

# **REPORT TO CORPORATE MANAGEMENT TEAM AND CABINET**

**REPORT OF:** DIRECTOR OF FINANCE AND  
STRATEGIC RESOURCES

**REPORT NO:** FIN 221

**DATE:**

<b>TITLE:</b>	GERSHON EFFICIENCY SAVINGS
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<b>COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:</b>	
<b>CORPORATE PRIORITY:</b>	

1. The purpose of this report is to bring the CMT up to date on the Gershon Efficiency process for 2005/2006 and beyond. The Lincolnshire Financial Officers Association is co-ordinating a country-wide approach to the Gershon issue, which will dovetail with our own approach.
2. An Efficiency Technical Note for Local Government has been forwarded by the Audit Commission. The final Government guidance was due to be published by December 2004. At the time of writing this report the guidance has not yet been published. This report draws upon the technical release and discussions with Lincolnshire Finance Officers.

### Background

3. The local government target, calculated upon the 2004/2005 baseline is £6.45b to be achieved by 2007/2008. At least half of this must be cashable. This target is calculated by reference to more than government department and those impacting on districts is shown in the table below.

<u>Sector</u>	<u>Where Reported</u>
Cross cutting efficiency from Corporate Services, Procurement, Productive time and transactions	Local Government Efficiency Target
Culture and Sport	Department of Culture and media target
Local Roads and Transportation	Department for Transport
LA Social Housing	Reported against Local Government target
Supporting People	ODPM efficiency target
Waste Management	DEFRA efficiency target

4. Three district processes are required:
  - i) Assessment of the Baseline Position
  - ii) Preparation of the Efficiency Statement
  - iii) Assessment of the Efficiency Statement.

### Assessment of the Baseline

5. Each Council has a target to achieve of 2.5% of their 2004/2005 baseline of which at least half should be cashable.
  - 2004/2005 will (at this stage) be based upon budgeted not actual expenditure
  - transfer payments are excluded from the baseline.

6. The assessment of baseline will follow the same approach for the whole of the local authority targeted figure. Guidance is required on how to calculate this - in particular relating to 'net' capital spend and how the Housing Revenue Account is to be treated.
7. South Kesteven has already set an efficiency target for 2005/2006 of £200,000. this may be higher or lower than the calculated baseline target but is a useful start to the process.
8. The Chief Executive has previously explained how efficiency gains are defined, and are summarised below:
  - Reduced inputs (money, people, assets) for some output
  - Reduced prices (procurement, labour costs) for some output
  - Additional outputs or improved quality (extra service, productions) for same inputs
  - Improved ratios of cost/output (unit costs).
9. In developing the framework it is hoped that the principles adopted will ensure:
  - 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
  - Any additional burdens on local authorities are limited as far as possible.
10. The efficiency gains will be measured in four 'Gershon' work streams

- Procurement
- Corporate Services
- Productive Time
- Transactions

These will be discussed in more detail later in the report.

11. Lincolnshire Finance Officers are working together to have a common approach to assessing the baseline. A meeting with the Audit Commission representative, Neil Bellamy, is to be convened to agree the approach.

#### Annual Efficiency Statement

12. The annual efficiency statement will be in two parts and signed by the Leader and Chief Executive. The parts will be
  - (a) Forward looking - one or two pages outlining the strategy of securing efficiency gains, proposed actions, and efficiency gains expected to result from these actions. This is required from April 2005.
  - (b) Backward looking - sets out the efficiency gains achieved, split between cashable and non-cashable, by service and by cross-cutters. This is required from June 2006.

The statement will be audited to the Audit Commission as part of its annual audit process, on the statement of accounts.

13. Thus for 2005/2006, providing I can calculate a suitable baseline figure, a statement can be produced outlining the Council's approach to the efficiency achievements. It can be broad, perhaps looking three years ahead, highlighting 'easy efficiency gains', medium and longer term areas.
14. The harder job will take place in 2005/2006. That of proving the efficiency gains made against the assessment framework.

### Assessment Framework

15. At the current time two models are being considered

- (a) Self Assessment
- (b) Framework Assessment

#### Self Assessment

The main principles:

- In setting annual budget and as part of the medium term financial strategy, identify actions to improve efficiency and quantify the estimated expected gains.
- Following end of financial year, we would identify the £ impact of actions by service-cross-cutters for that year relative to previous year eg 2005/2006 compared to 2004/2005.
- Claimed efficiency gains are only valid if service quality is maintained. A consultation process on a definition for quality maintenance is to be issued. It is likely to be based upon Audit Commission indicators, inspections or CPA judgements.
- The Council's report on efficiency gains would then be audited. An audit trail for judgements would be required; the auditors would then draw attention to areas of change in service quality.

If efficiency gains have been made in 2004/2005, it may be credit will be given as part of the process. This is subject to consultation.

#### Framework Assessment

The main principles:

- Councils report upon a core group of approximates to efficiency indicators relating to the various work streams and service areas.
- These will identify efficiencies achieved in terms of reducing unit costs or reducing unrequired volume.

- In addition, self assessments would be required in areas not covered by the 20 indicators.
- Like the self assessment, potential indicators of quality would come from Audit Commission Inspectors or national indicators.
- The process would be audited as in the Self Assessment Approach.

## 16. Technical Issues

Inflation needs to be adjusted for. The Government will supply the relevant indicator of inflation. In theory, if a service area maintains a given quality and the expenditure in 2005/2006 is the same as 2004/2005 this will be an efficiency gain at least equal to inflation. But the baseline position will need to clarify the differences between gross expenditure and net expenditure to make sure that the impact of inflation is treated correctly. I assume this will be covered within the final guidance.

## 17. Cashable and Non-Cashable

### Definitions

Cashable - represents the potential to release savings in cash for other areas of spending.

Non-Cashable - 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.

By Workstream - Procurement - through economies of scale or lower prices = cashable. Including areas where prices agreed below rate of inflation (?) higher quality goods and services procured for same price (after inflation?).

I have put ? in brackets behind the word inflation to illustrate the difficulty - the definition of inflation being used is the GDP deflator eg a bit like the RPI; since local authority services are staff based the pay award will normally outstrip the GDP deflator. The latter is more applicable to the purchase of goods from suppliers.

Corporate Services - will be cashable if outcomes are maintained for less expenditure; non-cashable where better outcomes are achieved for the same expenditure.

Transactions - same as corporate services.

Productive time - cashable gains include those where the input costs have decreased. Increased input levels (through reduced absenteeism) or increased output levels represent non-cashable gains.

## 18. I have included the Annexes to the Technical Release which provides further guidance on definitions of work streams and the approach to self assessment/assessment.

## 19. Lincolnshire Approach

The Lincolnshire Financial Officers Association is reporting to the Chief Executives group at their next meeting. This is aimed at:

- (a) co-ordinating activity on this area of work-in particular the shared services work on purchasing and procurement
- (b) asking to pool resources to avoid duplication of effort
- (c) to agree a standard approach for dealing with Auditors
- (d) to ask the Chief Executive for a steer on driving partnership working.

From South Kesteven's perspective, I advise

- (a) producing the forward looking efficiency statement as part of the main budget. It can be refined and formally adopted between April - June 2005 (depending on guidance).
- (b) ensuring we set broad targets within the four workstreams - these can then be more accurately assessed through 2005/2006.
- (c) accept that in 2005/2006 the easier efficiency gains to achieve will be in our control; over the next two years it will need supplementing by partnership working, market testing and shared services.
- (d) the forward Looking Plan to have a three year time horizon.
- (e) a review of the guidance and our capacity to deliver the required audit trails on the measurement of efficiency savings.

## **ANNEXS TO REPORT**

Annex 1 - Self Assessment Approach

Annex 2 - Framework Assessment Approach

## ANNEX 1 - 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

2005/2006		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 stationery costs	£80,000	£0	£80,000
	2	mobile technology used to reduce time spent travelling to meetings		£12,000	£120,000
			£80,000	£0	£80,000
<b>Total</b>					

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 2 - 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

<b>Sector specific</b>	<b>Type of measure</b>	
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 for culture *
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 secure
Supporting people	Efficiency indicator	Average cost per contact hour
	Quality check	Overall average score in Quality Assessment Framework
<b>Cross cutting</b>		
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	Ration of expenditure on processing Council Tax to total liable population
	Efficiency indicator	Unit cost of handling householder planning applications
	Quality check	Proportion of Council Tax collected
Other	Self assessed	All other efficiencies achieved
	Quality check	Overall score on CPA

\* 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 (2005/2006)**

	Spend (£m) 2004/2005	% 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.

