

EFFICIENCY TECHNICAL NOTE (ETN) FOR LOCAL GOVERNMENT

1 INTRODUCTION

Efficiency gains for local government

1.1 Efficiency Technical Notes (ETNs) are designed to set out the approach to measuring the efficiencies that count towards the efficiency gain targets set out in Spending Review 2004.

1.2 The local government target is to achieve, relative to 2004/5 baseline, total annual efficiency gains in local government of at least £6.45bn by 2007/8¹. It is a further requirement that at least half of this is cashable.

1.3 The following areas of local services contribute towards this target:

Table 1 Efficiencies contributing towards local government target

Sector	Where also reported
Cross-cutting efficiency gains from corporate services, procurement, productive time and transactions	Only reported against the local government efficiency target
Adult social care	Department of Health efficiency target
Children's services	DfES efficiency target
Culture and sport	DCMS efficiency target
Fire	ODPM efficiency target
Local roads and transportation	Department for Transport (DfT) efficiency target
Police	Home Office value for money target
Schools and LEAs	DfES efficiency target
LA social housing ²	Only reported against the local government efficiency target
Supporting people	ODPM efficiency target
Waste management	DEFRA efficiency target

1.4 All the above are covered by this Note except for the following:

- police efficiency (see Home Office VFM Technical Note);
- schools efficiency (see DfES ETN); and
- Transport for London (see DfT ETN).

1.5 Individual Departments ETNs also provide further details of specific efficiency proposals. Further information on the process for assessing efficiency gains in social housing is contained in the ODPM ETN.

¹ This calculation is assessed against a baseline expenditure in 2004-05 of £85.6bn which covers local government spend through Formula Spending Shares, specific grants, police grant and net capital spend, minus transfer payments.

² Efficiency gains achieved by Registered Social Landlords are reported against the ODPM efficiency target.

Consultation and implications for status of this Note

1.6 There is a need for consultation to ensure that the mechanisms put in place are robust, can be effectively embedded into local authorities delivery programmes, and enhance local accountability.

1.7 ODPM has consulted a wide range of organisations and individuals on appropriate efficiency indicators and categories. This consultation includes Government departments overseeing local government services, selected local authority experts, the Audit Commission, CIPFA (Chartered Institute of Public Finance and Accountancy), the Employers Organisation (EO), the Improvement and Development Agency (IDeA) and the Local Government Association (LGA).

1.8 Following these discussions, two alternative potential approaches have been derived. These are referred to as the Self Assessment Approach and the Framework Approach and are explained in section 4. ODPM has commissioned INLOGOV of the University of Birmingham to conduct a pilot study of a representative group of some 60 councils to review these. This pilot study will conclude by early December 2004.

1.9 This ETN sets out those two potential approaches. A second version setting out the adopted approach will be published on the ODPM website by the end of 2004.

Coverage of the Note

1.10 In the remainder of this Note:

- Section 2 sets out principles of design for the approach to measurement;
- Section 3 outlines reporting arrangements;
- Section 4 details the two potential approaches to measuring efficiency gains;
- Section 5 sets out additional technical details in measuring efficiency gains;
- Section 6 provides details of the mechanism for reporting efficiencies;
- Section 7 summarises timescales for future actions;
- Annex 1 gives basic details on Gershon workstreams;
- Annex 2 provides details of the Self-Assessment approach; and
- Annex 3 sets out further information on the Framework Assessment approach.

2 ASSESSING EFFICIENCY GAINS IN LOCAL GOVERNMENT

2.1 Each council has a target to achieve annual efficiency gains of 2.5% of their 2004/5 baseline, of which at least half should be cashable. It should be noted that:

- at this stage, subject to further consultation with local authorities, it is envisaged that the 2004/5 baseline expenditure figure be based on budget rather than out-turn, in line with the methodology for the overall baseline expenditure of local government;
- transfer payments, such as gross expenditure on rent allowances or rebates, are not included in the baseline;
- efficiencies accruing from and relating to the delegated schools budget and police service expenditure are the subject of separate DfES and Home Office methodologies.

2.2 The sum of efficiencies achieved by councils, plus those from police, schools and Transport for London (TfL) equals the total for local services, to be counted against the £6.45 billion local government target. As police, schools and TfL are covered elsewhere, this Note concentrates on efficiency gains to be achieved by, and reported by, local authorities.

2.3 Efficiency gains are achieved in the following ways:

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

2.4 Key principles for the measurement framework are that:

- each council is able to identify and quantify the efficiency gains that have been attained in its sphere of operations;
- the system is flexible in terms of the activities that can be counted;
- the approach is robust, simple and streamlined;
- it is helpful in terms of promoting good practice in driving improvement; and
- any additional burdens on local authorities are limited as far as possible.

2.5 The Gershon Review highlighted four workstreams where significant efficiency gains could be obtained in local government - procurement, corporate services, productive time and transactions (see Annex 1 for details of the activities they cover). Accordingly, the measurement approach proposed for consultation includes, but is not restricted to, these areas.

3 REPORTING EFFICIENCY GAINS

3.1 Two issues are covered in this Section:

- the primary source of information on efficiency gains by each council - an Annual Efficiency Statement; and
- the links between that Statement and the existing reporting framework.

Annual Efficiency Statement

3.2 The primary source of information on efficiency gains by each council will be an Annual Efficiency Statement (AES). It will be signed by the Leader of the Council and Chief Executive, and comprise two parts.

3.3 Subject to consultation, the forward-looking part of the Statement will be required from April 2005. This option is proposed in order to ensure that planning for efficiency is a key consideration for Councils in setting their budgets. The alternative under consideration is to provide this material in June of each year (combining with the backward-looking part of the Statement to form an integrated document).

3.4 The forward-looking part of the Statement will be a very brief (one or two pages) outline of the strategy for securing efficiency gains, the key actions that will be taken during the next year, and the efficiency gains that are expected to result from them.

3.5 Again subject to consultation, the backward-looking part of the Statement will be required from June 2006. This month is proposed to fit with the work undertaken to deliver the Audit Commission's Use of Resources judgements. It will set out the cashable and non-cashable efficiency gains achieved in the past financial year by service sector and cross-cutting area.

3.6 Details of proposals for the methodology underpinning the information contained in the backward-looking part of the Statement are set out in Section 4.

Integrating with other reporting arrangements

3.7 Our proposal, subject to confirmation and consultation, is that the Audit Commission includes an assessment of the Annual Efficiency Statement in the "Use of Resources" section for the Comprehensive Performance Assessment (CPA). The process for this assessment would be incorporated into the annual external audit. As a consequence, results on the assessment would be provided by the Audit Commission to the council and ODPM by mid-December following receipt of the Statement.

4 APPROACHES TO THE ANNUAL EFFICIENCY STATEMENT

4.1 Two different approaches to this issue have been developed. These are out to consultation with a group of 60 councils, chosen statistically to be a representative sample of English authorities, in a programme that is being run by INLOGOV of the University of Birmingham.

4.2 The two approaches being piloted, of which initial feedback (including the Audit Commission) has generally favoured the former, are Self-assessment and Framework assessment. These are discussed below. Further guidance on technical issues that apply whichever approach is adopted is set out in Section 5.

Approach 1 Self-assessment

4.3 This approach entails councils self-assessing the efficiency gains that they have made into various specified categories, with the results then subject to review by the Audit Commission.

4.4 The basic principles are that:

- in setting their annual budget as part of their medium term financial planning process, councils identify actions to improve efficiency and quantify the estimated expected gains;
- following the end of the financial year, councils identify the £ impact of actions taken by service sector category and for cross-cutting areas for that year relative to the previous year, making the distinction between cashable and non-cashable efficiency gains;
- claimed efficiency gains for a given service sector are only valid if service quality in that category is maintained. This question of ensuring quality is not a straightforward one and is subject to consultation. Potential sources of data for judgement are a suitable statutory indicator or set of statutory indicators, or service inspection (where available), or the Audit Commission's annual service assessments for CPA in single tier and county councils. Whilst none of these are perfect measures of quality, any of them, or any combination of them, may be used by ODPM as indicators of quality for the purposes of this exercise;
- councils' reports of efficiency gains would be subject to review by the Audit Commission - assessing whether the evaluation process was adequate, and whether there was supportable basis for reported efficiencies. An adequate audit trail with evidence to support the reported efficiency gains and show how they were calculated will be required. The Audit Commission will not produce a judgement on whether service quality has been maintained but will be asked to draw attention to any known changes in service quality.

4.5 ODPM are keen not to penalise councils that have made particular efforts to improve efficiency in 2004/5. Consequently, one issue open to consultation is the possible development of a system to take such efficiencies into account when assessing Councils' performance.

4.6 Prescribed efficiency indicators would play no formal role in this process. Nonetheless, the facilitation of benchmarking information is important to the efficiency agenda. The Audit Commission is developing a financial profiles tool to strengthen the evidence base for the CPA process. This tool is still in development, but the intention is to provide a high level overview of all council costs and performance. This will be done using existing cost information from RO/RA forms and other existing sources, and performance data using a wide range of PIs and other sources as appropriate.

4.7 Annex 2 provides further details of the Self-assessment approach.

Approach 2 Framework Assessment

4.8 Framework assessment would include elements of self-assessment and efficiency gains measured against pre-set indicators to determine the overall improvement in efficiency.

4.9 It would operate as follows:

- councils report efficiencies based on a core group of approximately 20 efficiency indicators relating to service sectors and Gershon cross-cutting workstreams of procurement, corporate services, and productive time;
- these indicators identify the efficiencies achieved either in terms of reducing unit costs (after allowing for inflation) or reducing unrequired volume (for example, offices using less paper);
- in addition, councils self-assess efficiency gains made in areas not covered by the indicators - using the principles outlined in Approach 1. These miscellaneous efficiencies are categorised by service sector and cross-cutting Gershon workstream;
- claimed efficiency gains for a given service sector are only valid if service quality in that category is maintained. This question of ensuring quality is not a straightforward one and is subject to consultation. Potential sources of data for judgement are a suitable statutory indicator or set of statutory indicators, or service inspection (where available), or annual service assessments for CPA single tier and county councils; Whilst none of these are perfect measures of quality, any of them, or any combination of them, may be used by ODPM as indicators of quality for the purposes of this exercise;
- councils' reports of efficiency gains would be subject to review by the Audit Commission - assessing whether the evaluation process was adequate, and whether there was supportable basis for reported efficiencies. An audit trail and evidence would be required as for Approach 1 (Self Assessment)

4.10 The total efficiencies reported by Councils would be the sum of those measured by specific indices plus those from miscellaneous categories.

4.11 Annex 3 provides further details of the approach.

5 TECHNICAL DETAILS

5.1 *Taking inflation into account*

The default rate of inflation to be taken into account is the GDP deflator. Current HM Treasury estimates for future years are as follows: 2005/6 2.52%, 2006/7 2.68%, 2007/8 2.70%. Hence, for example, if output for a council in a given service area in 2005/6 is maintained for an expenditure which is the same as in 2004/5, this represents a 2.52% efficiency.

5.2 *Cashable and non-cashable*

Cashable gains represent the potential to release savings in cash for other areas of spending. By contrast, non-cashable efficiencies relate to improved outputs or enhanced service quality for the same expenditure, efficiencies that achieve reductions in fees and charges to the public, and improvements to productive time (unless fewer staff are needed as a result).

More specifically, by workstream:

- *Procurement* efficiency gains realised through greater economies of scale or lower prices are cashable. This includes instances where prices have been negotiated to below the level of inflation. Where higher quality goods and services are procured for the same prices (after allowing for inflation), gains are non-cashable;
- *Corporate services* will be cashable for those cases of less expenditure for the same outcomes, non-cashable where better outcomes are achieved for the same expenditure;
- *Transactions* follows the same approach as corporate services. In the case where improved output is claimed, it must be clear that the improved output is genuinely beneficial to the end user.
- *Productive time* cashable gains include those where input costs have decreased. Increased input levels (such as through reduced absenteeism) or increased output levels represent non-cashable gains.

5.3 What is not acceptable as a measured efficiency gain

Certain types of activity are not acceptable as efficiency gains. These include:

- 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.

Note that the latter point is not included as an efficiency gain because it represents an increase in income, rather than an improvement in the internal processes of service delivery.

5.4 Productivity improvements in the form of improved service for same expenditure

Improvements to quality that are achieved with no corresponding increase in costs are gains in efficiency. We will be exploring approaches to assessing the monetary value of such improvements. The Atkinson Review into improved measures of UK government output and productivity may provide one such source of information³.

In addition, ODPM will commission research during 2005/6 that will examine scope for, and provide recommendations on, means to provide such quantification.

6 MECHANISM FOR REPORTING EFFICIENCY GAINS

6.1 The Audit Commission have indicated a willingness to take the lead on the collection of efficiency data from councils. For this purpose, they propose to explore using their electronic data gathering system. Summary details of efficiency gains will then be reported to ODPM and other Government Departments.

³ See http://www.statistics.gov.uk/about/methodology_by_theme/atkinson/

7 TIMESCALE FOR FUTURE ACTIONS

Table 2 Timescale for future actions on measurement (2004-2006)

Timescales for the Annual Efficiency Statement are subject to consultation. See Section 3 for further details.

	Action
December 2004	Guidance on measurement will be published.
April (or June) 2005	Local authorities will need to submit the forward-looking part of the AES, looking ahead to the year 2005/06.
April (or June) 2006	Local authorities will need to submit the forward-looking part of the AES, looking ahead to the year 2006/07.
end of June 2006	Local authorities will need to submit the backward-looking part of the 2005/6 AES, looking backward to report efficiency gains achieved in that year.
mid-Dec 2006	The Audit Commission to complete and report its assessment of Councils efficiency performance in 2005/6

ANNEX 1 GERSHON WORKSTREAM COVERAGE

The following sets out basic definitions of the Gershon workstreams in corporate services, procurement, productive time and transactions.

Corporate Services

Corporate Services (back office) includes, but is not limited to, Finance, HR (in respect of training; only the function, not the spend), ICT, Procurement (the function, not the spend), Legal Services, Facilities Management, Travel Services, Security Services and Marketing & Communications.

Procurement

Procured goods and services include commodity goods and services - utilities, commodity IT, equipment & supplies, telecoms, vehicles etc - as well as professional services, temporary labour and construction. It also includes sector specific markets for areas such as roads, social housing, social care, environmental services and police.

Productive time

The focus for this workstream is on increasing the productivity of front line staff, for example teachers, police officers, consultants, GPs, nurses and those who support them.

Transactions

The transactions workstream applies to those efficiencies that can be gained through such means as combining activities to produce more efficient ways of dealing with customers or streamlining processes, or making a major shift from manual to electronic processing.

ANNEX 2 SELF-ASSESSMENT APPROACH

Further refinement and development is required, but the following sets out an indication of the type of template that Councils would be expected to complete:

Table 3 Illustrative example of self-assessment approach

2005/6		Nature of saving	Cash-able	Non-cash	Total
Education (excl. schools)		...			
Children's Services		...			
Environmental Services		...			
Local Transport		...			
Culture and Sports					
Social Housing		...			
Fire		...			
Cross-cutting procurement	1	e-auction to reduce stationary costs	£80,000	£0	£80,000
	2	mobile technology used to reduce time spent travelling to meetings		£120,000	£120,000
	...				
...					
Total					

The supporting narrative to the Statement should briefly explain:

- the nature of the saving;
- how it was achieved; and
- duration of the saving (whether it was a 'one-off' that will only apply during the year in question, or whether efficiencies are on-going).

The savings should be those for the relevant year as reflected in the audited accounts for that year.

A suitable cross-check on quality has to be satisfied for efficiencies in a given sector to be counted. In the illustration above, if the cross-check on quality for cross-cutting efficiency was the council's CPA use of resources score, the efficiency gains shown above would be counted providing that score was maintained or increased.

ANNEX 3 FRAMEWORK ASSESSMENT APPROACH

To give councils a clearer picture of the approach, the following initial list of indicators has been developed for use in the consultation process. If this approach was to be adopted, further development would be essential.

Table 4 Potential efficiency indicators with framework assessment approach

Sector specific	Type of measure	
Adult Social Services	Efficiency indicator	Unit cost of residential care for older people
	Efficiency indicator	Unit cost of home care for adults and older people
	Self assessed	Other efficiencies in adult social care
	Quality check	% users very or extremely satisfied with social services
Children's services	Efficiency indicator	Avg. weekly expenditure per looked after child in a children's home
	Self assessed	Other efficiencies in children's services
	Quality check	Health of children looked after
Culture and sport	Efficiency indicator	Procurement of library books
	Self assessed	Other efficiencies in culture and sport
	Quality check	CPA service block score for culture ⁴
Environmental services	Efficiency indicator	Unit cost of waste management
	Self assessed	Other efficiencies in environmental services
	Quality check	Progress on meeting the requirements of the Environmental Protection Act
Fire	Efficiency indicator	Expenditure per head on fire services
	Quality check	Maintain performance on BVPIs 142, 143 and 206
Local transport	Efficiency indicator	Ratio of supported public transport vehicle km to cost of producing service
	Efficiency indicator	Unit cost of road maintenance
	Self assessed	Other efficiency gains from local transport
	Quality check	CPA transport service block score
Supporting people	Efficiency indicator	Average cost per contact hour
	Quality check	Overall average score in Quality Assessment Framework
Cross-cutting		
Corporate services	Efficiency indicator	Unit cost of HR per employee
	Efficiency indicator	Unit cost of operational ICT per end user
	Efficiency indicator	Cost of finance as proportion of total spend
	Self assessed	Other efficiencies in corporate services
	Quality check	Employee satisfaction
Procurement	Efficiency indicator	Unit cost of basket of 10 commonly purchased goods and services
	Self assessed	Other efficiency gains in cross-cutting procurement
Productive time	Efficiency indicator	Sickness absence
	Self assessed	Other efficiencies in productive time
	Quality check	Employee satisfaction
Transactions	Efficiency indicator	Ratio of expenditure on processing council tax to total liable population
	Efficiency indicator	Unit cost of handling householder planning applications
	Self assessed	Other efficiency gains from transactions
	Quality check	Proportion of council tax collected
Other	Self assessed	All other efficiencies achieved
	Quality check	Overall score on CPA

⁴ the availability of this measure is subject to the consultation process currently being conducted by the Audit Commission

The following provides an illustrative example of how this would work.

Table 5 Illustrative example: Environmental Services in Council Y (2005/6)

	Spend (£m) 2004/5	% change in unit cost - 2.5% inflation	Unit cost efficiency (£)	Volume efficiency (£)	Total efficiency (£)
Unit cost of waste management	£0.3m	-10.0%	£30,000	£0	£30,000
Efficiencies in street cleaning - self assessed	x	x	x	x	£50,000
Waste management - reduced waste for disposal	£1.5m	-	-	£0.2m	£200,000

Efficiency gains of £280,000 are recorded providing the quality cross-check (in this instance, progress on meeting the requirements of the Environmental Protection Act) indicates that service quality is being maintained.