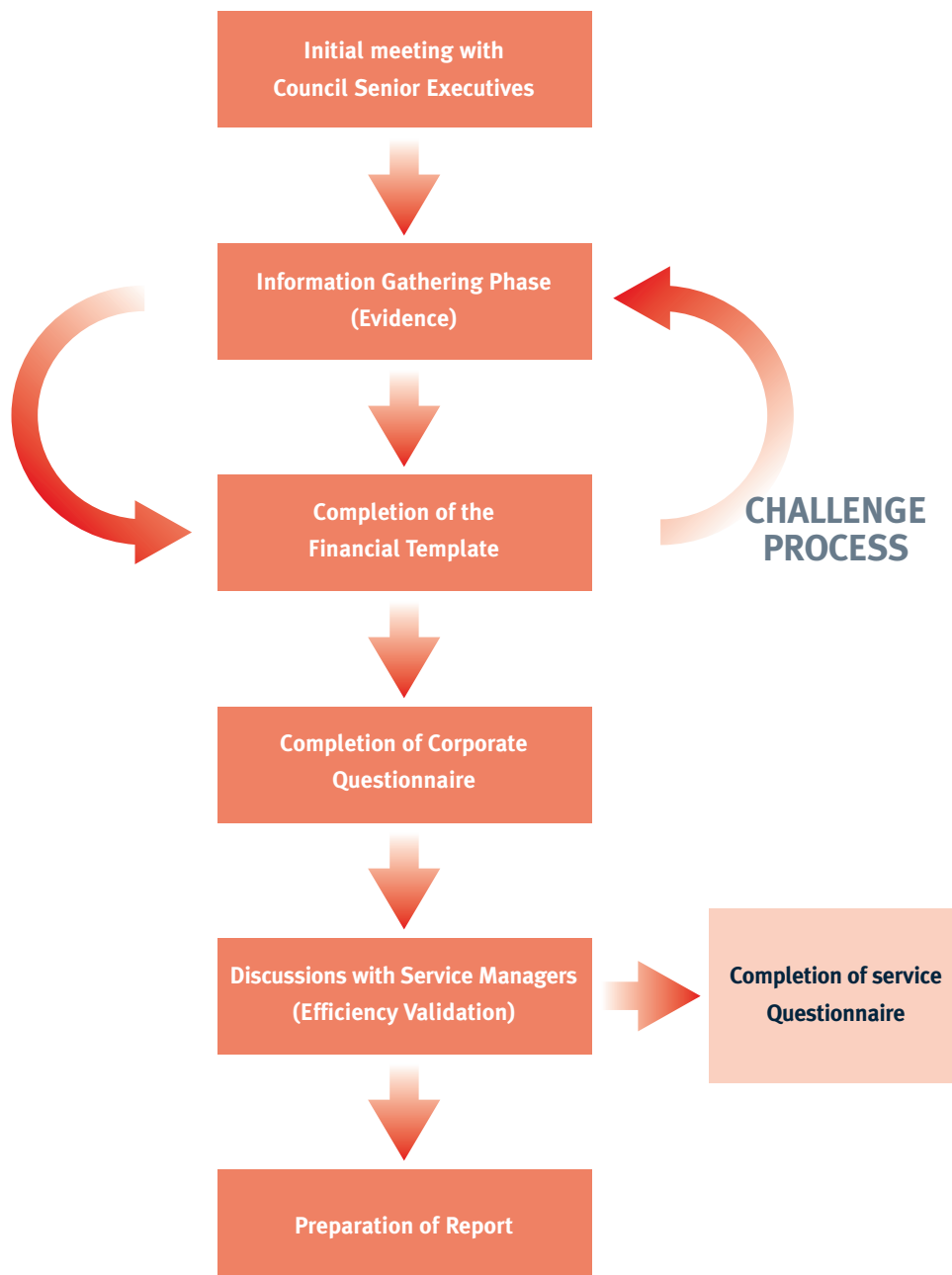
Our team visited the six selected councils as part of the detailed analysis of their EG approach. Our case study work included both on-site and off-site work. The selected case study authorities were subjected to a robust challenge process. The process is illustrated in figure 1 (on the following page).

### Initial Meeting with Council Senior Executives

Convening an initial meeting with the Chief Executive and/or a delegated senior staff member was felt to be the best way of securing buy-in for the case study work.

After an initial detailed discussion on the background to the exercise, our team prepared a methodology template showing a process map for the on site and off site work. The template included definitions of the type of savings constituting efficiencies and also outlined the differences between cash and non-cash efficiencies. The template also included the financial schedule showing how the Council's efficiency information would be collected and shown in the case study.

**Figure 1: The case study process**



### **Information Gathering Phase (Evidence)**

The template set out the type of information expected for a thorough review. If an EG framework were in place we would expect to see:

- Efficient Government Strategies and Plans
- Performance Indicator Reports specific to Efficient Government
- Efficient Government Monitoring Statements.

If this was not available, then a full information request was made for Council documentation such as their budget reports and budget books, financial and performance monitoring data, departmental service plans, efficiency gains from capital projects, asset management efficiencies, IT efficiencies, procurement strategies and plans, shared service strategies and plans, and details of EG fund projects.

The lack of a formal Efficient Government Strategy was not seen as an impediment to the case study exercise. Our detailed information analysis was designed to establish efficiencies from documentation already in the Council's possession.

### **Completion of the Financial Template**

The mainstay of our case study work was the completion of the financial template for 2005/06 and for 2006/07 (information permitting).

This was derived from either existing EG strategies or plans or from a review of the Council's existing information sources. While the exercise was not an audit, back-up evidence was requested. The figures presented by the Council were rigorously challenged against EG definitions to ensure that only bona fide efficiencies were being counted. We say more about this in the following section. This was an iterative process. In some cases items included by the Council were clearly not efficiencies and were not included in the template completed by our team. On the other hand, our team were able to point out efficiencies that were being made by the Council but were not being counted by them as such. More is said about this process later in the report (quoting actual examples from the case study councils).

### **Completion of the Corporate Questionnaire**

The main points covered in the EG questionnaire (see stage 3) were also discussed with the senior officer allocated responsibility for the completion of the financial template and for liaising on corporate arrangements for EG. The points brought out in the questionnaire were then used to further challenge the EG process in the Council, particularly with regard to the efficiency projections, and place these in the context of wider council approaches.

### **Discussions with Service Managers (Efficiency Validation)**

Discussions took place with service managers and/or other managers to validate that existing efficiency arrangements were being delivered in practice and to discuss their perceptions of their Council's effectiveness in delivering on the EG programme. These meetings were also used to crosscheck the information used in the financial template. A separate service questionnaire was used to create a structure for the meetings and to find out if efficiencies were leading to a reduction in service standards. This process was also particularly useful in giving an insight into how service departments were interpreting the Council's approach to efficiency and how they were dealing with this in practice.

### **Preparation of the case study reports**

Following our on site analysis work, a report was drafted for each case study council incorporating the financial templates for 2005/06 and 2006/07 (if available), the results of our detailed information review and meetings with senior Council officials. The report was sent to each Council for agreement before finalisation. These are attached as annex 1.

### **Stage 3: Wider Survey Work**

Following on from our case study work we engaged with all other councils through the use of two related questionnaires. The first - aimed at the corporate centre of each council - sought information as to each council's approach, and the level of current and

projected efficiencies. This provided the most important information for this review. The second – sent to managers in a selection of common service areas - looked to gather information about the impact of corporate approaches on services, and details of any service-specific approaches that had been adopted. Our team carried out the following:

- designed the survey templates at corporate and service levels
- issued with the survey form and accompanying completion guidelines
- collected all submissions and analysed the picture across Scotland to inform our findings.

The questionnaires were issued by COSLA via e-mail, with a tight turnaround time for responses. The turnaround time was determined by the LGIS project timeframe, and may in part explain the less than 100% the response rate.

#### **Stage 4: Future Efficiency Framework**

IPF and Bishops also drew on our efficiency expertise, and practices elsewhere in the UK, to help design a potential efficiency framework for Scotland. The case studies (in particular) and survey work gave us a good flavour of existing arrangements in Scotland and in particular how existing systems are being used to collect efficiency gains information.

We proposed an annual efficiency statement for Scottish councils aimed at collecting information at the corporate and service levels in a common format. This is set out in a separate report.

#### **Stage 5: Reporting conclusions and recommendations**

This stage involved articulation of:

- a) the main findings from the case studies and questionnaire analysis
- b) an estimate and analysis of the level of cash release and time release efficiency gains actually achieved within Scottish local government for the year 2005/ 06.

These are included in this report. A further report sets out:

- c) an assessment of performance indicators that are used within councils to monitor cash release and time release efficiencies and suggestions for the development of a comparative monitoring framework for future years
- d) the framework for an annual efficiency statement by councils, that incorporates both national and local efficiency priorities that can be monitored by both the elected members and the public.

### **3.2 Validating the case study work**

The validation and challenge process was primarily carried out on-site using existing council efficiency documentation and based on discussions with senior officials.

In summary, while there were a number of instances where councils were describing savings as efficiencies when they were not, there were also examples of efficiencies not being counted as such that were picked up as part of our review. In one particular Council the underestimation was as high as almost 33%.

A main part of the challenge process was simply filtering the information supplied by each case study council using the Scottish executive's EG definitions. This filtering approach was based on a "line by line" examination of the proposed efficiency gains put forward for review.

In all cases we had to look behind the figures to do this. In most cases, this meant an examination of the council's budget books or existing documentation to examine the fine detail behind the efficiency and to establish the detail behind its inclusion. This process was instrumental in making sure that only *bona fide* efficiencies are included in this report for the case study organisations.

We have highlighted below some of the typical efficiencies being included by councils, which were disallowed from our overall totals, and conversely those that were only included after our challenge process. Examples are also given of areas (not included in our figures) indicating where, potentially, councils' may not be recording substantial efficiency gains. This could only be validated by a similar challenge and validation exercise in the non-case study councils.

### 3.2.1 Incorrectly defined Efficiencies

**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.

### 3.2.2 Efficiencies not Included

**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 savings as efficiencies.

**PPP Projects:** No attempt has been made to quantify whether savings 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 savings 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 savings from capital projects.

### 3.3 Definitions

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.

## 4. The review findings

This chapter sets out our findings grouped under five related headings.

1. Councils' definitions and approaches to EG
2. Roles and responsibilities within councils
3. Council priorities in tackling EG
4. Measuring efficiencies within each council
5. Identified and projected efficiencies.

The findings are based on the detailed analysis undertaken through the six case studies, and the completed questionnaire returns (with 17 corporate returns received from the 26 issued; and 43 service returns received from c.150 issued). As set out earlier, 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.

Throughout this and future chapters we will make reference to our case study councils. We have not named the councils involved but instead refer to them with a code (CS1 to CS6).

### 4.1 Councils' definitions and approaches to EG

This section examines councils' definitions of and approaches to, EG. Specifically, it focuses on:

- councils' general approaches
- their definitions of efficiency
- links with other planning processes
- extent of common efficiencies with other councils
- extent of common efficiencies with Community Planning partners.

#### 4.1.1 Councils' general approach

Approaches to EG manifest themselves in a variety of different forms. From our case study analysis, it is clear that councils are cognisant of the need to focus on EG, whether or not they have started to put an EG programme in place.

It is also apparent that most councils do not rely on an explicit EG strategy. Looking across the six case studies:

- two councils adopt a relatively limited approach to EG that is predominately reliant on identifying efficiency gains via the overall budget setting process
- two integrate EG within a wider programme of continuous improvement, performance management and business change
- two out of six case studies have an explicit EG plan.

#### Delivering EG through the budget setting process

Where EG is part of the budget setting process, councils tend to apply either a constant top-slice across services or base the cut on a pro-rata basis, such as number of staff or payroll totals. The focus on delivering efficiency is therefore transferred to services in order to meet their budget targets. This is not to say, however, that services simply focus on budget reductions rather than driving efficiencies. Indeed, our analysis highlights areas where genuine efficiencies have been identified by services in the context of wider corporate expectations. These include:

- joint working in relation to delivery of Social Work Services with the aim of freeing up resources
- various ICT projects aimed at improving network capability and resilience
- development of the Council website to increase transactional services including payments

- increasing transfer of information provision and customer relationship management to Customer Contact Centre
- the provision of technology for mobile working.

Respondents to the corporate survey were evenly split on whether or not to apply a blanket split on efficiency targets. For example, of those that did, they applied the following type of approach:

- 1.5% of gross revenue expenditure per annum year on year from 05/06 to 07/08 based on reducing current costs of service outcomes
- 1% of net revenue budget for 2005/06; 1.5% in the following two years.

Some councils appear to be using a more sophisticated/targeted approach:

- The Council has set out gains targets for each department for 2005/06 to 2007/08. The level of gains varies between departments to take account of the council's strategic priorities. Front line departments such as Educational and Social Services have a lower percentage target than Corporate Support for example.
- The Council has a process of capturing efficiency gains across its services and functions based on a percentage level of targeted gains that are linked to the financial strategy model. While this process pre-dates the Efficient Government initiative, the Council can nevertheless demonstrate a solid foundation of identifying and delivering efficiency gains across its functions

In addition, just over half of respondents to the survey distinguished between efficiency gains and budget cuts/completed projects. Examples include:

- Cost efficiency gains are embedded as part of normal business management. Where cuts or spend to save projects are undertaken these are separately identified.
- Guidance provided to services clearly defines efficiencies as actions that deliver the same or better outcomes with less inputs; whereas cuts are defined as actions which will impact negatively on the desired outcomes.
- The Council's stated policy is to deliver savings that have no adverse impact on service delivery. These gains are re-invested in key priority services at a local level as determined by the Council following consultation with its key stakeholders, eg. through residents surveys, budget consultation exercises, etc.

In some instances, the distinction is less clear:

- Cost related-cuts are termed "budget cuts", whereas efficiencies are termed "Best Value Review efficiency gains". However, some "budget cuts" are also considered to be effectively delivering efficiency gains through the redirection of resources to priority service areas.

#### **Integrating EG into continuous improvement**

Two different perspectives on the role of EG are apparent in the case study councils where EG is part of the wider continuous improvement/performance management approach. In CS6, the Council sees EG as an end in itself. To deliver this, the Council adopts a collective challenge exercise where efficiency is driven by the requirement for continuous improvement and best value. This means that:

- services are actively encouraged by the corporate centre to meet budget targets through efficiencies and service redesign, and
- resulting actions suggested by services are then challenged at a corporate level to ensure cross-checks are in place.

As a result of this process CS6 has been in a position to clearly articulate the level of efficiency gains that they expect to make this financial year and the next.

The second council (CS2) to undertake this integrated approach, view EG as a means to an end. They emphasise that EG should:

- not sit in isolation from continuous improvement, business modernisation and organisational development, and
- be part of a structured change process.

The Council recognises that the majority of future efficiencies will come as a result of the change programme. However, at this point in time, they are in a position to identify efficiencies through their budget process.

### Encapsulating EG in an explicit EG Plan

Two of the case study councils articulate their approach to EG through an explicit plan. One council's plan details an approach based on a programme of best value reviews. Each review will propose a set of efficiency recommendations. Taken together, then prioritised, a shortlist of recommendations will form the basis of a business case to be submitted to stage 2 of the Efficient Government Fund (EGF). The council has also utilised external consultants to produce a 'Prospectus for Joint Working', which acts as a template for progressive joint working with the local NHS board.

In the other council (CS3), where an explicit plan is in place, a Development Group have been established whose remit is:

- to agree and undertake an annual programme of EG reviews and initiatives aimed at securing efficiencies and improved effectiveness in the delivery of council services
- to consider regular reports from lead officers on progress in managing these developments
- to consider periodic reports from officers on the operational management of initiatives once implemented, and
- to consider other related issues as and when they arise.

CS3's approach is further reinforced by the identification of efficiency gains in their budget plan for 2005/06.

The corporate survey analysis indicates that around three quarters of respondents have formally agreed their EG approach. In the majority of cases, this manifests itself in a commitment to addressing EG through a documented strategy, within another strategy or policy, or through a broad commitment in principle at senior management level to tackling EG. Other approaches involved working in partnership with Community Planning partners or an involvement in specific EGF bids.

In addition, the service survey indicated that the majority of services are aware of their Council's approach to EG. Only two of the 43 returns indicated that they had adopted a separate approach from the corporate centre. On closer scrutiny, the definitions given suggested this was to do with prioritisation within the corporate approach, rather than a separate service approach.

#### 4.1.2 Definitions

Our analysis indicates that all councils appear to be using the definitions for efficiency set out in 'Building a Better Scotland'.

Our analysis suggests that if a council does not clearly articulate what efficiency means for their own organisation, then it makes it difficult for them to distinguish between a cut and an efficiency gain. In some instances, the terms appear to be used interchangeably. This is exacerbated by the tendency for some efficiency gains to be 'transferred' to support policy priorities elsewhere in the council. The absence of a clear 'trail' (in many instances) increases perceptions of cuts in some quarters.

At the same time, however, our case study analysis also indicates that some councils are actually making efficiency gains where they have been defined by the organisation as a cut. This became clear when identifying the specific activities undertaken by councils to deliver their efficiency gains, illustrated in section 4.5. Put simply, it appears that some councils believe they are making cuts, where upon further investigation we would classify that 'cut' as a cost efficiency.

One example of this lies with the treatment of inflation in one of our case study councils. The Council set inflation for all non-pay items at 1% as part of the budget setting process. They did not recognise that where services are maintained - and the actual inflation incurred is above this rate - then this can be recorded as an efficiency saving.

In conjunction with identifying efficiencies, all our case study councils highlighted the fact that overall savings are being sought in the face of other competing priorities. These may entail the need for actual service cuts. They include:

- equal pay (including back-pay)
- single status
- withdrawal of Supporting People funding.

#### 4.1.3 Links with other planning processes

This section identifies how councils' view EG in relation to their overall planning cycle.

In defining councils' overall approach to EG, we identified two case study councils where EG was integrated within their overall continuous improvement programme.

One of these councils placed particular emphasis on linking all activity through the corporate planning process and ultimately through service plans. It is also the council's view that individual work plans would indirectly reflect the Council's activity with regard to EG. This helps to involve all staff in the EG process.

The other case study councils emphasise the link with the budget planning process. In these instances, activity undertaken by services in meeting their budget target would implicitly be part of their service planning process rather than having an explicit EG 'badge'.

Three of the case studies councils focused heavily on the best value review process as a means to promote EG. As previously highlighted CS4's entire approach to EG involves the implementation of seven best value reviews. CS6 are looking to incorporate large scale best value reviews as mechanisms for identifying efficiency gains whilst at the same time looking to improve service delivery.

At this stage it is apparent that less emphasis is placed on linking the capital programme with EG. Discussions indicate that while some work is being undertaken in councils to address this issue, it is typically at an early stage.

Table 1, below, identifies the links between councils' EG approaches and their planning processes. This is based upon the responses to our corporate survey. It is clear that most councils intend to have links in place, although – with the exception of the revenue budget process - these are typically not yet in place.

**Table 1: Links between EG and established planning processes**

	Planned	Not Planned	Established & implicit	Established & explicit
a. Corporate planning process	8	1	3	2
b. Service planning process	6	1	4	4
c. Revenue budget process	4	0	1	10
d. Capital programme management	8	1	3	2
e. Best Value review process	5	1	5	4
f. Project management approach	8	1	2	3

Around half of the corporate survey respondents plan to integrate EG within their corporate planning process. Three see the link as being explicit; whilst only two have articulated a clear link between corporate planning and their EG approach. A similar picture was apparent with regard to service planning, although slightly more councils had an implicit or explicit link in place.

Other articulated links included an explicit link with the council's risk management arrangements, or as a standing issue on either reports to members or management team agendas.

Around three quarters of respondents to our service survey see their council's developing EG approach as linking to service planning, revenue budget, capital programme, best value reviews and project management.

#### 4.1.4 Extent of common efficiencies with other councils

Our case study analysis highlighted a number of areas where councils are exploring areas of joint working, mainly within back office functions. Examples include:

- an EGF bid to establish a national roads asset management system
- Councils looking to establish a shared-services centre which will include finance, human resources, payroll and procurement
- the establishment of a shared council tax processing centre.

The introduction of the Efficient Government Fund (EGF) was seen as providing an initial spur for councils to look for ways of working together and generating efficiencies across organisations.

Around three quarters of respondents to the survey identified areas of common working with other councils. Most of this work involves procurement and shared support services. However there are other examples of joint working being progressed that are not directly linked to the five strands. This includes ICT infrastructure projects, social work/joint future and joint waste management strategies. In many instances, these appear to reflect areas of Scottish Executive pressure or incentivisation for joint working.

These are just selection of the work being undertaken as our analysis indicates a wide range of joint working across Scotland. However it is clear that quantifying the potential benefits from this work is some way off and may require spend to save schemes.

The majority of our respondents to our survey highlighted areas of common working with other authorities and community planning partners, the majority of which are in the areas of procurement and shared support services. Less progress is evidenced with the other three strands of the EG framework.

Around half of survey respondents highlighted procurement as a key joint working activity. Procurement is generally initiated on a geographic basis, with the buying consortia acting as overarching bodies for many councils. One response highlights the progress being made:

- in addition to the existing arrangements through the Authorities Buying Consortium (ABC), significant progress has been made by West of Scotland councils in terms of progressing further collaborative procurement opportunities. These have, and continue, to deliver a number of significant collaborative contracts which are delivering procurement gains and which have contributed towards achieving an internal target of the delivery of £1.4m of procurement gains by 31st March 2005. This collaborative procurement work stream has also included the development of a significant EGF bid to develop a collaborative procurement hub to accelerate the benefit flow from collaborative buying and also to facilitate the development of capacity in terms of procurement skills within the constituent authorities.

Around half of respondents also highlight shared support services as a key joint working priority. For example:

- a shared service for the billing and collection of Non-domestic rates has been developed in partnership providing the service delivery - this is expected to go live in December 2005 and will deliver efficiency gains for both councils involved.
- a number of initiatives around the sharing office or depot, which are achieving both service improvement and cost reduction for all partner agencies involved
- e-marketplace procurement hub development
- councils currently working with the Scottish Executive, SEPA and other councils on a strategic review of waste management options.

#### 4.1.5 Extent of common efficiencies with Community Planning partners

Compared to the previous section, more limited progress has been made in this area. Once again, there is widespread recognition of potential opportunities than actual progress. There are examples of interesting practice, including:

- CS4 benefits from a co-terminous boundary with its local NHS board and is therefore in a stronger position to be able to identify areas of joint working. Indeed the council has issued a 'Joint Service Proforma' that allows services to identify potential areas of

joint working with the NHS. Part of this proforma involves identifying the potential cash and time-release gains that would be achieved as a result of joint working as well as the effect it would have on service delivery.

- CS6 is looking to establish a mobile working scheme with a number of neighbouring authorities and the local NHS board.

Over half of respondents to the questionnaires indicate that there are potential areas for exploiting common efficiencies with other community planning partners. In most instances, however, these have yet to be formally identified and associated strategies/plans developed.

#### 4.2 Roles and responsibilities for EG within councils

This section highlights the roles and responsibilities of officers and Elected Members in the EG process. Table 2 provides a summary (the numbers have been collated from our corporate survey).

**Table 2: Roles and responsibilities for EG**

	Not involved	Leading/driving	Planning/design	Supporting	Implementing	Monitor/reviewing
a. Elected members	1	8	1	6	0	10
b. Chief Executive	0	14	3	4	0	8
c. Corporate Finance	0	9	6	9	5	11
d. Corporate Policy/Strategy	0	5	7	9	4	5
e. Directors	0	7	4	7	7	6
f. Heads of Service	0	2	8	6	10	6
g. Staff	0	0	4	4	12	2

The case study analysis – backed up by the questionnaires - indicates that overall responsibility for EG typically lies with the Chief Executive. However, in some cases, the responsibility for overall coordination and development is delegated to another senior officer or group. In the case of CS2, for example, responsibility for EG lies with the Head of Business Change and Improvement thus reflecting the councils' overall approach to EG.

Our analysis also found that within all of the case study councils, EG projects tend to have a corporate sponsor with the lead officer coming from the service most closely related to that area of work. One of the case study councils emphasised the importance of this 'whole-council' approach to EG rather than it being left in isolation as just another strand of work.

All case study councils highlighted the importance of Elected Member involvement in EG. The nature and level of their actual involvement varied. In one council, for example, EG is overseen by an EG Development Group, chaired by the Leader of the Council and includes the Depute Leader, Treasurer and Conveners of the major service areas. This group also comprises the Chief Executive, Director of Financial Services and the Director of Development and Regeneration Services. Elected Members, who are not directly involved in the process, are advised of progress through periodic committee reports.

In another, however, Elected Member involvement comprised the approval of a single committee report which identified the guidelines for applications to the EG fund. There has been little subsequent involvement.

In the majority of councils, Elected Member involvement seems to be concentrated in either leading the process or in its monitoring and review. Examples include:

- Elected members on the Council's "Monitoring Group" are informed of proposed Best Value Reviews, their progress and approval of their eventual conclusions and recommendations. Periodic reports are submitted to committee to allow members to consider then approve or amend proposals with regard to Efficient Government.
- Various reports on Efficient Government have been considered by Cabinet, who also approved the Council's Efficient Government Plan. The Budget Strategy Group are responsible on an ongoing basis as part of the budget development process. Efficiency has become part of the Leader's own remit.
- Significant involvement through budget strategy group meetings, sounding boards meetings for major individual projects

- The Customer First Working Group is a joint officer/member sub group chaired by Chief Executive. It reports to the P&R Committee. It has responsibility for the Efficient Government agenda and deals with many national and local projects which form part of overall solution

Several councils employ working groups for implementing and coordinating EG activity:

- CS3 have established an Operational Management Group. They are responsible for implementing the EG Development Group's (see above) decisions. It is comprised of senior officers who have been selected on the basis of ability rather than solely to ensure comprehensiveness service area coverage. The group meets, on average, on a quarterly basis.
- Whilst its purpose is not exclusively to deal with EG, CS6 have established a multi-party group to examine budget issues within which they monitor the efficiency gains proposed by services
- CS2 have an established working group which examines EG in the context of the overall modernisation and improvement agenda. This working group is a joint Elected Member / officer group.
- CS4 have a Steering Group, which monitor the progress of seven best value reviews that are the foundation of the council's EG approach.

The monitoring of EG also tends to be the responsibility of these groups. In the councils who use their budget process to implement EG, the monitoring process typically amounts to recognition of services meeting their expenditure targets. A good example of a flexible monitoring framework exists in CS3, whose monitoring framework includes guidance notes for service areas to implement. The framework intends to capture:

- Targets or intended efficiencies set out at the beginning of the review
- Efficiencies secured in the course of a review and progress towards targets, including qualitative information on the efficiency was achieved
- Lessons learned and to ensure these are disseminated throughout the organisation.

#### 4.3 Council priorities in tackling EG

This section identifies how councils articulate priorities within their approach to EG. This includes analysing how councils are implementing the five EG strands of procurement; asset management; absence management; shared support services and streamlining bureaucracy. We also look at whether councils are using business process reengineering and / or process mapping to find efficiency gains.

Our study has found that many councils do not necessarily focus solely (or wholly) on the five EG strands to drive their approach. However, councils typically recognise their importance as opportunities within their approach. Put simply, most have implemented reviews that aim to find efficiency gains in these areas.

Procurement and absence management are widely viewed as areas where efficiencies can be more easily identified. Quantifying the efficiency gains from the other strands has proven more difficult. These are often integrated within total service efficiencies. Procurement activity includes:

- CS2 submitting an EGF bid with neighbouring councils to adopt a joined-up approach across the organisations
- CS5 centralising procurement through the Oracle software system

Absence management is an area that most councils find easier to address through the adoption of absence management strategies. Indeed absence management rates can be monitored through the Statutory Performance Indicator process. In some cases, councils have monitored levels of absence long before the introduction of EG. Indeed CS6 have absence management as one of its top eight corporate indicators given its historically high level not as a result of EG. However quantifying the time-release gains of reduced absence has proven more difficult.

The approach to shared services tends to manifest itself in EGF bids (previously highlighted in paragraph 4.1.5.)

Given the focus of the EG agenda on back-office functions, our case study work found that many councils do not make a distinction between finding efficiencies in back or front office functions. CS4 emphasise the importance of looking at all council operations to find efficiencies. However CS6 do admit that services will look to 'protect' front line services in meeting their budget targets. They do stress that the entire supply chain should be examined in the guidance issued.

Conversely, around half of councils who responded to our corporate survey do distinguish between the front and back office functions. This is in contrast to the case study councils. It manifest itself in the following examples:

- one council has identified a number of internal areas including Financial Systems, Human Resources, Absence, and Procurement Procedures. Upgrades were necessary to outdated manual purchase order processing systems, which has led to the introduction of electronic processing to most parts of the Council
- finance Services, Procurement, Payroll and HR Administration. Greatest potential efficiencies are seen to be in a shared service centre environment. This is the subject of Stage 2 EGF Bid with neighbouring councils
- overall overheads within the Council are being reviewed to allow resources to be directed to front line services.

One of the case study councils places a priority on particular services for identifying efficiencies. This is based upon their contribution to corporate objectives and their potential for identifying efficiency gains.

In our corporate survey, councils appear to be evenly split on whether particular services are targeted for efficiency gains. Examples of where this does take place include:

- a focus on Leisure Services and Environmental and Consumer Protection in one council – initial consideration of those areas with potential for generating efficiency gains concluded that these two departments had the greatest potential for early returns
- the development of Customer First and moving certain frontline services from departments to Customer First. However, the Council considers that it needs to strengthen its approach to capturing the resultant efficiencies. Other service areas for attention highlighted in the Efficiency Plan include Waste Disposal and School Transport.

Business process mapping/re-engineering is increasingly used by many councils to improve workflows and identify efficiency gains. Many of these argue that this has not been introduced solely because of EG. Indeed most of the case study councils have used process mapping either in the implementation of customer contact centres and as part of council's modernisation agenda.

Around three quarters of respondents to our corporate survey adopted a structured approach to business process mapping/engineering to identify potential areas for efficiency in individual service/functional areas. Examples of this include:

- business process re-engineering is key requirement from contact centre tender
- all frontline services, which have transferred to Customer First, have gone through a business redesign process. In addition some work has been undertaken in the Library Service
- various departments in relation to Customer Contact strategy and e-Procurement implementation
- ongoing implementation of new financial system will result in streamlining of procurement to pay processes.

From our findings above, table 3 identifies what areas are given priority in councils' approach to EG, based on our corporate survey returns.

**Table 3: EG priorities**

	Key priority	Secondary priority	Not a current priority
a. Procurement	15	0	0
b. Asset management	10	4	0
c. Absence management	11	1	2
d. Shared support services	8	7	0
e. Streamlining bureaucracy	8	4	1

As the table illustrates, the majority of councils appear to see procurement as a key priority. Around half consider the other four strands as additional priorities, however actual progress is only evidenced in the area of shared support services.

Services' involvement in progressing the five strands is mainly in a supporting role. Around half to three quarters of services that responded indicated that they play a supporting role in all of the five strands. Less than a quarter of respondents actually led on the five strands with procurement being the most common.

This section has identified that whilst the five strands are included within many council's EG approach, they do not necessarily drive or significantly shape that approach. Evidence suggests that many councils have identified procurement and absence management as areas they can address immediately, with less progress made in the other areas. Many councils do not appear to distinguish between back and front office functions as priority areas for efficiency. Indeed one council emphasises the concept of supply chain management. The extensive and systematic use of business process reengineering/mapping is also in its infancy with regards to EG. It often appears to be utilised in service redesign around customer contact centres.

#### 4.4 Measuring efficiencies within each council

This section examines how councils are measuring efficiency gains and their effect on service delivery. Specifically it focuses on:

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

Our case study analysis highlights that only one council appears to have 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.

All councils who responded stated that they are drawing on some of the SPIs to monitor efficiencies. However the SPIs are seen to be relatively weak as mechanisms for informing progress in any comprehensive way (although a number 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. The SPIs are:

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

From our corporate survey responses, a number of councils make some use of the SPIs to measure efficiency. 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:

- while 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 our 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
- 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.

Table 4 illustrates the measures councils are using to measure efficiency, based upon our corporate returns.

**Table 4: 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 within their own approach, achievement against cost and time targets, existing relevant statutory performance information and other service/productivity measures. Examples typically include:

- workforce planning and productivity
- procurement benefit tracking
- efficiency tracking through a council assessment model
- measures relating to cost and usage to determine whether services have improved within current resources.

It appears that many 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 do expect the level of time-release gains to grow over time given the constraints of continually identifying cash gains.

This problem is highlighted in CS1, where the council aims to promote a culture of efficiency. In many instances there are improved processes in place that have led to improved productivity and workflow. However more time needs to be spent quantifying non-cash or time-release 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 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 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.

Our work also focussed on the monitoring and evaluation frameworks in place to report progress. We found that 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 to 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
- the establishment of a central register of efficiencies and savings which captures readily recognisable savings from improved procurement arrangements etc.. The council is working on agreeing a methodology for measuring and capturing other time releasing gains. They are also including a summary of the benefits realised of any efficiencies included in the 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 in regards to procurement efficiencies and absence levels are monitored throughout the organisation and by the Corporate Management Team. Efficient Government is also 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 which reduces Services budgets and monitors actual spend against the revised budget, and the monitoring of performance through PIs and service reviews and so on 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.

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. There is limited widespread evidence at this stage of councils' performance management approaches being refined to take cognisance of EG.

#### 4.5 Identified and projected efficiencies

This section identifies the actual efficiency gains identified by councils for 2005/06 and the projected efficiency gains for 2006/07. The detailed case studies set out the activities undertaken by the case study councils to achieve these efficiencies.

We initially planned to set out a further level of detail, quantifying the efficiency gains achieved as a result of work around the five EG strands. However, the case study councils found it difficult to quantify distinct efficiencies under the strand headings. The corporate questionnaire responses indicated that this was a generally encountered difficulty.

In identifying overall efficiencies, we adopted the definitions set out in chapter three, i.e. 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).

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.

The figures set out in this section are based on the following:

1. those provided by the case study councils following detailed discussions/challenge from our team (to ensure that the efficiencies met the definitions set out above)
2. those provided by councils responding to the corporate questionnaire. While each council was reminded of the efficiency definitions in submitting their return, these figures have not been challenged and should be treated with an element of caution
3. two extrapolations of the case study and questionnaire return figures to highlight a notional level of efficiencies for 2005/06 for Scottish local government as a whole. These figures are extrapolations, rather than verified totals. They are, however, heavily informed by our detailed case study analysis and – in the second instance - from responses from more than 70% of Scottish councils. We have used revenue budget levels to help inform each extrapolation.

In presenting the financial analysis there are a number of caveats that must be taken into consideration:

- Our work found that the identification of efficiencies tends to be through a challenging budget management process in each council, rather than through a distinct approach to EG. Some case study councils had not explicitly recorded efficiency gains as distinct from other savings in their budget planning/setting process. Rather, they distinguished efficiency gains retrospectively in response to this study. This indicates that a robust challenge process – such as that undertaken as part of this review - can help to increase the level of identified efficiencies in each organisation.
- The level of non-cash efficiencies identified through both the case studies and questionnaire returns appears particularly low at a time where process improvement, investment in technology, working practice modernisation, and moves to call/contact centres are widespread. We suspect that if these non-cash efficiencies were clearly identified, then the overall level of efficiencies – using the Scottish Executive's definitions – would rise significantly. However, in the absence of evidence, we have opted not to quantify this potential in our estimates or extrapolations. Further dedicated work in this area would appear prudent.
- The case study councils, previous studies into EG, and anecdote from other councils, points to some ambiguities in distinguishing between cash efficiencies and savings. It is worth noting that:
  - Some councils will have included savings in their indicative efficiency totals. This may suggest that the actual efficiency total may be lower than that indicated
  - Our work with the case study councils, however, indicated that a number of efficiencies had either been missed (eg increases in utilities/materials costs, inflation, increased staffing overheads having to be found from existing budgets) or that they had been quantified as savings rather than efficiencies. While difficult to quantify beyond the case studies, this points to the actual efficiency total being higher than that indicated.

We have assumed that these factors will balance themselves out across the questionnaire responses.

- A number of councils found it difficult to identify efficiency projections for 2006/07. Many cited the fact that budgets for each service have still to be agreed and therefore the level of overall efficiencies or savings required is as yet uncertain.

Table 5 (on the following page) illustrates the efficiency gains identified by councils through the case studies or via their questionnaire returns. A more detailed analysis of the figures presented by the case study councils is attached in Annex 1. The analysis points to:

- An efficiency saving of £37m for 2005/06 was identified in the six case study councils.
- A further £46m was identified from the 15 questionnaire returns.

Taken together, we can point to estimated efficiencies of £83m in 2005/06 from the 21 participating councils.

Looking across the returns, the mean and median figures for the 21 councils that participated in the review are:

**Mean**     £3.967m  
**Median**   £2.147m

To aid further discussion:

- If we assume that 5% (c.£2.5m) of those identified in the questionnaires were incorrectly classed as efficiencies (rather than savings), then we could conclude that the level of efficiency gains from the participating councils was £80m.
- If we assume – as the findings from the case study exercise suggest we might – that the level of efficiencies was actually 5% higher than those indicated, then we could conclude that the level of efficiency gains from the participating councils was actually closer to £86m.

#### **Variations in levels of efficiency in different sizes of council**

Not surprisingly, the figures suggest that the level of *absolute* efficiency saving in each council is linked to the size of its budget, with the larger the Council budget, the greater the scope for an *absolute* efficiency.

Crude efficiency figures based on 'per £1000 revenue budget' (highlighted at the bottom of table 7) indicate, however, that there is no explicit link between overall expenditure and the *relative* level of efficiency gains (ie councils with smaller budgets appear to be delivering similar levels of efficiency gains per £ spent as the larger ones).

**Table 5: Indicated efficiency gains in Scottish Councils 2005/06**

Ref	Gain £k			% of Total		
	TOTAL	CASH	NON-CASH	TOTAL	CASH	NON-CASH
CS1	10,008	9,019	989	12.01%	11.21%	34.74%
CS2	2,147	2,147	0	2.58%	2.67%	0.00%
CS3	13,308	11,850	1,458	15.97%	14.73%	51.21%
CS4	797	797	0	0.96%	0.99%	0.00%
CS5	2,781	2,781	0	3.34%	3.46%	0.00%
CS6	7,916	7,916	0	9.50%	9.84%	0.00%
Council 7						
Council 8						
Council 9	8,830	8,430	400	10.60%	10.48%	14.05%
Council 10						
Council 11	966	966	0	1.16%	1.20%	0.00%
Council 12						
Council 13						
Council 14	3,750	3,750	0	4.50%	4.66%	0.00%
Council 15	11,725	11,725	0	14.07%	14.57%	0.00%
Council 16						
Council 17						
Council 18	3,690	3,690	0	4.43%	4.59%	0.00%
Council 19						
Council 20						
Council 21	465	465	0	0.56%	0.58%	0.00%
Council 22	450	450	0	0.54%	0.56%	0.00%
Council 23	1,792	1,792	0	2.15%	2.23%	0.00%
Council 24	0	0	0	0.00%	0.00%	0.00%
Council 25	0	0	0	0.00%	0.00%	0.00%
Council 26						
Council 27	6,979	6,979	0	8.38%	8.67%	0.00%
Council 28	1,463	1,463	0	1.76%	1.82%	0.00%
Council 29	1,918	1,918	0	2.30%	2.38%	0.00%
Council 30	1,950	1,950	0	2.34%	2.42%	0.00%
Council 31	2,373	2,373	0	2.85%	2.95%	0.00%
Council 32						
<b>TOTAL EFFICIENCY GAIN</b>	<b>83,308</b>	<b>80,461</b>	<b>2,847</b>			

**Extrapolations**

It appears unlikely that those councils who failed to return the questionnaire within the deadline had made no progress whatsoever on tackling EG (particularly in light of the assertion made by many other councils that identifying efficiencies was not a new development solely in response to the EG agenda).

In this section, we set out two different extrapolations based on differences in council revenue budgets. The first extrapolation is based solely on the case studies; the second is based on both case study and questionnaire returns.

*By case study information alone*

Table 6 sets out the case study efficiencies split into three categories by revenue budget for 2005/06 (taken from the Scottish Executive Budgeted Net Revenue Expenditure Return). It illustrates the level of efficiencies generated by case study councils with different sizes of budget.

If these were extrapolated to all other councils - ignoring the questionnaire returns – the extrapolated figures for Scotland would be £116m.

**Table 6: Breaking the case study information down by revenue budget**

Case study councils with:	Budget < £199,999k	£200,000 - £399,999k	> £400,000k
	n = 1	n = 2	n = 3
Mean	£797k	£2,464k	£10,411k
Median	£797k	£2,464k	£10,008k
Total	£797k	£4,928k	£31,232k
Efficiency per £1000 revenue budget	£13	£10	£12

#### By case study and questionnaire returns

Using the case study information alone fails to harness the valuable information provided by councils in their questionnaire returns. Note that the larger number of participating councils allows a wider range of categories to be used in the extrapolations. Table 7 sets out the information provided in the case study and questionnaire returns based on revenue budget.

If this was extrapolated to the councils who did not return a questionnaire, the extrapolated figure for Scotland would be £122m.

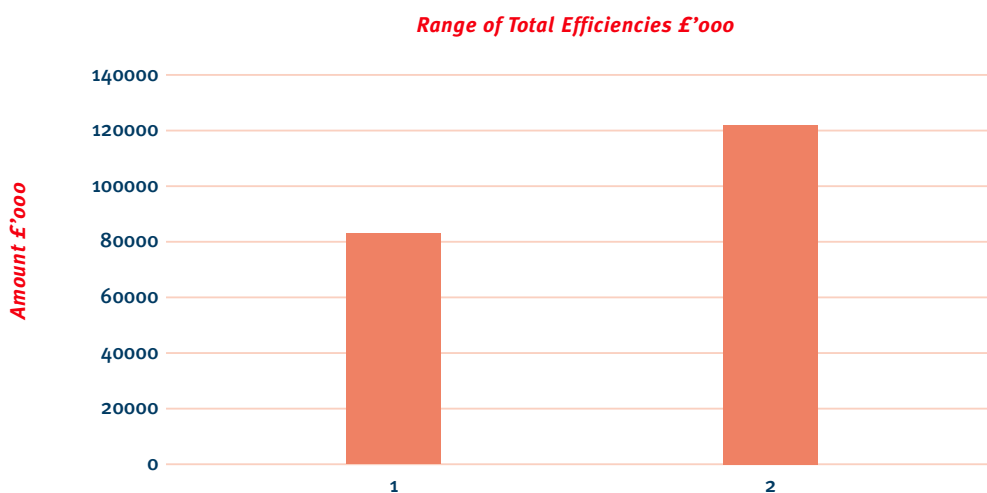
**Table 7: Breaking the case study and survey information down by revenue budget 2005/06**

Councils with	Budget <£199,999k	£200,000 - £299,999k	£300,000 - £399,999k	£400,000 - £499,999k	> £500,000k
	n=6	n=8	n=1	n=1	n=5
Mean	£767k	£2,435k	£8,830k	£3,690k	£9,341k
Median	£631k	£1,934k	£8,830k	£3,690k	£10,008k
Total	£4,601k	£19,480k	£8,830k	£3,690k	£46,707k
Efficiency per £1000	£6	£10	£26	£8	£12

Summarising the extrapolated figures

Figure 2 summarises the extrapolations for 2005/06. Looking across the figures we can assume that the level of efficiencies in the 21 participating councils is £83 m for 2005/06, extrapolated to £122m for Scottish local government as whole.

**Figure 2: summary of efficiency estimates/extrapolations for 2005/06**



#### Graph Key

	Total £'000	Definition
1	£83,000	Efficiency levels for the 21 councils who participated in the review
2	£122,000	Extrapolated efficiency total using the case study and survey information (adjusted to take account of net revenue expenditure)

### Projected efficiencies for 2006/07

Table 9 sets out projected figures for 2006/07 based on the case study and questionnaire returns. These figures were typically heavily caveated by councils in the case study discussions or in their returns to the questionnaire. This was based largely on the timing of this study vis-à-vis progress in this year's planning and budgeting cycle in each council. They are presented for indicative purposes only.

In light of the caveats given by councils, we have steered away from the detailed extrapolations undertaken for 2005/06. As an observation, the asserted projections for 2006/07 are slightly in excess of those indicated for 2005/06, pointing to ongoing progress in tackling the EG agenda. One might assume that any extrapolated figures would be similar in scale to those highlighted for 2005/06.

**Table 9: Indicated projected efficiency gain in Scottish Councils 2006/07**

Ref	Gain £k	% of Total
Ref	TOTAL	TOTAL
CS1	12,342	14.49%
CS2	999	1.17%
CS3	3,603	4.23%
CS4	0	0.00%
CS5	6,075	7.13%
CS6	14,565	17.10%
Council 7		
Council 8		
Council 9	0	0.00%
Council 10		
Council 11	1,834	2.15%
Council 12		
Council 13		
Council 14	8,313	9.76%
Council 15	13,690	16.07%
Council 16		
Council 17		
Council 18	5,398	6.34%
Council 19		
Council 20		
Council 21	0	0.00%
Council 22	350	0.41%
Council 23	2,215	2.60%
Council 24	925	1.09%
Council 25	0	0.00%
Council 26		
Council 27	6,000	7.04%
Council 28	1,582	1.86%
Council 29	2,449	2.87%
Council 30	2,175	2.55%
Council 31	2,680	3.15%
Council 32		
<b>TOTAL PROJECTED</b>	<b>85,195</b>	

The information provided by our case studies indicates efficiencies of £37m from those six councils alone. The total projected efficiency level indicated in the case studies and survey returns is £85m. This does not include any projected efficiencies identified in councils who did not submit a return.

## 5. Conclusions: Looking across the findings

Progress has been made in defining and understanding the EG expectation in Scotland and turning it into both cash and non-cash efficiencies (although there is greater evidence of progress in the former than in the latter).

Looking across the figures we can assume that the level of efficiencies in the 21 participating councils is £83 m for 2005/06, extrapolated to £122m for Scottish local government as whole.

Approaches to addressing the agenda vary across Scottish councils, the vast majority building on arrangements already in place in councils as part of their planning and budgeting approaches. Not surprisingly, councils appear to have developed their approach dependent upon their own local circumstances and capacity to deliver.

Our review suggests that approaches to EG may be classified into three categories,

1. No explicit approach – efficiencies are identified through the budget process although no EG framework is in place
2. A defined approach – Councils are aware of their EG obligations and are making progress in asking services to find efficiencies in order to manage their budgets effectively and express this through a clearly articulated EG strategy
3. An integrated approach – Councils have an integrated EG approach with their business modernisation and continuous improvement agenda, whilst not employing a stand-alone EG strategy. Best Value is key to this approach.

Councils are typically using the definitions of efficiency as set out in ‘Building a Better Scotland’. While one case study Council has clearly articulated their own interpretation of efficiency, this sits clearly within the national expectation

For many councils, EG appears to be 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.

There is little indication that work in the five key EG strands forms the mainstay of many council’s approaches to EG. In saying that, procurement, asset management and absence management were seen as particularly important elements of councils’ developing approaches. Procurement and absence management are the two areas where councils are finding it easier to progress. However they are still finding difficulty in measuring the time-release gains aspect of reducing absence levels.

In tackling the EG agenda, a number of councils emphasised the range of competing financial interests they have to contend with as well as EG. These have led to savings and cuts, rather than efficiencies. These include

- equal pay
- single status
- increased utilities charges
- inflation rates
- service specific legislative developments.

In this context, our case study work suggests that many councils appear to be looking for efficiencies to close funding gaps, not to re-invest in front line services. These funding gaps are often associated with the re-allocation of budgets to address new policy/legislative expectations.

We were unable to track efficiency gains 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.

Our case study work identified that many councils are grappling with clearly articulating what efficiency means for their organisation. Specifically, problems arise through the quantification of time-release gains. The time-release numbers presented in this exercise must therefore be treated with caution. We consider that they have been significantly underestimated, and recommend further work in this area to quantify the level of efficiencies.

Many councils appear to be looking 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 a service's total pay-bill). 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.

Most councils 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 manifest itself in the wider performance management arrangements in place in these organisations.

Many councils appear to be embracing the principle of collaborative working with other local authorities. Our study found fewer examples of joint working in practice, mainly through submissions to the EG fund. However many of these projects have yet to be progressed. It is therefore too early to quantify the benefits – either financial or otherwise. There is less evidence of joint working with other community planning partners, although many respondents were committed to the idea in principle.

The Chief Executive appears to be the main figurehead for EG in most councils. However responsibility for driving the process is typically delegated to a working group or other senior officer. We also found that Elected Members are also involved either actively through participation on working groups or passively through the approval of committee reports

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. One Council emphasises the need to focus on supply chain management rather than the front and back-office distinction.

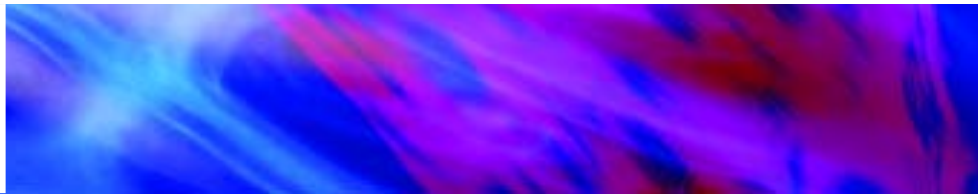
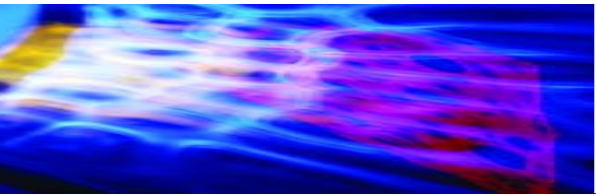
Many councils appear to be struggling to effectively measure the performance impact of efficiency gains. None of the participating councils believe that the SPI process is adequate for EG monitoring. The information gathered as part of this study indicates that many councils are still struggling to define efficiency in terms of service improvement, focusing largely on the 'savings' element of more efficient working. While cash efficiencies are relatively easy to measure, general performance management weaknesses make it difficult to make fully informed judgements about the impact of non-cash efficiencies on the overall efficiency total. A further report proposing arrangements for monitoring progress on EG in the future sits alongside this report.

### **Annex 1: Case studies**

See attached files

**Annex 2: Population and staff numbers for Scottish Councils**

<b>Council</b>	<b>Revenue Budgets (POBE returns 2005) £ k</b>
Aberdeen City	386,306
Aberdeenshire	424,141
Angus	208,989
Argyll and Bute	210,264
Clackmannanshire	91,005
Dumfries and Galloway	304,431
Dundee City	305,720
East Ayrshire	231,524
East Dunbartonshire	199,497
East Lothian	174,639
East Renfrewshire	171,855
Edinburgh City	828,938
Falkirk	271,900
Fife	664,517
Glasgow City	1,384,237
Highland	465,157
Inverclyde Council	184,509
Midlothian	159,676
Moray	167,307
North Ayrshire	270,171
North Lanarkshire	605,080
Orkney	61,478
Perth and Kinross	259,623
Renfrewshire	340,535
Scottish Borders	221,454
Shetland	90,803
South Ayrshire	216,346
South Lanarkshire	566,618
Stirling Council	176,831
West Dunbartonshire	202,179
West Lothian	296,175
Western Isles	103,457
<b>TOTAL</b>	<b>10,245,362</b>



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