

# *Measuring and Reporting Efficiency Gains*

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A Guide to Completing Annual Efficiency Statements



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A Guide to Completing Annual Efficiency Statements

Information for Chief Financial Officers, Efficiency Champions and  
Officials Measuring or Reporting Efficiency Gains

On 5th May 2006 the responsibilities of the Office of the Deputy Prime Minister (ODPM) transferred to the Department for Communities and Local Government

Communities and Local Government  
Eland House  
Bressenden Place  
London  
SW1E 5DU  
Telephone: 020 7944 4400  
Website: [www.communities.gov.uk](http://www.communities.gov.uk)

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Communities and Local Government Publications  
PO Box 236  
Wetherby  
West Yorkshire  
LS23 7NB  
Tel: 08701 226 236  
Fax: 08701 226 237  
Textphone: 08701 207 405  
Email: [communities@twoten.com](mailto:communities@twoten.com)  
or online via the Communities and Local Government website: [www.communities.gov.uk](http://www.communities.gov.uk)

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**Editorial Note**

**This edition of “Measuring and Reporting Efficiency Gains” is intended for use by the Chief Financial Officers, Efficiency Champions and other officials within a local authority.**

An abridged version of this same guidance, including only the information in chapters 2 and 8 of this edition and intended for use by Leaders, Chief Executives, Senior Members and Senior Officials, is also available.

## Summary of changes from May 2006 issue

The following grid summarises the key changes from the previous issue of “Measuring and Reporting Efficiency Gains” dated May 2006:

Page	Section	Summary of Changes
7	Coverage of this guidance	New section regarding relationship with 2007 Comprehensive Spending Review
7-8	Sources of assistance	Updated contact details
19	GDP deflators	Updated estimates for inflation indices (both in table and linked websites in footnotes)
20	Efficiencies must be shown net of costs	Fully revised text and new examples to clarify this principle
22	Gains from the management of a function, not the activity itself	Revised principle b8 expanded from Treasury Management to cover detection of fraud and court fees and damages
34	Sale of surplus assets	New advice on accounting for sale of surplus school buildings and/or land
40-41	Public-Private Partnerships	New advice on measuring gains from private sector co-funding/sponsorship and Arms Length Management Organisations (ALMOs)
47-50	Quality Crosschecks	Revised crosschecks and source data for Culture & Sport, Local Transport (both rows) and Procurement (both rows)
57-62	Completing an Annual Efficiency Statement	Revised text to enhance understanding of the way the AES should be completed and operation of the online template functions

## Section 1: Introduction

- 1.1 This guidance sets out all the basic information required by a local authority in order to complete an Annual Efficiency Statement (AES). It builds on the Efficiency Technical Note for Local Government (ETN) published in January 2005, developing its ideas and providing practical examples. It is underpinned by the assistance of the Measurement Taskforce, whose members are drawn from a range of organisations<sup>1</sup> in local and central government. We are very grateful for their efforts.
- 1.2 This version of the guidance incorporates information included in previous guidance documents in a fully revised and updated format, taking on board the lessons learned from experience with earlier AES rounds. It is correct as of **19 February 2007**. It replaces the version dated May 2006.
- 1.3 Chapter 2 includes a list of the core principles underpinning the measurement of efficiency and discusses each one in turn, while Chapter 8 sets out the main issues to consider when putting in place arrangements for managing efficiency within a council and AES scrutiny requirements. The remaining chapters and annexes provide further advice on more technical and complex measurement and reporting issues.

### Coverage of this Guidance

- 1.4 The information contained in this guidance refers *only* to the arrangements in place for the current 2004 Spending Review (SR04) period, which concludes at the end of March 2008. Please note that these arrangements are unchanged by the announcements about efficiency under the 2007 Comprehensive Spending Review (CSR07), including the new 3% per annum target for the years 2008-09 to 2010-11. The targets previously agreed for 2007-08 remain in place.
- 1.5 Local and central government representatives are working together to decide how the efficiency agenda should be taken forward during the CSR07 period, including the relevant arrangements for measuring and reporting gains. We expect to provide information about this following the publication of CSR07 in the summer.

### Sources of Assistance

- 1.6 For advice and assistance on the general principles behind the measurement and reporting of efficiency gains you may contact:

Michael Read-Leah	michael.read-leah@communities.gsi.gov.uk	020 7944 3470
Neil Reeder	neil.reeder@communities.gsi.gov.uk	020 7944 6916
Jackie Reid	jackie.reid@communities.gsi.gov.uk	020 7944 8399

<sup>1</sup> The following organisations are represented on the Measurement Taskforce: Department for Communities and Local Government, Audit Commission, Chartered Institute of Public Finance and Accountancy, DCMS, DfES, Defra, DH, DfT, DWP, Highways Agency, HM Treasury, Improvement and Development Agency, Institute of Public Finance, Local Government Association (including the former Employers' Organisation), Office of Government Commerce, Society of Chief Architects of Local Authorities, Society of County Treasurers, Society of District Treasurers, Society of London Treasurers and Society of Municipal Treasurers.

- 1.7 For more detailed information on how the basic principles set out in this document may be applied in each service sector or crosscutting workstream, you are referred to the series of measurement toolkits produced by individual departments. The current version of each toolkit may be found on the national RCE website (<http://www.rce.gov.uk/rce/core/page.do?pageId=10106>).
- 1.8 If you require further advice or assistance about measuring gains in a particular service sector or workstream or the use of a measurement toolkit, you should contact the appropriate person from the list in the table below:

<b>Adult social services</b>	Kevin Barr	kevin.barr@dh.gsi.gov.uk
<b>Children’s services</b>	Brian Blagbrough	brian.blagbrough@dfes.gsi.gov.uk
<b>Culture and sport</b>	Cathy Page	cathy.page@culture.gsi.gov.uk
<b>Environmental services</b>	Tony Ripley	tony.ripley@defra.gsi.gov.uk
<b>Local transport</b>	Tony Darnell	tony.darnell@highways.gsi.gov.uk
<b>Highways Non-highways</b>	Carl Sutcliffe	carl.sutcliffe@dft.gsi.gov.uk
<b>Social housing</b>	Peter Wycherley	peter.wycherley@communities.gsi.gov.uk
<b>Non-schools education</b>	Andrew Webster	andrew.webster@dfes.gsi.gov.uk
<b>Supporting people</b>	Sandra Popoola	sandra.popoola@communities.gsi.gov.uk
<b>Homelessness</b>	Dylan Grimes	dylan.grimes@communities.gsi.gov.uk
<b>Corporate services</b>	Ashley Pottier	ashley.pottier@communities.gsi.gov.uk
<b>Procurement</b>	Rehan Haidar	rehan.haidar@communities.gsi.gov.uk
<b>Productive time</b>	Nicky Jackman	nicky.jackman@communities.gsi.gov.uk
<b>Transactions</b>	Ashley Pottier	ashley.pottier@communities.gsi.gov.uk

- 1.9 For technical advice and assistance on using the esd-toolkit, and to register someone as the officer responsible for submitting statements, you should contact the esd-toolkit team by e-mail at: [esd-toolkit@idea.gov.uk](mailto:esd-toolkit@idea.gov.uk)
- 1.10 We recommend that councils keep the AES Discussion Forum on the esd-toolkit under review (<http://www.esd-toolkit.org/forums/viewforum.php?f=130>). On this site, local authorities and central government departments discuss details of measurement, and it also holds the latest versions of guidance documents such as the voluntary toolkits listed above.
- 1.11 The esd-toolkit team has produced some brief user guides to explain how to complete the templates for each AES, and these are available to councils in the AES templates area at: [www.esd-toolkit.org](http://www.esd-toolkit.org)

## AES Submission Deadlines

1.12 Future efficiency statements must be submitted *by 5pm* on the following dates:

Date	Annual Efficiency Statement
12 April 2007	2007-08 Forward Look
5 July 2007	2006-07 Backward Look
15 November 2007	2007-08 Mid-Year Update
8 July 2008	2007-08 Backward Look

## Section 2: Basic principles in measuring efficiency

2.1 The efficiency agenda for local government is underpinned by a number of core basic principles. These are discussed in detail below and are:

### **a General Principles**

- a1 Efficiency is about raising productivity
- a2 All councils have the same target as a percent of their 2004-05 baseline
- a3 Councils need not make 2.5% efficiencies in every year, as long as they remain above their cumulative targets;
- a4 The baseline is 2004-05 net expenditure, now updated to use outturn data
- a5 Councils may report efficiencies from associate organisations whose levies or precepts contribute to their baseline expenditure
- a6 Efficiency gains before 2004-05 and after 2007-08 are excluded
- a7 Efficiency gains may be cashable or non-cashable
- a8 Efficiency can occur even if expenditure rises or is held constant
- a9 Not everything that leads to reduced cost is countable as an efficiency
- a10 Improvements in service quality can potentially count as efficiencies
- a11 Valuing an outcome is a pointer to efficiency assessments, but not the proper calculation to use
- a12 A drop in standard from a 'gold plated' service is not an efficiency unless the service is maintained with another activity
- a13 One-off efficiencies only score against targets in the year they accrue
- a14 Ongoing efficiency gains must genuinely continue over time
- a15 Efficiencies relating to use of the voluntary sector should be in line with good practice principles on risk, full cost recovery and funding stability

### **b Measurement Principles**

- b1 Efficiency is about measuring yourself against your previous performance
- b2 The GDP deflator is the default rate of inflation except for certain areas
- b3 Efficiencies must be shown net of costs
- b4 Efficiency gains can be made from the Housing Revenue Account
- b5 Efficiency gains may be achieved from capital spending
- b6 Fees and charges can generate efficiency gains in certain circumstances
- b7 Efficiency gains may be generated through partnerships
- b8 Efficiency gains may be achieved from the management structures undertaking Treasury Management functions, but not the activity itself
- b9 Councils should report part-year improvements, not just full-year activity

### **c Reporting Principles**

- c1 A light touch & balanced approach to reporting endorsed by stakeholders
- c2 Quality cross-checks must be used with the backward look statement
- c3 The AES must be approved by senior officers and Members
- c4 Efficiencies recorded in the AES should be based on robust processes
- c5 Efficiency gains which fluctuate need to be updated in the AES
- c6 The AES will be subject to review
- c7 The AES must be submitted through the esd-toolkit
- c8 Efficiency gains should be recorded in service sectors wherever possible

## a1 Efficiency is about raising productivity

2.2 Efficiency is about raising productivity and enhancing value for money. An efficiency gain is made when, for a given area of activity, an organisation is able to:

- Reduce inputs for the same outputs (representing a cashable gain; i.e. money is released that can be reused elsewhere);
- Reduce prices for the same outputs (representing a cashable gain);
- Get greater outputs or improved quality for the same inputs (representing a non-cashable gain; i.e. money is not released); or
- Get greater outputs or improved quality in return for a proportionately smaller increase in resources (representing a non-cashable gain).

### Example: Improved outputs for the same inputs

In the first year, Authority A processes 100 applications for Blue Badges per month using six personnel. In the following year, there is an increase in the number of applications to 150 per month, but the authority is able to process this increased number using the same six personnel.

The six personnel receive a combined salary of £15,000 per month. In the first year, therefore, Authority A pays £150 to process each application. At that rate, processing 150 applications would have cost £22,500, but in fact it has remained at £15,000. The monthly efficiency gain is the difference between those numbers (i.e. £7,500), and thus the annual gain is £90,000 (non-cashable).

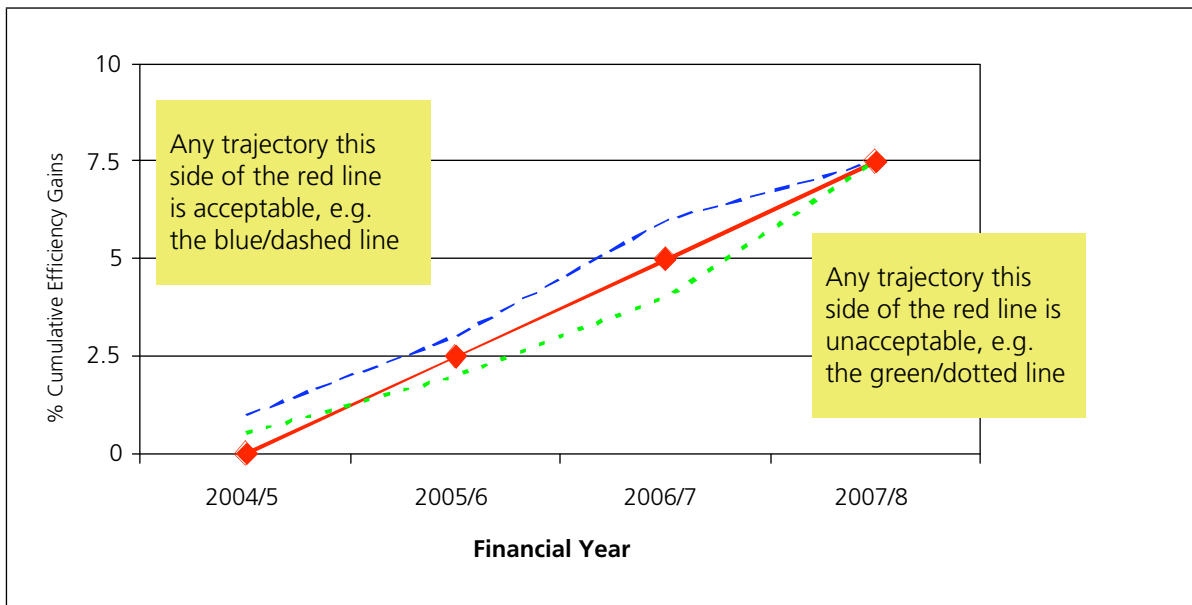
## a2 All councils have the same target as a percent of their 2004-05 baseline

2.3 All local authorities have been set an annual efficiency target, based on 2.5% of their 2004-05 baseline, and a target for cashable efficiency gains each year based on 1.25% of their 2004-05 baseline. Thus, by the end of 2007-08, each authority should have achieved total efficiency gains equal to or greater than 7.5% of their baseline, and cashable gains of at least 3.75%.

2.4 Local authorities are not required to reduce their expenditure by 7.5% (the required total efficiency gains) or 3.75% (the required cashable efficiency gains) over the years to 2007-08. There is no one-to-one relationship between efficiency gains and expenditure because cashable efficiencies will sometimes be redirected to frontline services and sometimes used to hold down Council Tax, and non-cashable gains would not show up in any case.

## a3 Councils need not make 2.5% efficiencies in every year, as long as they are above their cumulative targets

2.5 The target is a cumulative one. Local authorities need not make exactly 2.5% efficiency gains in every year, so long as they have met or exceeded their target position for each year. Thus, it is permissible to make 3% gains in the first year and then only 2% the second year. This principle is illustrated by the diagram below:



**a4 The baseline is 2004-05 net expenditure, now updated to use outturn data**

2.6 Initially, the 2004-05 baseline expenditure for each council was calculated on the basis of the estimated data submitted by local authorities, and targets were determined on this basis. However, in spring 2006 the baseline was updated using the outturn data on expenditure and grants, and also taking into account changes in the funding of magistrates courts. The method of calculating the revised 2004-05 baseline using outturn data is set out in Annex A.

2.7 Councils’ efficiency targets for 2006-07 and 2007-08 are now derived from the revised baseline (2005-06 targets were not amended). They can be determined from information provided in columns AM and AN of the spreadsheet at: [http://www.communities.gov.uk/embedded\\_object.asp?id=1500623](http://www.communities.gov.uk/embedded_object.asp?id=1500623)

**a5 Councils may report efficiencies from associate organisations whose levies or precepts contribute to their baseline expenditure**

2.8 In general, where improvements arise without a council having taken an action directly (either alone or in partnership with other organisations), then any gains arising from those actions may not be reported by that council in their AES.

2.9 For local authorities that pay a parish levy, if parishes are able to provide you with data to support the case that efficiency gains have been achieved, these efficiencies may be included in the AES in the normal way. There is, however, no requirement on parish councils to provide such information.

2.10 Efficiency gains made by Public Transport Authorities and Waste Disposal Authorities should be apportioned among the participating councils in the same proportion as the levy for that year, unless the governance structure for that authority has agreed an alternative procedure.

## a6 Efficiency gains before 2004-05 and after 2007-08 are excluded

2.11 A principle of the efficiency agenda has been to encourage new activity to derive efficiency gains that can contribute to the SR04 targets. However, long-term contracts signed by councils may still have clauses which generate annual improvements in productivity – contracts may still require councils to undertake improvements to help secure the efficiencies. The Local Government ETN says:

*‘Many councils have signed long-term contracts with private suppliers for areas such as payroll or IT support. Clauses in contracts requiring improvements in productivity will have an impact on efficiency that can be quantified and then included in the Statement [AES].’*

2.12 Therefore, efficiency gains will be allowed when they accrue during the period covered by the SR04 target (2004-05 to 2007-08) but any gains before 2004-05 or after 2007-08 will be excluded. For example, in 2001-02 a council agreed to purchase a set number of widgets for £150 and further agreed price reductions in subsequent years for the purchase of the same number of widgets to the same specification, as set out in the table (and ignoring inflation):

Year	Price	Efficiency
2001-02	150	N/A
2002-03	148	2
2003-04	145	3
<b>2004-05</b>	<b>141</b>	<b>4</b>
<b>2005-06</b>	<b>136</b>	<b>5</b>
<b>2006-07</b>	<b>130</b>	<b>6</b>
<b>2007-08</b>	<b>123</b>	<b>7</b>
2008-09	115	8
2009-10	106	9

2.13 The council *will* be able to count efficiencies worth £4, £5, £6 and £7 in the years 2004-05 to 2007-08. In contrast, the efficiency gains of £2 and £3 for 2003-03 and 2003-04 cannot be counted, nor can the gains of £8 and £9 for 2008-09 and 2009-10. However, this principle suggests that the efficiency gains for 2008-09 and 2009-10 would be likely to count towards CSR07 targets. That said, we cannot prejudge decisions to be taken in CSR07.

## a7 Efficiency gains may be cashable or non-cashable

2.14 Cashable efficiencies release cash whilst maintaining outputs and allow the resources that are released to be diverted to other services or to hold down council tax increases. Non-cashable efficiency gains occur when productivity increases, either for the same resource inputs or a proportionately smaller increase in resource inputs.

- 2.15 Therefore, looking at how efficiency gains might be achieved (outlined in principle a1), reducing inputs (money, people, assets) for the same outputs and reducing prices (procurement, labour costs) for the same outputs are both cashable efficiency gains. There is a direct financial saving or benefit with money released that can be spent elsewhere or recycled within a service to deliver better results.
- 2.16 Where greater outputs (extra service, productivity) are achieved for the same inputs or proportionately more outputs for an increase in resources then volume-based non-cashable efficiency gains are secured. In this case there is no direct financial saving or benefit that is released for recycling or keeping council tax down. Improvements in service quality for the same resources would also be non-cashable; for more information see below.

<b>Example: Cashable or non-cashable?</b>	
Authority B handles 1,000 benefit applications with 10 staff at a cost of £350,000 in 2004-05. Following a review of its internal processes, it is able to either: (a) Handle the same number of benefit applications with 9 staff; or (b) Handle 1,100 benefit applications, but still with 10 staff.	
(a) This is a cashable gain equal to £35,000 (the resource – salary and overhead costs – released by no longer redeploying the 10th person away from this area of work).	(b) This is a non-cashable gain equal to £35,000 (the productivity improvement is equivalent to engaging an 11th person in this area of work, but no resources have been released for reallocation).

**a8 Efficiency can occur even if expenditure rises or is held constant**

- 2.17 If outputs increase proportionately more than the increase in expenditure, unit costs fall. The efficiency then is the rate by which unit costs are falling.
- 2.18 If the level of budgets remains the same, and the same amount of activity is undertaken, a cashable efficiency gain is achieved by withstanding the effects of inflation. In evaluating this impact the default rate of inflation is the GDP deflator (except for certain specific sector activities, see principle b2).
- 2.19 If there are additional burdens on local authorities (e.g. increased regulation) and authorities take actions to improve efficiency staying within their budgets, then these actions can be included in the AES in the normal way.
- 2.20 Improvements in service quality achieved for the same cost count as efficiency gains. Local authorities may already have suitable data to relate outputs to inputs in a way that reflects service quality, and in such situations this may be used to determine the efficiency gain. See chapter 6 for more details.

**a9 Not everything that leads to reduced cost is countable as an efficiency**

- 2.21 Some actions to reduce costs are **not** eligible as efficiency gains to be recorded in the AES. The most common examples include:

- **Service cuts** – a reduction of outputs or the quality of those outputs that result in poorer services for their users (see principle a12);
- **Reclassification** – where activities are simply re-labelled but which involve no change in the inputs or outputs;
- **Arbitrary cuts in payments to Voluntary & Community Sector (VCS)** – which lead to either cuts in services or service quality, or require the VCS organisation to use charitable donations to maintain the existing level of service (see principle a15);
- **Higher charges** – either an increase in prices or introduction of new charges for services provided (see chapter 4); and,
- **Transfer of costs and subsidies within the public sector** – if public services as a whole do not benefit, no efficiencies should be recorded. Examples include a reduction in tax liabilities, additional government grants, or transfer of liabilities between public bodies (for information on measuring gains from sponsorship by the private sector, see chapter 5).

2.22 There are certain other areas where gains may be achieved from improving the efficiency of the management of an activity, but not from any change in costs and outputs arising from the activity itself, e.g. Treasury Management, fraud detection and court fees and damages (see principle b8).

## a10 Improvements in service quality can potentially count as efficiencies

2.23 An important way to achieve efficiency is by improving performance while keeping costs constant. But achieving efficiency by itself is not enough; there must also be a system in place that can measure the achievements.

2.24 Much work has taken place to facilitate this in recent years. INLOGOV was contracted to review progress on methods to report such efficiencies and the principal results of their work are set out in chapter 6.

## a11 Valuing an outcome is a pointer to efficiency assessments, but not the proper calculation to use

2.25 Efficiency is about improving the ratio between outputs/outcomes and inputs. If outcomes increase as a direct result of better service quality, while measured quantity of output and cost of that output remains the same, then there is a case for saying efficiency has improved. This efficiency gain should be evaluated pro rata to the cost of outputs rather than the value of the outcomes.

2.26 For example, where one visit to an elderly person now provides an outcome valued by that person to be twice as much as previously, while the cost of visiting is unchanged, the efficiency gain is assessed as equivalent to a doubling of outputs achieved for the same cost (not the notional value attached by the person visited).

## **a12 A drop in standard from a 'gold plated' service is not an efficiency unless the service is maintained with another activity**

- 2.27 Following the principle that councils must compare their performance to themselves and not to external benchmarks leads to the conclusion that cash savings which cause a drop in outputs, even within an acceptable level, are not efficiency gains. They may be legitimate budget decisions but they are not eligible efficiencies.
- 2.28 However, Gershon referred to '...change the balance between different outputs delivering a similar overall objective in a way which achieves a greater overall output for the same inputs'. Following this argument through, it could be possible to say that where a council restructures service provision to provide a more efficient service to the same client group in a way that maintains overall output and service quality while costs reduce, then a legitimate efficiency gain has been generated. This would be true even if individual outputs have been removed or reduced but replaced with new and improved ones.
- 2.29 The critical point is that if the overall benefit to a given client drops then the activity is not an efficiency however if the overall benefit of the client group is maintained for less cost (or it goes up for maintained cost etc) then an efficiency gain will be achieved even a small number of individuals are disadvantaged.
- 2.30 For example, if a council decides to close a day centre but recycles the money released for example, by increasing the uptake (though additional support) of direct payments then an efficiency gain may be achieved. Some people immediately affected by the closure may experience a drop in service (possibly only perceived) but a greater number of people in the community might be served better, thus improving overall service and benefit to the client group in question. Any cash reduction or service quality improvements will be an achieved efficiency gain.

## **a13 One-off efficiencies only score against targets in the year they accrue**

- 2.31 Efficiency gains may be either "one-off" or "sustainable". For the purposes of the SR04 efficiency agenda, these terms have been defined as follows:
- A *one-off* efficiency is a gain that is not present for two full financial years after the year it is generated; and
  - A *sustainable* (or *ongoing*) efficiency is a gain that exists for the current year and at least two subsequent financial years afterwards.
- 2.32 One-off efficiency gains have a valuable contribution to make to the efficiency agenda, releasing resources that can be recycled to deliver better services in that year or provide pump-priming money for a new project. Indeed they can provide helpful breathing space before ongoing efficiencies accrue. Therefore, it is important to recognise in the AES the benefit from one-off gains and allow them to contribute to the total for the year in which they occur.

2.33 However, long-term, efficiency gains must be based on the core Gershon principle of sustainability. It is important that the actions which underpin efficiency gains are durable and are embedded into the working practices of the council, and will therefore continue to deliver ongoing efficiency gains. The Local Government ETN says:

*'Some improvements in efficiency may only be temporary. A council may, for example, negotiate a cheaper stationery price from a supplier in a given year, but find the discount over-turned the following year. Temporary efficiency gains should only be reported against the year in which they occur. They cannot be counted in the cumulative total for future years.'*

2.34 So, one-off efficiency gains will not contribute to cumulative totals beyond the year in which they occur. For example, a one-off efficiency gain in 2006-07 will be allowed to contribute to the total new gains achieved in 2006-07 and the target for 2006-07 through inclusion in the cumulative total that year, but it will not contribute to any totals in 2007-08.

2.35 In the backward look statement, councils are asked to specify both their overall achievement of efficiency gains during that financial year **and** how much of those gains are expected to be ongoing through to the end of 2007-08 or beyond. Should a gain that is initially reported as ongoing cease to be so, it should be deleted from the value of sustained gains at the earliest opportunity. Similarly, if a gain expected to be one-off is in fact sustained, it will need to be added in to the value of sustained gains.

2.36 The presumption is that one-off efficiency gains will decline over time as councils are increasingly able to put in place projects which drive sustainable gains. It is expected that the use of one-off efficiency gains in 2007-08 will not be out of line with previous years, and no more than 25% of the 2.5% annual target for 2007-08 (i.e. 8.3% of the 2007-08 cumulative target).

2.37 Though a higher level of one-off efficiency gains will be allowed, councils will be asked to give reasons should one-off efficiencies exceed 25% of their annual 2.5% target in 2007-08, including an explanation of how the gains will contribute to future sustainability. The example below seeks to capture these principles:

<b>Example: One-off, in-year and cumulative efficiency gains (ignoring inflation)</b>				
<b>£ Million</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
<b>Targets</b>				
Annual	N/A	1.5 in year	1.5 in year	1.5 in year
<i>Adding</i>			<i>1.5 (from 05-06)</i>	<i>1.5 (from 05-06)</i> <i>1.5 (from 06-07)</i>
<b>Cumulative</b>	<b>N/A</b>	<b>1.5</b>	<b>3.0</b>	<b>4.5</b>
<b>Achieved</b>				
From 2004-05	0.59	0.59 (from 04-05)	0.59 (from 04-05)	0.59 (from 04-05)
From 2005-06		1.8 in year <i>0.24 one-off</i>	1.56 (from 05-06)	1.56 (from 05-06)
From 2006-07			1.7 in year <i>0.17 one-off</i>	1.53 (from 06-07)
From 2007-08				1.9 in year <i>0.46 one-off</i>
<b>Cumulative</b>	<b>0.59</b>	<b>2.39</b>	<b>3.85</b>	<b>5.58</b>
<b>Notes:</b>				
(1) One-off efficiency gains only score in the year they accrue (except 2004-05, when one-off gains were not accepted at all)				
(2) Downward track of one-off gains between 2004-05 & 2006-07 is what we would expect.				
(3) £0.46m of one-off gains in 2007-08 exceeds 25 per cent of the £1.5m annual target so an explanation will be required.				

### a14 Ongoing efficiency gains must genuinely continue over time

2.38 Adequate processes must be in place to ensure that those efficiencies reported in one year as being ongoing are indeed sustained in subsequent years. It is recommended, therefore, that the efficiency agenda forms part of core business planning, budget and performance management processes (see chapter 8). The value of ongoing efficiencies may fluctuate and this also needs to be considered (see principle c5).

### a15 Efficiencies relating to use of the voluntary sector should be in line with good practice principles on risk, full cost recovery and funding stability

2.39 The Gershon Report recommended that the public sector improves its relationship with the VCS by improving funding stability, allocating risk appropriately, and moving towards full cost recovery. Actions that cut against these principles should not be counted as efficiency gains.

2.40 However, where councils enter into professional relationships with VCS organisations that achieve more outputs for the same resource, then that does count as an efficiency gain.

## b1 Efficiency is about measuring yourself against your previous performance

2.41 This is important and drives the solutions in this guidance. Efficiency is about a council measuring itself against itself. This means comparing its productivity and service standards with the base year or previous year. Quantifying efficiency gains is not achieved through comparison with other councils, benchmarking data or national standards (note that there are some exceptions related to capital expenditure; see chapter 3 for information).

2.42 Such comparisons are important tools for considering where a council may be able to develop a project to drive an efficiency gain, but the quantification of the efficiency must be against its own previous performance.

## b2 The GDP deflator is the default rate of inflation except for certain areas

2.43 The following deflators are approved for use by local authorities when evaluating the impact of inflation:

Sector	Description
Default	GDP deflator <sup>2</sup> – current HMT estimates for each year are: 2006-07: 2.68%; 2007-08: 2.70%
Adult social care <sup>3</sup>	<i>Commissioning and delivery of adult social care</i> : Personal Social Services (PSS) Pay and Prices Index (All sectors for adult clients only, including capital)
Local transport (Highways) <sup>4</sup>	<i>Highways construction &amp; maintenance</i> : The Roadcon Index (value published annually in the Highways Efficiency Toolkit)
Non-school education services <sup>5</sup>	<i>Home-to-School transport</i> : Index set by DfES Special Educational Needs (SEN) places: Index set by DfES
Social housing <sup>6</sup>	<i>Housing capital works</i> : BCIS 'all-in' Tender Price Index (TPI) <i>Housing management &amp; maintenance</i> : combination of BCIS Building Maintenance Index, RPI and regional pay indices <i>Commodity procurement</i> : combination of the DTi Quarterly Energy Prices Update and RPI

2 For advice on how to use the GDP deflator and to check the latest estimates of the deflator, please see: [http://www.hm-treasury.gov.uk/economic\\_data\\_and\\_tools/gdp\\_deflators/data\\_gdp\\_index.cfm](http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_index.cfm)

3 Latest value for this index available at: [http://www.pssru.ac.uk/pdf/uc/uc2006/uc2006\\_inflationindices.pdf](http://www.pssru.ac.uk/pdf/uc/uc2006/uc2006_inflationindices.pdf)

4 A revised toolkit should be available from March, for now see: <http://www.rce.gov.uk/rce/aio/19189>

5 Latest values for these indices available at: <http://www.rce.gov.uk/rce/aio/16327>

6 Latest values for these indices available at: <http://www.rce.gov.uk/rce/aio/19793>

### b3 Efficiencies must be shown net of costs

- 2.44 It is a fundamental principle for the measurement of efficiency gains that all costs must be netted off from the value of the improvement, regardless of the source of funds to pay them (i.e. including PFI schemes). There are two approaches that a council may adopt in recording gains net of costs.
- 2.45 Firstly, the whole cost may be netted off from the efficiency gain when it is implemented. If the cost is greater than the annual improvement, then it may mean that no efficiencies can be reported in the first year. For example:

<b>Example: A project where costs exceed efficiencies in the first year</b>
Authority C enters into a 25-year contract to deliver a service which will enable it to generate £25k of efficiencies. However there are £40k set-up costs in year 1.
The net efficiency gain that can be scored in each year would be: <ul style="list-style-type: none"> <li>• Year 1: Nil (<i>i.e. £25k minus first £25k of set-up costs</i>)</li> <li>• Year 2: £10,000 new gains (<i>i.e. £25k minus remaining £15k of set-up costs</i>)</li> <li>• Year 3: £15,000 new gains, £10,000 ongoing gains</li> <li>• Year 4 onwards (assuming sustainable): £25,000 ongoing gains</li> </ul>

- 2.46 Secondly, where appropriate, costs may be apportioned on a straight-line basis in line with standard accounting practice on amortisation (which may cover years beyond 2007-08). In this case, the efficiency gain is reported as the difference between costs (comprising the annualised start-up costs plus any operating costs) and annual improvement for the chosen period. For example:

<b>Example: A project where costs are annualised over five years</b>
Authority D spends £60k on a project that will lead to efficiency gains amounting to £25k per annum. The cost of the asset purchased to enable this efficiency is annualised over its nominal lifespan, in this case five years.
The net efficiency gain that can be scored in each year would be: <ul style="list-style-type: none"> <li>• Year 1: £13,000 new gains (<i>i.e. £25k less (£60k / 5 = £12k)</i>)</li> <li>• Years 2 to 5: £13,000 ongoing gains</li> <li>• Year 6: £12,000 new gains, £13,000 ongoing gains</li> <li>• Year 7 onwards (assuming sustainable): £25,000 ongoing gains</li> </ul>

- 2.47 It should be noted that both of the above examples (like those elsewhere in the guidance) are purely illustrative, and no inference should be drawn from them about how gains made in the current spending review period will be treated in the next; decisions on that question have yet to be taken.

### b4 Efficiency gains can be made from the Housing Revenue Account (HRA)

- 2.48 The baseline for efficiency targets includes capital HRA, but not revenue HRA. However, councils can include efficiencies from both areas in their AES.

## **b5 Efficiency gains may be achieved from capital spending**

2.49 Efficiencies can be obtained from capital spend just as much as revenue. The basic principles on what counts as an efficiency gain apply just as much to capital spend as to revenue. Even when the capital contribution to an authority's 2004-05 baseline is zero, efficiency gains from capital spend may still be counted in the normal way.

2.50 Chapter 3 sets out the detail of efficiency gains from capital expenditure but, briefly, councils may achieve efficiency gains on capital expenditure through:

- Better procurement processes;
- More efficient investment programmes through, say, greater use of standardised specifications;
- Invest to save projects where borrowing takes place to provide an asset to support the provision of a service and reduces revenue costs;
- Asset optimisation;
- Leasing/borrowing strategies; and
- Sale of surplus assets.

2.51 Examples of actions that do not count as efficiency gains are cuts in planned capital programmes that impact on services, slippage of capital expenditure from one year to another, or asset sales that result in the loss of service outputs or service quality.

2.52 The Measurement Taskforce's Capital Subgroup has considered whether a 2004-05 baseline derived from capital expenditure rather than capital charges is appropriate. It has concluded that the current derivation of the 2004-05 baseline figures should remain in place to avoid unacceptable fluctuations in targets.

## **b6 Fees and charges can generate efficiency gains in certain circumstances**

2.53 Fees and charges need careful consideration to determine whether they are eligible as efficiencies. New sources of income or increases in the level of existing charges should not be counted. Increases in demand for existing services, earlier receipt of income, improvements in income collection rates can in general be counted. Chapter 4 sets out the details of where efficiency gains can be accrued from fees and charges.

## **b7. Efficiency gains may be generated through partnerships**

2.54 Delivering services in partnership with another body can be a good and legitimate way of making efficiencies. The efficiency gains must be measurable, capable of being apportioned between partners and not double-count the efficiencies that accrue to other public bodies. Chapter 5 sets out further details.

## **b8 Efficiency gains may be achieved from the management of certain functions, but not from the activity itself**

2.55 Councils may undertake certain functions that improve the financial position of the council, but any efficiency impact they may have is impossible to measure with accuracy. In these cases, gains from improved management of the function (e.g. delivering it with two staff instead of three without deterioration in performance) may be recorded in the AES, but **no** gains may be recorded arising from the activity itself. The most common examples include:

- Treasury Management – this subject has been the subject of positive and significant activity by a subgroup of the Measurement Taskforce. It has been actively considering specific proposals to allow efficiency gains from the operation of the Treasury Management function to be included in the AES. However, to date, it has not been possible to find a solution that would allow only real efficiencies to be recorded. The door remains open to reconsidering this position if substantially new proposals emerge;
- Detection of Fraud – taking steps to reduce the incidence of fraud is a positive and responsible action for any local authority. However, there are considerable difficulties in finding a robust way of measuring improvements and checking that they have been sustained. Therefore the activity itself may not be counted as an eligible efficiency gain (though efficiencies in carrying out the activity itself would be eligible); and,
- Court Fees and Damages – if councils are able to obtain efficiencies from reducing solicitors' and court fees through better case management, then these may be counted as efficiencies as they represent a reduction in the cost of the process. However, councils should not include a valuation of damages avoided as these would relate to outcome rather than output (see principle a11), and it would be difficult to give a robust ongoing calculation.

## **b9 Councils should report part-year improvements, not just full-year activity**

2.56 Activity or improvements that take place during a financial year can still generate countable efficiency gains. Actions to deliver efficiency gains may not start neatly at the beginning of each financial year. However, efficiency gains may still be scored in the AES for the part of the year in which they accrue. The example below sets this out.

**Example: Valuing improvements that take place during the financial year**

Authority E aims to reduce its stationery costs by £100,000 a year by re-tendering a contract. The change takes place in September 2006, and so the benefits will accrue partly to 2006-07 and partly to 2007-08.

For 2006-07:

- The planned improvement for 2006-07 compared to before is calculated as  $7/12 * £100,000 = £58,333$  (since September 2006 to March 2007 is seven months).
- The actual improvement to date is calculated as  $1/12 * £100,000 = £8,333$  (since only gains accrued by the end of September should be included).

For 2007-08:

- The planned improvement is £41,667 (representing the improvements for the five months April 2007 to August 2007);
- The planned cumulative improvement is £100,000 (representing £58,333 achieved in 2006-07 and a further £41,667 in 2007-08).

## c1 A light touch & balanced approach to reporting endorsed by stakeholders

- 2.57 The AES process has been established on a self-assessment approach. The Audit Commission and CIPFA were consulted and INLOGOV (Institute of Local Government Studies) led a study with a group of councils to develop the approach. Latterly, the Measurement Taskforce provides advice on matters relating to the AES process and measurement issues.
- 2.58 The reporting and measurement approach that has been endorsed balances the needs of both local and central government for robust information on efficiency to assess progress whilst not placing an undue and excessive burden on councils. This guidance is the culmination of significant development work and discussion within the Measurement Taskforce.

## c2 Quality crosschecks must be used with the backward look statement

- 2.59 It is important to distinguish between an efficiency gain and a service cut so, when claiming efficiencies of reduced inputs or lower prices for the same outputs a major challenge is to demonstrate that quality has been maintained. This is the role of quality crosschecks. Quality crosschecks provide assurance to Government and the public that the quality of service delivery has been maintained at the local level and hence that true increases in efficiency are being achieved rather than cuts in services.
- 2.60 Councils are required to provide at least one quality crosscheck for every sector for which they claim an efficiency gain in their backward look statement (they are not required for the forward look or mid-year update statements). The crosscheck should be appropriate (though not necessarily specific) to the efficiency activity undertaken by the council. Councils may specify secondary crosschecks where more than one action is recorded in a given sector and it is difficult to find a single crosscheck to cover the breadth of activities undertaken.

- 2.61 Councils are allowed to change their quality crosscheck for a given sector from that used in the previous year but, where they do, are required to show data for both the new crosscheck and the previous year's crosscheck. If any crosscheck shows that service quality has not been maintained, an explanation must be provided as to why the action is an eligible efficiency gain.
- 2.62 The Measurement Taskforce has developed and approved a list of quality crosschecks for each sector, but councils may feel that local circumstances mean that it would be more appropriate to use their own non-approved quality crosscheck and this is acceptable subject to certain criteria. For more information on this and other aspects of quality crosschecks, see chapter 7.

### **c3 The AES must be approved by senior officers and Members**

- 2.63 The Leader or Directly Elected Mayor, Chief Executive and Chief Financial Officer (Section 151 Officer) must see, certify and approve each efficiency statement and evidence should be available to prove this.
- 2.64 When submitting an AES through the esd-toolkit, councils must mark a tickbox to indicate whether the statement is a draft or final. If the latter tickbox has been selected, we accept that as sufficient indication that full approval has been obtained for the statement: it is **not** necessary for councils to send a hard copy with their signatures.

### **c4 Efficiencies recorded in the AES should be based on robust processes**

- 2.65 It is essential that proper arrangements are in place to ensure that a robust process is followed to identify and report efficiencies through the AES.
- 2.66 It is recommended that efficiencies be measured against a comprehensive picture of inputs, outputs and service quality. An audit trail of any efficiency gain should have clarity on the baselines for the costs and output underpinning it. Counterfactual baselines (estimating what would have occurred if an efficiency initiative had not happened) should only be used if they can be clearly defined.
- 2.67 It is expected that efficiency gains should be based on data from systems that are subjected to regular assurance processes and that adequate audit trails for any checks that have been made should be available for auditors. It is also recommended that there should be at least one system in place (e.g. an ad-hoc committee of officials, internal audit or Member scrutiny) to challenge initial drafts of the AES and evidence should be available to show the findings of scrutiny and how they have been considered or taken on-board.
- 2.68 Further advice on the issues that councils may wish to consider when developing their efficiency management processes, based on the outcome of research into how councils have tackled this issue and current best practice, is set out in chapter 8 and Annex B.

## c5 Efficiency gains which fluctuate need to be updated in the AES

- 2.69 The value of ongoing efficiency gains may fluctuate over time for a variety of reasons, e.g. changes in the level of demand for a service. Once recorded in a backward look statement, any fluctuation in the value – up or down – of an ongoing efficiency gain must be recorded in subsequent AES whatever the circumstances of the fluctuation.
- 2.70 For example, in 2005-06 a council increases income (and therefore generates an efficiency gain) by £6,000 through increasing the number of paying visitors at its swimming pools by 3,000 because it embarked on an advertising campaign. It records the £6,000 efficiency gain in its 2005-06 Backward Look AES. In 2006-07, the number of additional visitors from the advertising campaign falls to 2,700, reducing the ongoing efficiency gain from the expected £6,000 to £5,400. The revised ongoing efficiency gain must be recorded in the 2006-07 Backward Look AES.
- 2.71 To facilitate this, the mid-year update and backward look statement templates will be pre-populated with the values of ongoing efficiency gains reported in the previous year (derived from the total cumulative efficiency gain for the previous year minus any in-year one-off efficiency gains). Councils will need to confirm this figure as the value of ongoing efficiencies from the previous year, or amend it to take account of any fluctuations. Efficiency gains previously reported as ongoing but which have not been sustained must be removed from the AES.
- 2.72 It is expected that councils will have the monitoring systems in place to support the measurement of fluctuations and that tracking of efficiency gains over time by councils is both good and common practice.

## c6 The AES will be subject to review

- 2.73 It is important that local and central government, and other stakeholders, have confidence in the figures reported through the AES process. The AES process rightly continues to be based on a self-assessment approach which balances the need for robust figures with minimum burden on councils.
- 2.74 Every AES will continue to be scrutinised within the council and examined by government departments. In addition, the arrangements for preparing the backward look statements are reviewed by the Audit Commission on a mandatory basis as part of the value for money assessment.
- 2.75 A council will be invited to amend its backward look statement where the Audit Commission highlights concerns about the processes the council has adopted to produce its statement. The processes underpinning the amended statement will be subject to independent review by consultants appointed by the Government. Chapter 8 provides further details.

## **c7 The AES must be submitted through the esd-toolkit**

- 2.76 The mechanism for submitting each AES is the esd-toolkit ([www.esd-toolkit.org](http://www.esd-toolkit.org)). It is an online performance-monitoring service owned and run by local authorities with core team support from the IDeA, familiar to all local authorities from the submission of 'Implementing e-Government' (IEG) statements. The template for each AES should be accessible for at least six weeks prior to the submission deadline.
- 2.77 Every council must nominate an individual to register with the esd-toolkit team as the officer responsible for submitting statements. Other people may be permitted access to enter or amend data on the template. All councils should already have an esd-toolkit administrator and they can set up access rights for other officials within their authority.

## **c8 Efficiency gains should be recorded in service sectors wherever possible**

- 2.78 Preference should be given to reporting efficiency gains in service sector rows wherever possible. The crosscutting workstream rows should only be used if the efficiency gain is genuinely crosscutting, or where it is difficult to apportion the gain to the relevant sectors.

## Section 3: Efficiency gains and capital expenditure

3.1 Some local authorities have questioned the rationale for including capital expenditure in the determination of efficiency targets and as a source of efficiency gains. The following points should, however, be kept in mind:

- The addition of in-year revenue and capital expenditure for calculating the baseline for efficiency gains is consistent with the manner in which government departments receive their budgets and are judged in relation to baselines for efficiency targets.
- The broad total of £6.45bn efficiency gains required from local government in total equates to 2.5% efficiency gains for three years *only* if revenue and capital spend is added together in this way. If only revenue budgets were used, the percentage annual efficiency gains required would be higher.
- Capital spend has a long-term focus. The justification for spending, say £5 million this year on a housing improvement scheme, may be the annual revenue savings on housing maintenance over the next 10 years. And it may be that an even better ratio of long-term revenue savings to capital costs could be achieved by spending, say £5.5 million this year. Hence revenue and capital expenditure are best analysed in an integrated way.
- Unlike a system of budget 'cuts', with which authorities will be familiar, it is not the aim of the efficiency baseline to provide a figure on which total expenditure in the year+1 will be baseline less 2.5%. There will be many influences on eventual actual expenditure. And because of the 'lumpiness' of capital expenditure, actual total expenditure in year+1 may be very different (up or down) from the baseline expenditure on which the 2.5% efficiency gains are to be calculated. This is on top of the fact that only half of the specified efficiency gains are required to be cashable, and those are available for recycling to services.

3.2 The remainder of this chapter sets out the methods to be adopted when measuring and reporting capital spend efficiency gains in six areas, as follows:

- (A) Better procurement processes;
- (B) More efficient investment programmes through, say, greater use of standardised specifications;
- (C) Invest to save projects where borrowing takes place to provide an asset to support the provision of a service and reduces revenue costs;
- (D) Asset optimisation;
- (E) Leasing/borrowing strategies; and
- (F) Sale of surplus assets.

**(A) Pre-contract costs of capital schemes (e.g. reduction in bid costs)**

3.3 Efficiencies gained from the pre-contract costs of capital schemes (whether in revenue or capital spend) should be:

- Allocated across financial year(s) pro rata to the total pre-contract costs incurred<sup>7</sup>, unless the particular nature of the costs and the efficiency measure(s) justify<sup>8</sup> a different split across years; and
- Allocated to services(s) pro rata to the manner in which the total capital expenditure incurred for the scheme accrues to individual services, unless the particular nature of the scheme and the efficiency measure(s) justify a different split across services.

<b>Example: Efficiency in pre-contract costs – One-off gains</b>
<p>Authority A adopts new procedures which result in a reduction of bid costs (i.e. the cost to the council of running the procurement process) for a major capital scheme. It is a joint scheme between Adult Social Care (40%) and Children’s Services (60%). The bid costs are reduced from a previously projected £500,000 down to £350,000. The £350,000 total bid costs are incurred £250,000 in year 1 and £100,000 in year 2.</p>
<p>The total efficiency gain is £500,000 - £350,000 = £150,000.                      The efficiency gain in year 1 is <math>250/350 \times 150,000</math>, i.e. £107,143, of which 40% (£42,857) is Adult Social Care and 60% (£64,286) Children’s Services.                      The efficiency gain in year 2 is a further <math>100/350 \times 150,000</math>, i.e. £42,857 of which 40% is (£17,143) is Adult Social Care and 60% (£25,714) Children’s Services.</p>

3.4 In the example above, taken in isolation, efficiency gains would be recorded as One-off gains as defined earlier. However, if the new procedures adopted represent an improvement that applies not only to the capital scheme in question but also to all subsequent similar schemes, then this may be claimed as an ongoing efficiency, because the efficiency action (introduction of new procedures) is a sustained change applied to the overall programme. The value of schemes in individual years will vary and so the cumulative efficiency gains claimed will fluctuate as a result of this variation.

<sup>7</sup> ‘Incurred’ means incurred as measured by proper accounting practice, i.e. as included within the authority’s published statements of account (unless the relevant figure(s) are subject to audit qualification), and in advance of the publication of the statement of account for any year in a manner consistent with the Chief Financial Officer’s estimate of how it will fall to be so included.

<sup>8</sup> ‘Justify’ and ‘justified’ mean as is determined by the Chief Financial Officer.

**Example: Efficiency in pre-contract costs – Ongoing efficiency**

Authority B adopts new procedures which result in a reduction of bid costs for major capital schemes. The change in procedures results in a 30% reduction in pre-contract costs, compared with the previous procedures. The assessment of 30% efficiency is based on professional judgment, comparing actual costs under the new procedures with the expected pre-contract costs under the previous procedures. The new procedures are applied to year 1, 2 and 3 schemes of the overall 3-year capital programme.

	Year 1	Year 2	Year 3
<b>Year 1 schemes</b>			
<i>Pre-efficiency bid costs</i>			
<i>(calculated such that reduction by 30% equals actual post-efficiency bid)</i>	450,000	50,000	
<i>Post efficiency bid costs (actual)</i>	- 350,000	- 0	
	<b>100,000</b>	<b>50,000</b>	
<b>Year 2 schemes</b>			
<i>Pre-efficiency bid costs</i>		300,000	30,000
<i>Post efficiency bid costs</i>		-231,000	- 0
		<b>69,000</b>	<b>30,000</b>
<b>Year 3 schemes</b>			
<i>Pre-efficiency bid costs</i>			150,000
<i>Post efficiency bid costs</i>			-105,000
			<b>45,000</b>
<b>Cumulative gains reported in AES</b>	<b>100,000</b>	<b>119,000</b>	<b>75,000</b>

**(B) Savings to the initial cost of capital assets (e.g. through adopting standard construction details)**

3.5 Efficiencies gained from the initial cost of capital assets should be:

- Allocated across financial year(s) pro rata to the capital expenditure incurred on the asset(s) in the year(s), unless the particular nature of the capital expenditure and efficiency measure(s) justify a different split across years; and
- Allocated to service(s) each year pro rata to the manner in which the capital expenditure incurred on the asset(s) in that year accrues to individual services, unless the particular nature of the capital expenditure and efficiency measure(s) justify a different split across services.

<b>Example: Efficiency in initial cost of capital assets – One-off gains</b>
Authority C adopts standard construction details for a new leisure facility. The total capital expenditure for the scheme is reduced from a previously projected £5,000,000 down to £4,500,000. The £4,500,000 capital expenditure is incurred £1,125,000 in year 1 and £3,375,000 in year 2.
The total efficiency gain for culture and sport is calculated as £5,000,000 - £4,500,000 = £500,000. The efficiency gain in year 1 is $1,125/4,500 \times 500,000$ , i.e. £125,000. The efficiency gain in year 2 is $3,375/4,500 \times 500,000$ , i.e. £375,000.

3.6 In the examples above, taken in isolation, efficiency gains would be recorded as One-off gains as defined earlier. However, if the efficiency action represents an improvement that applies to an overall programme, rather than an individual project, then the resulting efficiencies may be claimed as ongoing efficiency gains.

<b>Example: Efficiency in initial cost of capital assets – Ongoing efficiency</b>			
Authority D adopts standard construction across its house refurbishment programme. The change in approach produces a reduction in capital works costs. The assessment is based on professional judgment, comparing actual costs under standard construction with the expected costs under the previous approach. The new approach is applied to year 1, 2 and 3 schemes of the overall 3-year capital programme.			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<b>Year 1 schemes</b>			
<i>Pre-efficiency capital expenditure (Estimated)</i>	6,500,000	1,000,000	500,000
<i>Post efficiency capital expenditure (Actual)</i>	- 5,850,000	- 900,000	- 450,000
	<b>650,000</b>	<b>100,000</b>	<b>50,000</b>
<b>Year 2 schemes</b>			
<i>Pre-efficiency capital expenditure</i>		3,500,000	30,000
<i>Post efficiency capital expenditure</i>		-3,150,000	- 630,000
		<b>350,000</b>	<b>70,000</b>
<b>Year 3 schemes</b>			
<i>Pre-efficiency capital expenditure</i>			4,500,000
<i>Post efficiency capital expenditure</i>			4,500,000
			<b>450,000</b>
<b>Cumulative gains reported in AES</b>	<b>650,000</b>	<b>450,000</b>	<b>570,000</b>

(C) Efficiencies through integrated capital and revenue budgeting for services (e.g. replacement of specialist bought in services with service provision through dedicated asset; or optimising capital expenditure and revenue maintenance);

<b>Example: Investing to save in adult social care</b>	
<p>Authority E currently places 5 young adults who have severe disabilities with an external provider at a net cost to the revenue budget of £0.4m per placement. It decides to build and operate a specialist facility to provide this service instead. The net cost to the revenue budget <b>including capital charges for the new facility</b><sup>9</sup> is £0.25m per placement. The new facility comes on stream in the middle of year 2, when a one-off transition cost of transition of £50,000 per placement is incurred.</p>	
<p>The efficiency gain is calculated as the difference between the cost of service without the efficiency measure (£2m = 5 * £0.4m) and the cost with the activities undertaken.</p>	
<b>Year</b>	<b>Cost of service (£m)</b>
Year 1	2.00
Year 2: 6 months external placement + transition cost + 6 months internal placements	$1.00 + 0.25 + 0.625 = 1.875$
Year 3: Internal placements	$5 * 0.25 = 1.25$
<p>The efficiency gain is recorded for Adult Social Services as £0.125m in year 2 (£2.0m – £1.875m) with an additional £0.625m in year 3 (£1.875m – £1.25m), making a cumulative total of £0.75m (£0.125m + £0.625m) by year 3.</p>	

(D) Asset use optimisation (e.g. through better asset management planning; or multiple use of single assets)

- 3.7 The CIPFA BVACOP (Best Value Accounting Code of Practice) represents the accepted accounting practice for recording the total cost of services in local government. BVACOP includes in the total cost of service both depreciation and a charge for the use of assets based on a specified percentage of the value at which they are held in the authority's balance sheet. These charges are made for assets used by the service.
- 3.8 Efficiency gains can be measured by taking the total net cost (i.e. gross cost less income) for the year as defined within BVACOP for the service(s) and comparing this with what it would have been (best estimate) without the efficiency measure(s).
- 3.9 Movements that are independent of the efficiency measures should not impact on the measurement of the efficiency gain. For example, a change in the valuation of an asset that would have occurred whether or not the efficiency measure(s) were carried out should be ignored in the measurement of the efficiency gains; but any changes in valuation that are a direct consequence of the efficiency measure(s) should be measured as part of the efficiency calculation.

<sup>9</sup> Capital charges are only made for operational assets. If the new asset is valued at £2.0m and is amortised on a straight line basis over 40 years then the annual capital charges to the services are £50,000 depreciation plus £70,000 notional interest equals £120,000 (£24,000 per placement).

<b>Example: Asset optimisation</b>			
<p>Authority F currently locates support staff for its Supporting People and Homelessness services in one building (which it owns) and support staff for Non-school Education services in another building (which it owns). The authority embarks on a programme of asset use optimisation, which results in the relocation of these support staff all within the first building without affecting quality of service or industrial relations. The transfer is made at the beginning of year 2.</p>			
	Cost of service without efficiency measure £	Cost of service with efficiency measure £	Efficiency gain £
<b>Year 1</b>			
– Supporting people			
– Capital charges	20,000	20,000	
– Other net costs	100,000	100,000	
– Homelessness			
– Capital charges	40,000	40,000	
– Other net costs	150,000	150,000	
– Non-school Edu			
– Capital charges	40,000	40,000	
– Other net costs	+ 120,000	+ 120,000	
<b>Total</b>	<b><u>470,000</u></b>	<b><u>470,000</u></b>	
<b>Year 2</b>			
– Supporting people			
– Capital charges	20,000	12,000	} 7,000
– Transition costs		1,000	
– Other net costs	103,000	103,000	
– Homelessness			
– Capital charges	40,000	24,000	} 15,000
– Transition costs		1,000	
– Other net costs	154,000	154,000	
– Non-school Edu			
– Capital charges	40,000	24,000	} 14,000
– Transition costs		2,000	
– Other net costs	122,000	122,000	
<b>Total</b>	<b><u>479,000</u></b>	<b><u>443,000</u></b>	<b><u>36,000</u></b>

<b>Example: Asset optimisation (continued)</b>			
	Cost of service without efficiency measure £	Cost of service with efficiency measure £	Efficiency gain £
<b>Year 3</b>			
– Supporting people			
– Capital charges	20,000	12,000	} 8,000
– Other net costs	105,000	105,000	
– Homelessness			
– Capital charges	40,000	24,000	} 16,000
– Other net costs	157,000	157,000	
– Non-school Edu			
– Capital charges	40,000	24,000	} 16,000
– Other net costs	125,000	125,000	
<b>Total</b>	<b><u>487,000</u></b>	<b><u>447,000</u></b>	<b><u>40,000</u></b>
NB: Total capital charge for the building that the staff are now accommodated in is £60,000 per annum.			
The efficiency gain is recorded as:			
<b>Year 2</b>			
	Supporting people	7,000	
	Homelessness	15,000	
	Non-school Education	14,000	
	<b>Total year 2</b>	<b><u>36,000</u></b>	
<b>Year 3</b>			
	Supporting people	8,000	
	Homelessness	16,000	
	Non-school Education	16,000	
	<b>Total year 3</b>	<b><u>40,000</u></b>	
The efficiency gains will continue into future years.			

## (E) Leasing/borrowing strategies

3.10 Authorities will wish to carry out a 'whole-life' option appraisal comparing Net Present Value (NPV) before coming to a decision on its leasing or borrowing strategy. Having assessed which option is the most efficient, then an authority may record gains in the manner illustrated below.

<b>Example: Deciding on a leasing or borrowing strategy</b>			
<p>Authority G decides to purchase a building for office accommodation rather than paying an annual leasing (rental) charge. An option appraisal shows a positive NPV for purchase excluding the residual value of the building in thirty years time. Annual borrowing charges and running costs of £300,000 are lower than the leasing charges and running costs falling outside the leasing cost of £325,000.</p>			
	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>
<b>Purchase</b>			
<i>Capital charges</i>	200,000	200,000	200,000
<i>Other costs</i>	100,000	100,000	100,000
	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>
<b>Leasing</b>			
<i>Capital charges</i>	250,000	250,000	250,000
<i>Other costs</i>	75,000	75,000	75,000
	<b>325,000</b>	<b>325,000</b>	<b>325,000</b>
<b>Efficiency gain</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>

**(F) Sale of surplus assets**

3.11 The revenue impact (i.e. interest accrued) of capital receipts from the sale of surplus assets may be counted as an efficiency gain. However, efficiencies cannot be counted from the sale of non-operational investments.

<b>Example: Sale of surplus assets</b>
<p>Authority H achieves capital receipts of £1,000,000 from the sale of surplus assets and the available market interest rate is 5%.</p>
<p>It may count ongoing cashable efficiency gains of £50,000.</p>

3.12 In regard to the sale of former school buildings and/or land, a local authority *can* claim the value of the revenue impact of capital receipts arising from the disposed property in their AES. Such gains should be reported in the Non-School Education row of the statement.

3.13 This rule applies *unless* the receipts are used to directly contribute to the Building Schools for the Future (BSF) programme. If you are unclear about whether disposals fall within this exception, please speak to your buildings and capital team/department.

## Section 4: Fees and charges

4.1 This chapter sets out which activities relating to fees and charges may count as efficiency gains and how the resulting gains should be measured. The key areas examined are as follows:

- (A) New sources of income
- (B) Increases in the level of existing charges
- (C) Increases in demand for existing services, i.e. more customers
- (D) Earlier receipt of income
- (E) Improvements in income collection rates
- (F) Transfers from other public sector organisations
- (G) Sale of service to another organisation

### (A) New income sources

4.2 A local authority may choose to raise new income, through charging for services previously provided free or, alternatively, it may start to provide a new service with a net financial benefit. These activities increase income but do not necessarily increase efficiency and, therefore, new income sources should *not* be included in the AES. Activities falling within this category include:

- Introducing charges for attending a social services day centre, previously attended free of charge;
- Introducing new charges for staff car parking; and
- Introducing options for the purchase of advertising space for a fixed charge (however, income levered in through some private sector co-funding or sponsorship deals may be eligible: see paragraph 5.10).

### (B) Increasing existing charges

4.3 A local authority may choose to increase existing charges to customers and thereby increase income. Pure increases in existing charges to cover extra costs (whether improvements or inflation), or by a greater sum to provide resources for other priorities, are not efficiency gains and should *not* be included in the AES. Activities falling with this category include:

- Increase charges for home care services;
- Increases in leisure centre charges; and
- Increases in car park charges, following the introduction of CCTV cameras.

4.4 For some services fees and charges are determined by ability to pay (e.g. residential care for elderly persons, leisure centre charges). Such income will fluctuate from year to year, but additional income derived from such fluctuations does not count as an efficiency gain and should *not* be included in the AES.

**(C) Increased demand for existing services**

4.5 Extra demand for a chargeable service will increase income. This extra demand could arise in one of the following ways:

- **Externally-led** – e.g. an increase in Development Control applications resulting from a greater demand for residential development;
- **“Campaigns” to increase demand** – e.g. introduction of a discount regime for leisure centre fees designed to attract more customers, or an advertising campaign to promote services; or
- **“Service improvement” to increase demand** – e.g. introduction of security/CCTV facilities to increase car park usage to stimulate greater demand.

4.6 Where a council meets additional natural demand for a chargeable service without a commensurate increase in expenditure, the net financial benefit *is* eligible to be included in the AES as an efficiency gain, after factoring out the effect of any increase in the level of the charge.

<b>Example: Increase in the volume of Planning Applications</b>
Authority A is facing a gradual increase in planning applications, with anticipated fees rising during the year by £50,000. A further £10,000 will be raised through an increase in the level of the existing charge. To cope with increased demand and to maintain quality of service, Authority A employs an additional Planning Officer costing £35,000 including payroll on-costs. Net costs fall by £25,000 (i.e. £50,000 plus £10,000 minus £35,000).
The sum included in the AES, as an efficiency gain is therefore £15,000 calculated as the increased income derived from additional applications (£50,000) less additional staffing costs (£35,000). Additional income arising from increases in the level of charges (£10,000) should not be included in the AES.

4.7 Additional net income arising from campaigns (after deducting the cost of the campaign) *is* an eligible efficiency gain. Additional net income arising from service improvement (after deducting the cost of the improvement) *is* also an efficiency gain.

<b>Example: Improvements to public car parks</b>
Authority B decides to improve its car park provision, by spending an additional £100,000 per annum on providing security personnel and electronic surveillance equipment. It anticipates additional car park usage, bringing in an extra £50,000 per annum in car park charges. Simultaneously it increases the charge for car parking by 10p per hour, expected to increase income by £100,000 per annum.
In this example there is no efficiency gain, because the extra income resulting from increased car park usage (£50,000) is lower than the cost of the improvements (£100,000). The extra income resulting from the increased level of charge (£100,000) is disregarded.

- 4.8 A local authority may receive additional income from fines as a result of improved productive time of staff involved in identifying and reporting public misbehaviour. In such cases, councils may claim a cashable efficiency gain, though they would have to be substantiated with a quality crosscheck to ensure that standards of fairness and justice had been maintained.
- 4.9 However, the value of the gain *is not* the value of the additional income from the fines, as that represents an outcome and not an output. Instead, the value of the gain is determined by the cost of the staff employed. For example, if the number of fines issued increases by 10%, with the same number of staff employed at an average annual staff cost of £25,000, then the value of the cashable gain is £2,500.

#### (D) Earlier receipt of income

- 4.10 A local authority may choose to invest income that it received in order to earn interest prior to its use. Earlier receipt will therefore increase investment income, and this could be achieved in a number of ways, including more intensive debt collection procedures or e-pay techniques. Net interest gains on the earlier receipt of income arising from more efficient collection processes (after deducting additional costs of collection) *are* eligible to be included in the AES as an efficiency gain.
- 4.11 An exception to this, however, is if a council brings forward the collection date or switches from arrears to advance. In this case, the change in interest earned *cannot* be counted, since this is a transfer of interest payments from the public to the local authority. However, reductions in the level of bad debt as a result of the change of policy would be eligible as an efficiency gain.

#### (E) Improved collection rates

- 4.12 A local authority may choose to take action to improve the collection rate of its existing debt. In any assessment it is important to distinguish between debts being collected earlier (see above) and debts that would not otherwise have been collected but for improved recovery action that has taken place. Improved collection rates *can* be included in the AES as an efficiency gain.

##### Example: Improvement in Council Tax collection

Authority C generally collects 95% of its council tax in the year in which it is due, with a further 3% in subsequent years. It makes a 2% provision for bad debts. More intensive recovery action is initiated which is estimated to cost £50,000 per annum. As a result "year 1" collection rises to 96% and it is estimated that a further 2.5% can be collected in later years. The provision for bad debts falls to 1.5%.

The sum included in the AES should be (1) the cash flow improvement of receiving earlier payments *plus* (2) the reduced bad debt provision less (3) the additional costs of collection.

## (F) Transfer income from other public organisations

- 4.13 Local authorities receive income from other public authorities for a variety of services, for example, income from a Primary Care Trust to reflect nursing care in local authority establishments, or income from the provision of a shared service. Where additional income arises purely from changes in day-to-day demand this is not an efficiency gain and should *not* be included in the AES.
- 4.14 Where additional activities are undertaken to improve productivity, however, these should be calculated in accordance with the principles set out in this document. For example, a local authority that establishes a facility to meet its statutory landfill requirements can sell spare capacity to other authorities that cannot otherwise meet their statutory targets. The authority selling the spare capacity *can* count the resulting income as an efficiency gain.

## (G) Sale of service to another organisation

- 4.15 A local authority may choose to sell one of its services (e.g. a golf course) to another organisation to operate. When considering whether there an efficiency gain that can be reported as a result of such an action, the following points should be borne in mind:
- The revenue impact from the sale would be the efficiency gain if eligible;
  - The quality of service provided to the public would have to be maintained or improved; and
  - In assessing the value of the sale, any portion relating to increase in income to the purchaser from increased prices to the public could not be counted.

## Section 5: Partnerships and efficiency gains

- 5.1 Where efficiency gains are achieved from partnership working, it is important that councils apply all the efficiency principles (as set out in chapter 2) to the measurement and reporting of those gains just as much as if they had been achieved by the council alone. Particularly relevant in this situation, are the requirements to report gains net of costs and to avoid double-counting of gains, which apply across all the partner organisations collectively.
- 5.2 Councils should report in their AES which gains have been achieved through partnership working and, in these cases, should set out how the value of the efficiency gain has been calculated and apportioned so as to demonstrate that these principles (described further below) have been applied.

### Example: Efficiency gains from a shared finance function

Authority A enters into an agreement with Authority B to operate a shared finance function. In 2004-05, the arrangement will achieve efficiency gains in staff costs for Authority A of £70,000 with gains of £300,000, £320,000 and £330,000 in later years. In 2004-05, Authority A spends £40,000 on staff training of remaining staff covering new systems and procedures as a result of moving to the new arrangements and capital investment in new IT equipment which using standard accounting practice accrues an annual amortised cost of £30,000.

Authority A records efficiency gains equal to the staffing gains, less the training costs, less the investment costs. In each year, this amounts to:

- 2004-05: £70,000, less £40,000, less £30,000 = Cumulative gain: Nil (Nothing recorded in the 2004-05 Backward Look)
- 2005-06: £300,000, less Nil, less £30,000 = Cumulative gain: £270,000 (£270,000 recorded as new in the 2005-06 Backward Look)
- 2006-07: £320,000, less Nil, less £30,000 = Cumulative gain: £290,000 (£20,000 recorded as new in the 2006-07 Backward Look)
- 2007-08: £330,000, less Nil, less £30,000 = Cumulative gain: £300,000 (£10,000 recorded as new in the 2007-08 Backward Look)

### Public-Public Partnerships

- 5.3 In the case of joint ventures, each council should evaluate the efficiency gain relating to services provided to its public (including retained profits and taking account of costs as appropriate), being careful to exclude the value of gains accruing to its partners.
- 5.4 For partnerships with a clear lead, the *commissioning authorities* should assess the efficiency gains achieved for their council by looking at changes in inputs (costs) and outputs. The *lead authority* should evaluate the efficiency gain relating to services provided to its public (including retained profits), being careful to exclude the value of gains accruing to its partners.
- 5.5 Alternatively, in either case, the partner councils may be able to work together to agree a common approach to evaluating the efficiency gain and apportioning it between them. Experience has shown that a variety of approaches have been adopted, and three of these are described in the box below:

<b>Case Study Examples</b>
Council X asks suppliers to provide details of the costs of purchasing goods and services alone and as part of a two-, three- or four-authority partnership, thereby giving enough detail to calculate the gains from joint procurement.
Council Y bases its gains from partnership working on the proportion of its initial investment relative to other partners. For example, if it invested 50% of the initial investment they would claim 50% of any resulting gains.
Council Z draws up Memoranda of Understanding with its partners to identify who is the lead Authority and what proportion of gains from the partnership can be claimed. If this cannot be easily done the gains are not reported in the AES.

## Public-Private Partnerships

- 5.6 The efficiency agenda is about accruing benefits to the public purse, so any use of public/private partnerships (PPPs) will need to ensure benefits accrue to the public purse in order to count as an efficiency gain. Equally, this should not be at the expense of the private or voluntary & community sectors, or the public.
- 5.7 The overall efficiencies of this approach should be evaluated on the basis of a whole-life option appraisal considering Net Present Value. The apportionment of benefits to the parties involved compared with previous practice needs to be set out at the start of the partnership.
- 5.8 Capital funds saved through the use of private sector funding to build a new facility do not count directly as efficiency gains when the ongoing costs of using the facility accrue to the public sector body; the overall efficiencies (evaluated in terms of overall costs and overall outputs) must be calculated and their apportionment agreed.
- 5.9 To ensure eligibility of efficiency gains in this area, as with other areas, councils will need to ensure that service quality is at least maintained through engagement in PPPs. This should be demonstrated through application of the quality crosscheck system (described in chapter 7).

## Private Sector Co-Funding/Sponsorship

- 5.10 It is possible to score non-cashable efficiencies (more outputs for the same input) through increasing co-funding/sponsorship from the private sector. Measurement must link the expected outputs of a project with the co-funding/sponsorship element. The outputs will be quality assessed, including an upfront assessment of benefits accruing to each party. Co-funding/sponsorship will need to demonstrate additionality on two counts:
  - That it leads to a clearly defined, valuable impact that would not occur without the combination of funds, and hence that the public sector element is achieving true leverage; and,
  - That it represents a specifically negotiated new activity (or a re-negotiation on new terms) or, in the case of ongoing activities, true growth compared with a pre-Gershon baseline.

5.11 The benefit calculation is three-stage:

- A project must meet all its projected outputs to score at all, which includes quality assurance;
- A project must be sustainable, in other words it should be expected to continue for at least two subsequent financial years after the current year; and, only if it meets these requirements,
- The increase in the co-funded/sponsored element of the project is a non-cashable efficiency. Any project that does not meet all its projected outputs or fails quality checks will score zero efficiency gains.

5.12 It is important to distinguish this principle from simple advertising; this kind of co-funding or sponsorship is specifically aimed at improving the quality of the service to which it applies. Also, it is about using a council's resources to lever in resources from the private sector that mean those resources go further (hence the description of these gains as non-cashable).

## **Arms Length Management Organisations (ALMOs)**

5.13 Since ALMOs receive public funding, they should be encouraged to seek and deliver efficiencies along with the rest of the public sector. The local authorities that own ALMOs may report any eligible efficiency gains that they achieve in their AES. However, it is important that any benefits ALMOs deliver which accrue to private investors must not be included in the AES.

## Section 6: Improvements in service quality

- 6.1 An important way to achieve efficiency is by improving performance while keeping costs constant. But achieving efficiency by itself is not enough; there must also be a system in place that can measure the achievements. This chapter sets out the key results from work commissioned by the Government to help identify ways to undertake such measurement.
- 6.2 Key basic principles identified by the research are that:
- The efficiency agenda has as its primary aim the identification of cashable and non-cashable gains from the expenditure of public services and a focus on quality-adjusted outputs aligns with this;
  - A focus on inputs and outputs does not preclude a key role for service quality in assessing efficiencies, since measures of outputs should ideally take into account service quality (which, in turn, reflects outcomes); and
  - If the volume of outputs stays the same, but the value of each output improves, this is an efficiency gain provided that the proportional increase in value is greater than any proportional increase in cost.
- 6.3 Methods for measuring non-cashable gains need to be clear and simple and, for the short-term, should primarily focus on what can be defined and measured. Whilst some sophisticated approaches to measurement exist, such methods have taken many years to develop and are not in practice feasible to develop for other services in a short timescale. However, in the medium to long term it is likely to be valuable to extend these methods to other areas of provision, as such methods are robust to the numerous problems that have been identified with simpler approaches.

### Simple Generic Approaches

- 6.4 A simple and effective measurement approach is the *cost-effectiveness index*. This seeks an indicator of service improvement and expresses the improvement as a percentage increase from the previous service provision. If we make the assumption that the output is at least equal to the input required to make it, this allows a value to be placed on the improvement.
- 6.5 Thus, if the cost of provision in the base year is £100,000 and service as measured by an indicator (for example, street ambience within a given area) improves by 4%, then this improvement is worth £4,000 in base year terms, provided costs are held constant.
- 6.6 In using cost-effectiveness indexes it is vital to focus on the overall objective, and they should be based around outcomes that clients value. Departments are developing, where appropriate, model baskets of indicators. These need not be mandatory, however, and if a council adopts an alternative basket it should seek to present a clear and credible argument to support its choice.

- 6.7 Some areas (in particular, transactions with the public) find it hard to find and measure a suitable index. These cases should adopt a *scenario approach* as a method of last resort. This approach is used following business process transformation, and consists of assessing how much it would have cost to achieve the new service levels under the old approach, relative to the new cost to achieve those service levels. The use of outcome data directly input into efficiency statements should be treated with caution. The strong preference is for quality adjusted outputs.
- 6.8 Specific examples of methodologies for adult care services, street cleansing, children's social services and highways are set out in the rest of this chapter.

## Adult Social Services

- 6.9 The Department for Health (DH) has worked with key stakeholders with the aim of valuing improvements in homecare quality, but it has not proved possible to produce a methodology that is robust enough for general implementation by councils. In this light, DH's advice to councils is that they should:
- Endeavour to ensure that the efficiencies reported in the AES correspond with efficiencies reported in the Delivery Information Statements (DIS) submitted to the Commission for Social Care Inspection (CSCI); and
  - Focus on measures of the quantity of activity undertaken. The PSSEX1 form<sup>10</sup> will contain a section on a Cost Weighted Activity Index model. This will give an indication on adult service efficiencies through annual, weighted expenditure and activity data contained in the PSSEX1. Any queries can be directed to Kevin Barr ([kevin.barr@dh.gsi.gov.uk](mailto:kevin.barr@dh.gsi.gov.uk)).

## Environmental Services

- 6.10 Defra has developed a model for attributing monetary values to improvements in service quality for street cleansing. Improvements in service quality are defined by public perception of the local environment, as measured by the Best Value Performance Indicator for street cleaning (BV199/199a<sup>11</sup>). Details of the methodology used are available on the Defra website at the following address: <http://defraweb/environment/localenv/litter/pdf/guidance060123.pdf>

<sup>10</sup> Information about this form may be found online at: [http://www.dh.gov.uk/PublicationsAndStatistics/Statistics/StatisticalCollection/StatisticalCollectionArticle/fs/en?CONTENT\\_ID=4109541&chk=MpeuNM](http://www.dh.gov.uk/PublicationsAndStatistics/Statistics/StatisticalCollection/StatisticalCollectionArticle/fs/en?CONTENT_ID=4109541&chk=MpeuNM)

<sup>11</sup> BV199 is defined as the percentage of sites surveyed that fall below a Grade B for cleanliness (measured in terms of litter and detritus combined) using grades based on those set out in the Code of Practice for Litter and Refuse. The grading relates to the public perception of the local environment.

## Children's Services

- 6.11 DfES has published guidance for measuring efficiency gains in children's social services. In an appendix to this guidance they suggest a method for calculating the value of an improvement in output. The example they show is for an increase in the number of children fostered or placed for adoption by the local authority (Performance Assessment Framework (PAF) indicator B7). Increases in outputs then need to be offset by increases in costs to derive efficiency gains.

## Highways

- 6.12 The Highways Efficiency Toolkit<sup>12</sup> contains a method that looks at the whole highways service. It takes total expenditure on the highways service, revenue and capital, and provides a mechanism for evaluating efficiencies over the whole service using a basket of indicators. The method also allows for local service priorities to be reflected.

<sup>12</sup> Available at: <http://www.rce.gov.uk/rce/aio/19189>

# Section 7: The quality crosscheck process

## Basic Principles

- 7.1 It is important to distinguish between an efficiency gain and a service cut. For that reason, when completing the backward look statement local authorities are required to provide a quality crosscheck for every sector in which they claim an efficiency gain. The essential aim of the quality crosschecks is to compare the quality of service provided from one year to the next, with a view to providing assurance that it has not fallen.
- 7.2 A list of approved quality crosschecks has been developed for each service sector and workstream and, in most cases, these will be sufficient to meet the needs of local authorities. When selecting a quality crosscheck, local authorities should bear in mind that:
- The crosscheck should be *appropriate* to the activity undertaken. Where more than one action is recorded in a given sector or workstream, it is recommended that appropriate secondary crosscheck(s) are chosen and described in the accompanying textbox;
  - While crosschecks should be appropriate, they *do not* need to be specific to the precise activity. The aim is for one or two broad-brush measures rather than many detailed ones;
  - Local authorities *are not* required to use the same quality crosscheck in succeeding years. However, if the crosscheck for a given sector or workstream is changed from the previous year's AES, then the value for the previous crosscheck must also be shown. In subsequent years, the value for that crosscheck need only be shown if it has deteriorated (see below); and
  - Local authorities *may* choose to use a quality crosscheck that shows deterioration in service quality. In such circumstances, an explanation should be provided in the accompanying text box as to why the actions taken have not impacted adversely on service quality and are thus eligible to be counted as an efficiency gain.
- 7.3 For each quality crosscheck used, the best available data for that year and the previous year must be inserted. If fully audited data are not available, the best available estimates of those data should be used instead; this should be explained in the accompanying text. The format of the data required is defined for each of the approved crosschecks and, depending on the specific one selected, it might be:
- A number, e.g. the number of visitors to cultural facilities;
  - A percentage, e.g. the percentage of buses arriving late;
  - A number representing a grading, e.g. 4 to indicate 'Excellent'; or
  - A 0 or 1 to represent 'No' and 'Yes'.

7.4 There may be circumstances where a local authority wishes to use its own, non-approved, quality crosscheck. When using non-approved crosschecks, it is important that authorities bear in mind the following:

- The crosscheck needs to be *properly described* so that it is clear what is being measured, and the data source referenced;
- It needs to be a measure of *service quality* and should not simply repeat, or provide further evidence for, the efficiency gain being claimed. For example, a reduction in the cost of certain goods is an action, not a quality crosscheck; and
- The relevant crosscheck data for that year *and* the previous year must be provided in the text box.

7.5 An acceptable non-approved quality crosscheck would look like this:

LA social housing (Non-capital)			
Quality Crosscheck chosen	2004-05	2005-06	Crosscheck met?
6. Non-approved quality crosscheck	0	1	Yes
That service quality has improved is demonstrated by the improvement in the annual survey of tenants' satisfaction with the overall level of service. In 2004-05 the score was 70%; in 2005-06 it was 80%. (Annual Survey of Lanchester Tenants, 2004-05 and 2005-06)			

## Assurance on the Maintenance of Service Quality

7.6 Linking key efficiency principles of sustainability and maintaining service quality would lead to the conclusion that once a quality crosscheck had been selected for a service sector or workstream in a backward look statement, it could not be changed for the SR04 period (i.e. to 2007-08) – it should remain in force for the whole period for that area. A consistent crosscheck whose performance level stays constant or improves would be a true measure of service standards having been maintained for the given sector or workstream.

7.7 However, projects that councils implement to deliver efficiency gains will vary from year to year. Even within a single service sector or workstream, a crosscheck that lends itself to the efficiency projects that were implemented in one year may not fit so well with the projects undertaken in the next year.

7.8 The Measurement Taskforce has confirmed that a balance needs to be struck between these two competing points: consistency across years and flexibility to change. Councils will be allowed to change their quality crosscheck between years but are required to show in their backward look statement both the new crosscheck together with the previous year's different crosscheck and demonstrate that service standards have been maintained in both.

7.9 In subsequent years, if the crosscheck does not change again the council would only show the one crosscheck. However, councils are required to report on any previously used crosschecks by exception if they indicate that service standards have fallen from levels previously recorded in an AES.

7.10 For example, within their corporate and transaction services workstream a council may implement primarily HR projects in 2004-05 for which they choose to use sickness absence as a quality crosscheck yet in 2005-06 they seek to implement projects to make council tax collection more efficient for which it wishes to use council tax collection rates as its crosscheck. In:

- 2004-05 the council would simply show the sickness absence cross-check;
- 2005-06 the council would show maintained standards for both the sickness absence and council tax collection quality cross-check;
- 2006-07, if council tax collection rates remained an appropriate crosscheck then this would continue as the sole crosscheck;
- 2007-08, for some reason sickness absence levels have risen above their starting level in 2004-05 so the council will need to report this crosscheck by exception together with the crosscheck on council tax collection rates.

## Approved Quality Crosschecks

7.11 The current list of approved quality crosschecks as at February 2007 is set out on pages 39-41. Note that a council must have data for both the year in question and a previous year for any crosscheck that it chooses. Therefore, if a council has had only one CPA inspection, then it cannot choose a CPA crosscheck, even if it is on the approved list.

7.12 The table below lists the sources for the full definitions of the approved quality crosschecks:

Crosschecks	Source for Full Definition
BV Indicators	<a href="http://www.communities.gov.uk/index.asp?id=1136118">http://www.communities.gov.uk/index.asp?id=1136118</a>
PAF Indicators	<a href="http://www.csci.org.uk/care_professional/councils/paf/performance_indicator_definiti.aspx">http://www.csci.org.uk/care_professional/councils/paf/performance_indicator_definiti.aspx</a>
PLSS Indicators (Culture & Sport 3)	<a href="http://www.culture.gov.uk/Reference_library/Publications/archive_2006/pls_standards06.htm">http://www.culture.gov.uk/Reference_library/Publications/archive_2006/pls_standards06.htm</a>
CPA Indicator (Culture & Sport 4)	<a href="http://www.sportengland.org/index/get_resources/local_authorities/comprehensive_performance_assessment/choice_and_opportunity.htm">http://www.sportengland.org/index/get_resources/local_authorities/comprehensive_performance_assessment/choice_and_opportunity.htm</a>
Local Transport Plan Indicators (LTP)	<a href="http://www.dft.gov.uk/pgr/statistics/datatablespublications/ltp/technicalguidanceonmonitorin5174">http://www.dft.gov.uk/pgr/statistics/datatablespublications/ltp/technicalguidanceonmonitorin5174</a>
Procurement Indicators (LIB)	<a href="http://www.local-pi-library.gov.uk/LIBRARY_ALL_PIS.ASP?MENUID=2926">http://www.local-pi-library.gov.uk/LIBRARY_ALL_PIS.ASP?MENUID=2926</a>
Construction Procurement	<a href="http://www.constructingexcellence.org.uk/zones/kpizone/resources/view.jsp?id=152">http://www.constructingexcellence.org.uk/zones/kpizone/resources/view.jsp?id=152</a>

7.13 The list of approved quality crosschecks remains under review by the Measurement Taskforce and an amended version may be issued for use with future backward look statements. At the moment the list does not make use of the new CPA 'Direction of Travel' ratings, and the Taskforce will consider whether these can be incorporated.

7.14 If any local authority has any suggestions on improving the list of approved quality crosschecks as a contribution to this process, these should be submitted to *MED@communities.gsi.gov.uk* or via the AES Discussion Forum on the esd-toolkit website (<http://www.esd-toolkit.org/forums/viewforum.php?f=130>).

Description	Expressed As	QCC Met If Same Or...
<b>➤ Adult Social Services</b>		
1. Intensive home care as a percentage of intensive home and residential care (PAF B11)	Percent	Increase
2. Older people helped to live at home (PAF C32)	Percent	Increase
3. Percentage of equipment and adaptations delivered within seven working days (PAF D54)	Percent	Increase
4. Time from referral to completed assessment (PAF D55 part 2)	Percent	Increase
5. Time from completion of assessment to the receipt of all services (PAF D56)	Percent	Increase
6. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Children's Services</b>		
1. Adoptions from care (PAF C23) (Star rating)	Number	Increase
2. Average of stability of placements of children looked after (PAF A1) and long-term stability of children looked after (PAF D35) (Star rating)	Number	Increase
3. Reviews of child protection cases (PAF C20) (Star rating)	Number	Increase
4. Percent of initial assessments completed in time scale	Percent	Increase
5. CSCI judgement: Serving children well?	0 = Worse; 1 = Better ↑	
6. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Culture and Sport</b>		
1. Uptake of service by participants/visitors	Percent	Increase
2. Customer/user/resident satisfaction	Percent	Increase
3. Number of public library service standards complied with (0 to 10)	Number	Increase
4. Percentage of population within 20 minutes travel time (walking in urban areas/by car in rural areas) of a range of 3 different sports facility types of which at least one has achieved a quality assured standard (CPA Indicator)	Percent	Increase
5. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Environmental Services</b>		
1. Percentage sum of household waste arisings that have been: (a) sent by the Authority for recycling (BV82a i); (b) sent by the Authority for composting or treatment by anaerobic digestion (BV82b i); and (c) used to recover heat, power and other energy sources (BV82c i)	Percent	Increase
2. Percentage change in kilograms of household waste collected per head of population (BV84b)	Percent	Decrease
3. Percentage of households resident in the Authority's area served by kerbside collection of at least two recyclables (BV91b)	Percent	Increase

Description	Expressed As	QCC Met If Same Or...
4. Sum of proportion of relevant land and highways: (a) that is assessed as having combined deposits of litter and detritus that fall below an acceptable level (BV199a); (b) from which unacceptable levels of graffiti are visible (BV199b); and (c) from which unacceptable levels of fly-posting are visible (BV199c)	Percent	Decrease
5. Year-on-year reduction in total number of incidents and increase in total number of enforce actions taken to deal with fly-tipping (BV199d)	Number	Decrease
6. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Local Transport (Highways)</b>		
1. Number of killed or seriously injured road casualties (BV99a i)	Number	Decrease
2. Number of days of temporary traffic controls (BV100)	Number	Decrease
3. Percentage of footways where structural maintenance should be considered (BV187)	Percent	Decrease
4. Average number of days taken to repair a street lighting fault, under the control of the local authority (BV215a)	Number	Decrease
5. Percentage of local authority principal road network where structural maintenance should be considered (BV223)	Percent	Decrease
6. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Local Transport (Non-highways)</b>		
1. Number of local bus passenger journeys (BV102)	Number	Increase
2. Accessibility by public transport (LTP1) (explain in the text box the terms of the indicator that has been used)	Number or Percent	Increase
3. Percentage of buses arriving between 1 minute early and 5 minutes late (LTP5)	Percent	Increase
4. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ LA Social Housing</b>		
1. Housing CPA score	1 = A; 2 = B; 3 = C; 4 = D	Decrease
2. Overall satisfaction with housing services	Percent	Increase
3. Percentage of homes made decent	Percent	Increase
4. Percentage of expenditure on planned to responsive repairs	Percent	Increase
5. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Non-School Education Services</b>		
1. CPA score for education services (Average score for all five aspects)	Number	Decrease
2. Percentage of young people aged 13-19 participating in youth work gaining a recorded outcome (BV221a)	Percent	Increase
3. Percentage achieving five or more GCSEs (BV39)	Percent	Increase
4. Percentage achieving Level 4 in Maths at Key Stage 2 (BV40)	Percent	Increase
5. Percentage achieving Level 4 in English at Key Stage 2 (BV41)	Percent	Increase

Description	Expressed As	QCC Met If Same Or...
4. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Supporting People</b>		
1. Average performance level for all local Supporting People services, using the six Core Objectives in the Quality Assessment Framework (mode grade letter)	1 = A; 2 = B; 3 = C; 4 = D	Decrease
2. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Homelessness</b>		
1. Reduction in use of temporary accommodation, where exercising a duty under the homelessness legislation	Percent	Decrease
2. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Corporate Services</b>		
1. Investors in People accreditation achieved	0 = No; 1 = Yes ↑	
2. No new qualifications on the financial accounts	0 = No; 1 = Yes (i.e. no new qualifications) ↑	
3. No deterioration in CPA 'Use of Resources' score	0 = No; 1 = Yes (i.e. no deterioration) ↑	
4. Working days lost to sickness absence (BV12)	Number	Decrease
5. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Procurement (Commodity Goods &amp; Services)</b>		
1. Content and implementation of Corporate Procurement Strategy reviewed in the last year	0 = No; 1 = Yes	Increase
2. Percentage of milestone activities completed in the National Procurement Strategy for Local Government (LIB242)	Percent	Increase
3. Percentage of the value of contracts awarded that commence in the financial year in accordance with standing orders aligned with procurement best practice (LIB244)	Percent	Increase
4. Percentage of medium and high risk projects managed under a structured project management method (LIB247)	Percent	Increase
5. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Procurement (Construction)</b>		
1. Client satisfaction with finished product (1-10 scale)	Number	Increase
2. Defects at the time of handover (1-10 scale)	Number	Increase
3. Normalised time to construct a project	Percent	Decrease
4. Predictability of construction time	Percent	Decrease
5. Safety: Reportable accidents per 100,000 employed	Number	Decrease
6. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met ↑	
<b>➤ Productive Time</b>		
1. Overall customer satisfaction	Percent	Increase
2. Overall employee satisfaction	Percent	Increase
3. Investors in People or other appropriate quality management independent accreditation	0 = None; 1 = Achieved	Increase
4. Working days lost to sickness absence (BV12)	Number	Decrease

Description	Expressed As	QCC Met If Same Or...
5. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met	↑
<b>➤ Transactions</b>		
1. Percentage of invoices paid on time (BV8)	Percent	Increase
2. Percentage of Council Tax collected (BV9)	Percent	Increase
3. Percentage of Non-Domestic Rates collected (BV10)	Percent	Increase
4. Speed of processing new HB/CTB claims (BV78a)	Number	Decrease
5. Local customer satisfaction surveys	Percent	Increase
6. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met	↑
<b>➤ Miscellaneous</b>		
1. Overall CPA score for local authority	0 = Poor/No stars; 1 = Weak/*; 2 = Fair/**; 3 = Good/***; 4 = Excellent/**** ↑	
2. Non-approved indicator (explain fully in the text box)	0 = Not met; 1 = Met	↑

## Section 8: Scrutiny and good practice

- 8.1 It is essential that proper arrangements are in place to ensure that a robust procedure is followed when identifying and reporting on efficiency gains through the AES. This will ensure there are no complications when the arrangements for preparing the backward look statements are reviewed by auditors appointed by the Audit Commission.
- 8.2 Councils should be looking to ensure that the calculations for gains reported in their efficiency statements are robust and have been checked to be robust. By “robust”, we mean that the council believes a third party would verify the statements as providing reliable information.
- 8.3 The auditors appointed by the Audit Commission will report by exception where they have specific and significant concerns about the process followed by the council in compiling the efficiency statement or where the statement is not consistent with the auditor’s knowledge of the council obtained through other audit work. This is important in order to ensure that the wider public may have confidence in the figures announced for efficiency gains achieved. The Government reserves the right to commission the audit of statements for any cases reported by the Audit Commission if necessary.
- 8.4 Naturally, it is a matter for councils to decide what arrangements they put in place, but this chapter sets out some of the current good practice adopted by councils that others may wish to look at when developing their own processes. This chapter sets out:
- The outcomes of research commissioned about the current arrangements in place to deliver efficiency;
  - Descriptions of processes in place in councils that are meeting the Gershon agenda – and those going beyond it; and
  - The details of the scrutiny process for the backward look statements.

### Current Position

- 8.5 Research was commissioned by the Government to look at the processes that councils had put in place to help produce the 2004-05 Backward Look AES. The key findings of this research were:
- The majority of gains were cashable – and the processes for calculating these gains were the most reliable;
  - Local authorities’ processes were likely to improve in 2005-06 because they had had more time to get to grips with the efficiency agenda; and
  - A few authorities had already put in place processes that went beyond the requirements of Gershon.

- 8.6 Three categories were developed that could be used to describe all councils: those that go beyond Gershon by being both strategic and robust; those that meet the letter of the Gershon requirements by being robust; and those that are still failing to grasp the requirements of the efficiency agenda.

### ***Beyond Gershon (strategic and robust)***

- 8.7 This group not only seeks to obey the letter of Gershon but also the spirit. These councils display a high degree of strategic awareness of both the wider efficiency agenda and the AES process, and they aim to be genuinely efficient by strategically improving how they work.
- 8.8 *Leadership:* The efficiency agenda is led by council members and managed directly by the Corporate Management Team (CMT), with gains identified as part of a strategic plan for the whole organisation. The cost and quality of each service area is often assessed on an annual basis. Responsibility for the efficiency agenda at executive member level is clearly defined, either through an efficiency champion or a group of executive members, responsible for establishing direction and internal targets. Processes are in place for members to hold the CMT accountable for meeting the efficiency agenda and a central team monitors service areas to ensure consistency in measuring gains, to challenge key assumptions, to follow up on whether the gains were realised and why (or why not).
- 8.9 *Process:* The distinction between cashable and non-cashable gains is reasonably understood and council members make decisions about how efficiency gains should be utilised. Both cashable and non-cashable gains are identified and calculated correctly, using baseline data that is of high quality and used consistently. Cashable benefits are linked to financial monitoring with appropriate oversight from the Chief Financial Officer. Non-cashable benefits are linked to Key Performance Indicators (KPIs) and outcomes. Where full data does not exist, sensible assumptions are made based on frontline experience and benchmark data, to provide adequate evidence to support the gain being claimed. Internal Audit has carried out a risk assessment of the efficiency programme and has deployed sufficient resources in its audit plan to advise the council on its effectiveness and monitor progress.
- 8.10 *Buy-in:* Stakeholders buy-in to the process with service areas closely involved in identifying, calculating and realising benefits. Senior managers are involved in critically challenging assumptions and following up on realisation. Members understand the impact of efficiencies that are most likely to be realised, and are prepared to be involved through the scrutiny process.
- 8.11 *Realisation:* Benefits realisation is established as an integral part of the efficiency drive. The likelihood or risk of realising a gain is considered in calculations with realised benefits appropriately captured and measured. For major projects, lessons learned are discussed.

<b>Case Study Examples</b>
<p>Council Z formed a dedicated Efficiency Committee, which was tasked by members with identifying efficiencies across the authority, in liaison with service managers. The Committee ensured that consistent and reliable baseline data was used. The Finance Director sat on the committee and assessed all cashable calculations and helped service areas develop appropriate KPIs for difficult-to-measure improvements like spending extra time with customers. The Committee provided the AES with leadership and was held accountable for monitoring whether benefits were realised.</p>

8.12 The box below sets out some further examples of how councils have dealt specifically with the handling of non-cashable gains:

<b>Case Study Examples: Handling non-cashable gains</b>
<p>Council Y has devised a process that involves trying to quantify performance improvements to enable non-cashable gains to be calculated using benchmarking information such as best value indicators and customer satisfaction.</p>
<p>Council X used a finance officer to liaise with all service areas to specifically address the issue of non-cashable gains. The finance officer helped service areas to develop appropriate proxy measures to capture service improvements.</p>
<p>Council W escalated any non-cashable gains that were potentially unreliable to a special committee of service managers determine whether appropriate measures had been put in place to measure the gain.</p>
<p>Council V forecasts non-cashable using data from its systems that track how staff time is used (i.e. forms processed per day, time spent per customer query, etc.) and to translate improvements into a measurable increase in productivity and a decrease in unit costs (i.e. if more forms are processed with the same size team then the cost per form processed decreases). At the outset of a new project they forecast what proportion of the expected gains will be translated into cashable and non-cashable improvements.</p>

***Gershon Compliant (robust)***

8.13 This group displays a high degree of variation in their awareness of the efficiency agenda and the AES process. These authorities aim to meet the Gershon target rather than transform how they operate.

8.14 *Leadership:* The efficiency agenda is commonly implemented by the finance department, which leads on identifying, calculating and reporting efficiency gains. The finance team may typically ask each service area for their gains and build cashable gains into the budget. The CMT will sign off the AES and most cashable gains are usually implemented by linking them to the budget process. Members are not seen as leading in the process.

8.15 *Process:* The majority of cashable gains are tied directly to the central budget setting process and based on the best data available – but such data is not always consistent. Gains are calculated by the finance team who usually rely on data provided by service areas. Service areas often have the initial responsibility for identifying and calculating gains. There is limited tracking of outputs and outcomes relative to inputs. Internal audit is rarely involved in identifying and monitoring the efficiency programme.

- 8.16 *Buy-in*: The Section 151 officer often signs off the AES. There is some buy-in from council members, CMT, finance and service managers but it is relatively light touch.
- 8.17 *Realisation*: Centrally-led cashable benefits from short-termist actions not tailored to the needs of the organisation (such as holding budgets constant or delaying the filling of vacant posts) are tied to the budget process which means these gains are realised when the budgets are created. Service managers will frequently sign off on cashable gains. Non-cashable gains from absenteeism are realised by analysing actual absenteeism rates across the authority but other non-cashable gains are frequently not realised. Non-cashable gains are rarely tied to outputs or outcomes.

#### Case Study Example

Council U focused on absenteeism as a way of identifying non-cashable gains. These were measured by the finance officer and service heads reviewing actual absenteeism rates across the authority and comparing them to the previous year. Service area managers are responsible for measuring how the additional work time gained from reduced absenteeism is translated into greater productivity, but this is not reported to the central team.

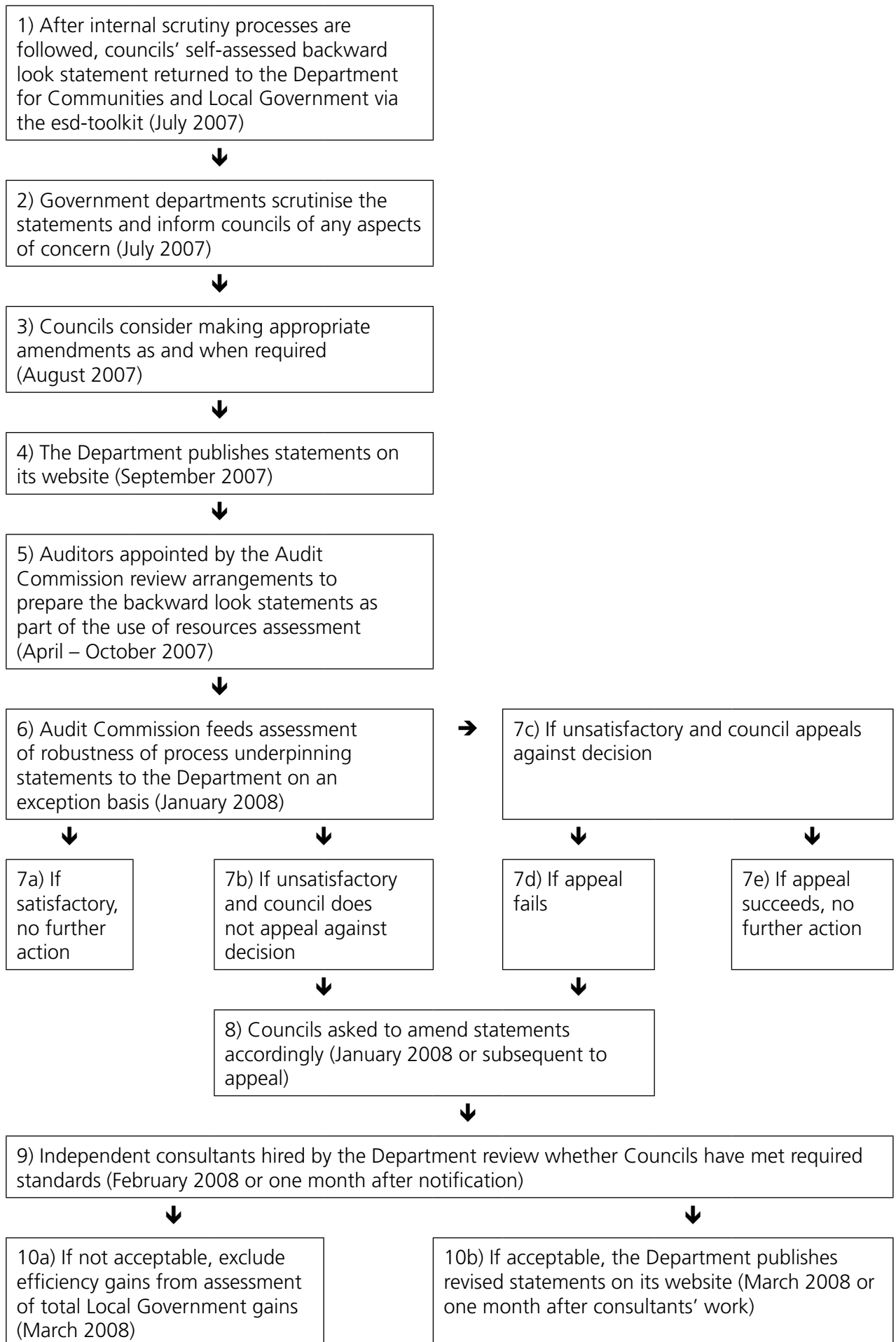
This council relies heavily on crude short-term measures to realise its efficiency gains. It has a policy of holding budgets flat for the next 3 years to get the inflationary benefit. Many of the service areas meet this requirement by keeping posts vacant for one month before filling them. These gains, while legitimate are not transformative to the way the council works.

## Efficiency Actions Checklist

- 8.18 Auditors appointed by the Audit Commission will be looking for evidence that “the council manages and improves value for money”, one of the “Use of Resources” key lines of enquiry (KLOE 5.2). This includes adequacy of the council’s arrangements to produce and deliver an efficiency plan to achieve the required efficiency targets.
- 8.19 In order to support that KLOE, and help councils to evaluate their own current performance and identify potential areas for development, the checklist at Annex B has been developed. If a council can show that it is undertaking the kind of actions described in the checklist, then it will be good evidence for the judgement on its use of resources.

## Scrutiny Process

- 8.20 The AES process will continue to be based on a self-assessment approach, as developed in consultation with the Audit Commission, CIPFA and a group of councils in a study led by INLOGOV of the University of Birmingham. To ensure robustness of results, the following scrutiny process will be adopted for backward look statements:



## Section 9: Completing an annual efficiency statement

### The esd-toolkit

- 9.1 The mechanism for submitting AES returns is the esd-toolkit ([www.esd-toolkit.org](http://www.esd-toolkit.org)). It is an online performance-monitoring service owned and run by local authorities with core team support from the IDeA. It should be familiar to all local authorities following its use for the submission of 'Implementing e-Government' (IEG) statements. The template for each AES return should be available on the esd-toolkit site for between one and two months prior to the submission deadline.
- 9.2 Every local authority must nominate an individual to register with the esd-toolkit team as the officer responsible for submitting statements (this can be done by e-mailing [esd-toolkit@idea.gov.uk](mailto:esd-toolkit@idea.gov.uk)). All authorities should already have an esd-toolkit administrator and they can set up access rights for other officials within their authority so that they can edit the template. However, only the single nominated individual may actually submit a statement.
- 9.3 For technical advice and assistance on using the esd-toolkit, and to register someone as the officer responsible for submitting statements, you should contact the esd-toolkit team by e-mail at [esd-toolkit@idea.gov.uk](mailto:esd-toolkit@idea.gov.uk). In addition, the esd-toolkit team has produced some brief user guides to explain how to complete the templates for each AES, and these are available online at:
- Forward Look: <http://www.esd-toolkit.org/Forums/download.php?id=675>
  - Mid-Year Update: <http://www.esd-toolkit.org/Document.aspx?Document=7689>
  - Backward Look: <http://www.esd.org.uk/Forums/download.php?id=764>
- 9.4 The esd-toolkit also hosts a Discussion Forum on the AES process so that issues about measuring and reporting efficiency gains can be discussed by local authorities and central government departments, and any questions answered. The Forum is well worth keeping under review for new guidance publications too.  
See: <http://www.esd-toolkit.org/forums/viewforum.php?f=130>

### The AES Structure

- 9.5 The Annual Efficiency Statement process comprises three parts, namely the Forward and Backward Look statements and the Mid-Year Update. The table below sets out the basic requirements for each of these statements – none of these elements are optional:

Statement	Text Contents	Numeric Contents
<p><b>Forward Look</b></p> <p>Due mid-April (start of financial year) from all local authorities</p>	<ul style="list-style-type: none"> <li>The overall strategy for making and monitoring efficiency gains.</li> <li>The key actions to be taken that should result in gains accruing for the first time during that financial year.</li> </ul> <p><i>NB: Maximum limit of 20,000 characters for whole AES</i></p>	<ul style="list-style-type: none"> <li>The value of gains expected to impact for the first time during that financial year<sup>13</sup> and how much of that will be cashable gains.</li> </ul> <p><i>NB: Do <b>not</b> include the value of any gains that will be reported in the previous financial year's Backward Look</i></p>
<p><b>Mid-Year Update</b></p> <p>Due mid-November (middle of financial year) from all local authorities <i>except</i> shire districts and any council rated 4* (or 3* and "Improving Strongly") under CPA, for whom it is voluntary</p>	<ul style="list-style-type: none"> <li>An explanation for any significant difference in expected efficiency gains compared with the forward look, e.g. new projects implemented or reasons for reduced expectations for projects in progress.</li> </ul> <p><i>NB: Maximum limit of 10,000 characters for whole AES</i></p>	<ul style="list-style-type: none"> <li>The value of gains impacting for the first time during the first six months of that financial year<sup>13</sup> (April-September inclusive).</li> <li>The value of gains expected to impact for the first time during the whole financial year<sup>13</sup> and how much of that will be cashable gains.<sup>14</sup></li> <li>The current value of ongoing gains sustained since 2004-05 and how much are cashable gains<sup>14</sup>.</li> </ul>
<p><b>Backward Look</b></p> <p>Due early July (after end of financial year) from all local authorities</p>	<ul style="list-style-type: none"> <li>The actions taken that resulted in efficiency gains accruing for the first time during that financial year and an explanation of any significant differences from the forward look expectation.</li> <li>Any information required for the quality crosscheck; e.g. details and data for a non-approved crosscheck or secondary crosscheck; explanation why the primary crosscheck has not been met; or status of crosscheck data if only an estimate.</li> </ul> <p><i>NB: Maximum limit of 20,000 characters for whole AES</i></p>	<ul style="list-style-type: none"> <li>The value of gains impacting for the first time during that financial year<sup>13</sup>, how much are expected to be ongoing to at least 2007-08, and how much of both totals are cashable gains<sup>14</sup>.</li> <li>The current value of ongoing gains sustained since 2004-05 and how much are cashable gains<sup>14</sup>.</li> <li>The data for the primary quality crosscheck selected from the drop-down menu (and for the previous year's primary quality crosscheck if different) for both that year and the previous year.</li> </ul>

<sup>13</sup> This includes the appropriate part-year effect of any gains arising from actions taken during the course of the previous financial year – see principle b9 (in chapter 2).

<sup>14</sup> The statement will be pre-populated with these figures using information submitted in earlier AES returns. Councils should check these figures are still correct and amend them where necessary

- 9.6 For each statement, there are text and numeric boxes for each of the service sectors<sup>15</sup> and crosscutting workstreams<sup>16</sup>. A number of areas have been split in two since the first AES was submitted to provide greater clarity, and councils are asked to allocate the value of previously reported gains between the rows appropriately. In addition, text boxes are available for local authorities to comment on general or overarching themes if they choose; it is not compulsory to enter any information in these boxes.
- 9.7 Please note that all non-school gains made by LEAs can be reported through the AES, even though the efficiency baseline for councils is derived on a slightly different basis. This advice is covered in more detail in the Schools efficiency toolkit produced by DfES<sup>17</sup>.

## Completing an AES

9.8 Some key points to bear in mind when completing the *text boxes* are:

- The *'Key Actions'* and *'Activities Undertaken'* sections should only include details of actions that result in new efficiency gains being made during that financial year. For the mid-year update and backward look statements, this section should also give some brief explanation for any significant differences from the expectations set out in the forward look.
- The text inserted should be detailed enough for a reviewer to understand what the action(s) being reported are and how they result in an efficiency gain. It is unlikely that this can be done with sufficient clarity in fewer than thirty words. Equally, entries need not be over-detailed and there should be no need to exceed the maximum character limit for each statement.
- Preference should be given to reporting efficiency gains in the service sector rows rather than the crosscutting workstream rows. The latter should only be used if the efficiency gain is genuinely crosscutting, or where it is difficult to apportion the gain to the relevant sectors.
- Where an action has produced an efficiency gain across a number of service sectors, the text boxes should set out the total value of the gain achieved, but the numeric boxes should only include the proportion of the gain allocated to that particular sector in order to avoid double counting.
- Similarly, where efficiency gains are achieved in partnership with other organisation(s), the total value of the gains achieved by the partnership should be entered in the text box; the numeric box should only include the value of the gain that relates specifically to the individual authority.

<sup>15</sup> Adult social services; Children's services; Culture and sport; Environmental services; Local transport (highways); Local transport (non-highways); LA social housing (capital expenditure); LA social housing (non-capital); Non-school education services; Supporting people; Homelessness.

<sup>16</sup> Corporate services; Procurement (goods and services); Procurement (construction); Productive time; Transactions; Miscellaneous efficiencies.

<sup>17</sup> Available at: <http://www.rce.gov.uk/rce/aio/16327>

- Where the efficiency gain relates to capital receipts, the full value of the capital receipts and the calculation of the revenue impact of those capital receipts should be set out in the text box; the numeric box should only include the value of the revenue impact.
- Local authorities should identify which efficiency gains are ongoing and which are temporary. Only ongoing efficiency gains can be carried forward to count against future years' targets.
- The '*Strategy*' section in the forward look statement is the only text box in any AES that should cover issues outside the particular financial year covered by the statement as its focus is the local authority's overall plan for making and monitoring efficiency gains.
- The '*Quality Crosscheck*' section in the backward look statement need only be completed if a description and data need to be provided for a non-approved crosscheck or a secondary crosscheck, or if additional information on the primary crosscheck is required. The primary crosscheck should be chosen from the drop-down menu and need not be repeated in the text box.

9.9 Some key points to bear in mind when completing the *numeric boxes* are:

- The template requires that data are entered in every numeric cell in the template; where there is no data to report, zero should be entered. Except for quality crosscheck boxes, only positive integers may be entered.
- The template will *not* assume that values entered are in thousands; it is necessary to insert the value in full (rounded to the nearest pound<sup>18</sup>).
- The value of efficiency gains should be the sum of gains arising from both capital and revenue spend, with the exception of social housing where these two areas of spend are reported in separate rows.
- The value of efficiency gains impacting for the first time that financial year should exclude any impact that might be felt before or after that year. So, for example, if an action that produces £1m per annum efficiency gains comes into force with full impact six months into a financial year, then the statements for that year would record £500,000 gains, with the remaining £500,000 being shown in the statements for the following year (which would then include the whole £1m gain in the cumulative total).
- The template requires that values for cashable efficiency gains are not greater than the corresponding value for total efficiency gains in each row.
- The template will automatically sum the value of efficiency gains reported in each column of the AES; these totals cannot be altered by users.

<sup>18</sup> A council may report a gain in round hundreds or thousands of pounds if it would be burdensome to determine a figure to the nearest pound, provided there is no undue impact on the overall accuracy of the statement. However, the number will need to be entered in full, e.g. £375,000 not £375.

- The template will also automatically calculate cumulative efficiency totals for each sector and workstream in the mid-year update and backward look statements by adding the relevant values in other columns; again, these totals cannot be altered by users.
- The template will automatically calculate whether a quality crosscheck has been met or not from the data entered by councils.
- The range of values that the template will accept may be limited for some quality crosschecks (e.g. where a percentage figure is required, no number outside of the range 0-100 will be permitted).

## Automatic Warnings

9.10 There are a number of things that are permissible to include within a statement, but for which supporting statements are required if they are included. The template is set up to provide an automatic warning to remind users of this requirement when an attempt is made to submit a statement with such things included. The table below sets out the things that will cause the template to display such a prompt:

Statement	Actions for which Supporting Evidence Required
Forward Look	<ul style="list-style-type: none"> <li>• The value for 'Miscellaneous efficiencies' is more than 25% of the total value of gains expected.</li> <li>• The total value for the crosscutting workstream efficiencies is more than 50% of the total value of gains expected.</li> <li>• The total value of efficiency gains expected is less than the annual efficiency target.</li> <li>• The total value of cashable efficiency gains expected is less than the annual target for cashable gains.</li> </ul>
Mid-Year Update	<ul style="list-style-type: none"> <li>• The forecast efficiency gains for any individual sector is less than that set out in the forward look statement by 20% or more.</li> <li>• The total forecast efficiency gains is less than that set out in the forward look statement by 10% or more.</li> <li>• The forecast cumulative total value of efficiency gains is less than the target for that year.</li> <li>• The forecast cumulative total value of cashable efficiency gains is less than the target for that year.</li> </ul>
Backward Look	<ul style="list-style-type: none"> <li>• The value for 'Miscellaneous efficiencies' is more than 25% of the total value of gains reported.</li> <li>• The total value for the crosscutting workstream efficiencies is more than 50% of the total value of gains reported.</li> <li>• The cumulative total value of efficiency gains is less than the target for that year.</li> <li>• The cumulative total value of cashable efficiency gains is less than the target for that year.</li> <li>• The quality crosscheck data entered indicates that service quality has declined compared to the previous year.</li> </ul>

9.11 An example of an 'ideal' AES response, illustrating many of the points described in this chapter may be found at Chapter 10.

## Submitting an AES

- 9.12 When councils are completing their AES on the esd-toolkit, they may repeatedly save and submit their statement without limit until the deadline for submissions. This allows for councils to draft the contents of the statement over a period of days, but only the most recently submitted statement at the deadline date is received by the Government.
- 9.13 The “Save Changes” and “Submit Statement” functions are separate on the esd-toolkit and councils must do *both* for their statements to be received by the government. It is strongly recommended that councils do repeatedly save *and* submit their statement from an early stage and observe any warnings that are provided by the template on doing so that any necessary amendments can be made to the AES at that stage. By doing so, councils can avoid difficulties that might otherwise delay submission beyond the deadline time and date.
- 9.14 An important element in providing assurance that the AES is robust is the requirement that each statement must be seen, certified and approved by the Leader of the Council (or Directly Elected Mayor), Chief Executive and Chief Financial Officer (Section 151 Officer).
- 9.15 When the “Submit Statement” function is chosen, councils must mark a tickbox to indicate whether the statement is a draft or final. Where the latter tickbox is selected, we accept that as sufficient indication that full approval has been obtained for the statement: it is *not* necessary for councils to send a hard copy with their signatures.
- 9.16 Future efficiency statements must be submitted *by 5pm* on the following dates:

Date	Annual Efficiency Statement
12 April 2007	2007-08 Forward Look
5 July 2007	2006-07 Backward Look
15 November 2007	2007-08 Mid-Year Update
8 July 2008	2007-08 Backward Look

## Scrutiny of the Backward Look Statements

- 9.17 When completing a backward look statement, councils should bear in mind that the arrangements to prepare them are subject to review by auditors appointed by the Audit Commission, who will assess the robustness of the process by which a local authority identifies and calculates its efficiency gains. In addition, the Government reserves the right to hire advisers to conduct a further review of the statements and any supporting information to those statements.
- 9.18 Councils should ensure an adequate audit trail exists to support the reported efficiency gains, which should demonstrate how they were calculated. Those categories that have a quality crosscheck that is met do not require further evaluation in relation to quality.
- 9.19 Projects in those categories where quality has fallen will be subject to stronger scrutiny to assess whether due processes were in place to determine their eligibility to count as efficiencies. See chapter 8 for more information about the scrutiny process.

## Section 10: Model annual efficiency statement

10.1 This chapter sets out some model entries for an AES. The precise content of these entries reflects what would be expected from the “Actions Undertaken” section of a backward look statement, but the principles in terms of the level of detail and aspects that should be included are the same for the Actions sections of the forward look and mid-year update statements. In short, the description of activities should set out:

- Some basic information about the activity undertaken;
- What the result of the action was;
- The value of the efficiency gain that resulted; and
- An indication as to whether the gain is cashable or non-cashable and ongoing or one-off.

10.2 This information should be set out in a way that demonstrates the action taken is eligible as an efficiency gain and the measurement has been undertaken in accordance with the rules set out in this guidance. In addition, supporting information should be referenced where appropriate so that it can be reviewed during the scrutiny process if required.

10.3 The entries should be written in a style that would be understandable to the average lay reader; they will be published and available for review by the general public. Everyday acronyms that will be understood by most people may be used to keep the number of characters used to a minimum, but any sector-specific or locally-used acronyms should be spelt out in full the first time they are used (and their meaning described where necessary).

10.4 Guidance on the information that should be included in the Quality Crosscheck section of a backward look statement is included in Chapter 7, but an example entry is also shown in this chapter for ease of reference.

### Activities Undertaken

#### Children’s services

Following a review of the council’s Foster Placement Strategy, we have successfully reduced the number of children placed in the independent fostering sector and, as a result, lowered the average unit cost of placements and the overall care population. For an outlay of £17k in 2005-06 (used to fund the necessary changes), we reduced the annual costs of placements in the year by £300k (using 2004-05 costs as a baseline and after adjusting for inflation), resulting in a £283k efficiency gain.

<b>Culture and sport</b>
<p>1. The Bauble Arts Centre secured financial improvements by generating additional income and reducing costs at the Centre, amounting to cashable benefits of £450k, which are anticipated to increase in the following financial years. (Bauble Arts Centre management information and statistics)</p> <p>2. The number of Service Assistants at the Gill Hall Library was reduced and the budget transferred to the Town Clerk for service improvements. The part-year cashable gain was £35k. (City Libraries management information)</p> <p>3. There were gains at the Gill Hall Art Gallery in relation to security, temporary employee and insurance costs amounting to cashable gains of £100k that was used to fund other service improvements at the Art Gallery. (City Libraries management information)</p> <p>4. Encouraging greater usage of the Platinum Lane Leisure Centre facilities has produced additional income for the Centre of £25k based on a comparison of actual 2005-06 income with that for 2004-05, as demonstrated in the financial statements for the Centre.</p>
<b>Local transport (Highways)</b>
<p>1. Withstanding inflation at the HMT approved ROADCON Index deflator, which is assumed for this example to be of 7%. The revenue budget is £10m for highway works. Service levels have remained the same whilst absorbing inflation. All the quality crosschecks are met and the cashable efficiency gain is 7% of £10m, i.e. £700,000.</p> <p>2. Efficiency gains on street lighting contract through improved item costs in a new contract. A comparison is made using the costs of the new contract and the correctly inflated prices for the same service using the previous contract rates resulting in cashable gains of £82,000.</p> <p>3. Improved procurement practices have led to gains in the length of roads being gritted as part of winter service arrangements. The length of roads covered by has increased by 171% (from 17% to 29% of the total network) for a cost increase of 5%, resulting in non-cashable gains of £400,000.</p> <p>4. Cashable efficiency gains have been achieved though reduced energy costs for street lighting. The street lighting contract has achieved gains of 37% compared with the current market price: gain is £90,000.</p>
<b>Local transport (Non-highways)</b>
<p>1. The Dial-a-Ride service has been successfully tendered on a county-wide basis and will deliver non-cashable ongoing efficiency gains of the order of £8,000 per year with effect from 2005-06.</p> <p>2. Combining together different bus routes, rather than tender them as individual contracts, has brought ongoing efficiencies of £50,000 cashable.</p> <p>3. By entering into a joint agreement with Dial-A-Ride service, we have (from 1 April 2005) managed to move from a single bus service to a two bus service at no extra revenue cost, and at the same time managed to reduce the administration associated with the scheme. Total ongoing gains: £8,000 cashable.</p> <p>4. By issuing concessionary bus passes valid for three years rather than the annual passes issued previously has produced cashable savings as well as savings in staff time. This is a task carried out by Customer Services staff and was a non-cashable saving used to re-direct resources into the development of three advice &amp; information centres. Total gains: £57k (£25k cashable and £27k non-cashable).</p>

### Supporting People

1. We made £10,000 of cashable gains by identifying the relatively high costs of services in certain client group areas and performed service reviews on this group as a priority. Following the reviews we negotiated new contract prices that provide the same number of units for a lower price. We calculated the efficiency gain by working out the difference between the new and the old contract prices; the old contract price was £100,000, the new contract price was £90,000, so the gain was £10,000.
2. We made £1,100 of non-cashable gains by negotiating nil or minimal price increases with providers while ensuring the level of service and quality remained the same. We calculated this by working out the amount of the price increase, and deducted it from what the GDP annual increase in inflation would have cost. The GDP inflation rate was 2.2%, the old contract price was £100,000 and we provided a 1% increase. Thus, the gain was 1.2 divided by 100 multiplied by £100,000, i.e. a £1,100 gain.
3. Following a floating support open tender we awarded a contract that provided an increased number of service units for a lower price compared to our previous floating support contract, resulting in cashable and non-cashable gains. We calculated the cashable gain by comparing the new and the old contract price. The old contract price was £100,000 for 10 units and the new contract price was £90,000 for 13 units, so the cashable gain was £10,000. We calculated the non-cashable gain by working out what the additional number of units would have cost under the old contract. The old contract price was £100,000 for 10 units (£10,000 divided by 10), i.e. £10,000 per unit, so the additional number of units would have cost £30,000 (£10,000 multiplied by 3), so the non-cashable gain was £30,000.

### Productive time

We ran an ITC Operational Excellence Fortnight that involved 2 hours of training for all staff on best office practices for email, voicemail, document handling, and other effective communication and meetings rules to support the mix of office dependent and some home working that had been evolving to different extents in parts of the authority.

The business case for the investment was based on an estimated average annual gain of 1hr a week across a workforce of 600 (the annual equivalent of £385k in basic salary costs). After 6 months however, the average actual gain from reducing meetings and associated travelling time; smaller email inboxes and better sharing of structured group (information) drives etc was estimated for a third of staff as the equivalent to half a day a week. For the remainder, freed potentially productive time was assessed at an average 1 hour a week.

Using basic salary costs the extra potentially available productive time is the annual equivalent of £768k. Deducting £60k for salary costs to effect the improvement, an outlay of £22k for PDAs and £16k for training, we will be reporting an annual non-cashable efficiency gain which can be quantified at £670k (4% of our total authority annual salary bill).

## Quality Crosscheck

<b>LA social housing (Non-capital)</b>			
Quality Crosscheck chosen	2004-05	2005-06	Crosscheck met?
6. Non-approved quality crosscheck	0	1	Yes
That service quality has improved is demonstrated by the improvement in the annual survey of tenants' satisfaction with the overall level of service. In 2004-05 the score was 70%; in 2005-06 it was 80%. (Annual Survey of Lanchester Tenants, 2004-05 and 2005-06)			

## Annex A: Calculating the efficiency baseline

A.1 Annex 2 of the Local Government ETN set out the method of calculating the efficiency baseline for councils using the estimated data for 2004-05 revenue and capital expenditure. It was on this basis that the target for efficiency gains by the end of 2005-06 was set (2.5% of the baseline).

A.2 Now that the outturn expenditure data for 2004-05 has become available, the efficiency baseline for each council has been recalculated and the targets for 2006-07 and 2007-08 have been set (5% and 7.5% of the new baseline respectively). The revised baseline has been calculated in the following way:

- Total (Net) Service Expenditure (RS column 1, line 699 – the total of RS column 1, lines 190 to 698)
- *Plus* Passenger Transport [previously stated numbers used]
- *Plus* Waste Authority [previously stated numbers used]
- *Minus* Schools [Nursery, Primary, Secondary and Special Schools] (RO1 lines 10, 20, 30 and 40 respectively)
- *Minus* Fire Service [Fire and rescue service] (RO6 line 290)
- *Minus* Police [Police services] (RO6 line 100)
- *Minus* Miscellaneous Revenue Adjustments 1 – Courts service (RO6 line 390)
- *Minus* Miscellaneous Revenue Adjustments 2 – Specific grants set out in the Local Government ETN as follows:
  - LPSA reward grant (RG line 521);
  - Neighbourhood Renewal Fund (RG line 531);
  - Historic buildings and monuments (RG line 761);
  - Countryside Commission (RG line 771);
  - New Deal for Communities (RG line 753);
  - Single Regeneration Budget (RG line 755); and
  - European Community) (RG line 791)
- *Plus* Capital Contribution – consisting of relevant service capital expenditure minus relevant service capital receipts as follows:
  - Total Capital Expenditure (COR1&2 line 46, column 6)
  - *Minus* Education Expenditure (COR1&2 line 6, column 6)
  - *Minus* Fire, Police and Courts Expenditure (COR1&2 lines 42 to 45, column 6)
  - *Minus* Total Capital Receipts (COR1& 2 line 46, column 13)
  - *Plus* Education Receipts (COR1&2 line 6, column 13)
  - *Plus* Fire, Police and Courts Receipts (COR1&2 lines 42 to 45, column 13)

## Notes to Baseline Calculation

- a. Baseline calculations apply to 2006-07 and 2007-08 targets only. The 2005-06 targets were left unchanged.
- b. Net current expenditure figures are used.
- c. Minimum capital contribution is zero.
- d. Where capital contribution has been amended subject to discussion, this level has been kept same as previously.
- e. Where the council is part of a passenger transport authority (PTA), its contribution to baseline was assessed as follows:
  - Proportion of levy paid to PTA =  $x$
  - PTA total baseline = Revenue plus capital expenditure minus Metropolitan Railway Passenger Services grant =  $z$
  - Contribution =  $x * z$
- f. Where the council is part of a waste disposal authority (WA), its contribution to baseline was assessed as follows:
  - Proportion of levy paid to WA =  $x$
  - WA total baseline = Revenue plus capital expenditure =  $z$
  - Contribution =  $x * z$
- g. The revenue outturn references relate to the RO form, accessible at: [www.local.odpm.gov.uk/finance/stats/lgfforms/forms/ro0405.xls](http://www.local.odpm.gov.uk/finance/stats/lgfforms/forms/ro0405.xls)
- h. The capital outturn references relate to the COR form, accessible at: [www.local.odpm.gov.uk/finance/stats/lgfforms/forms/cor0405.xls](http://www.local.odpm.gov.uk/finance/stats/lgfforms/forms/cor0405.xls)

<b>Example: Calculating the Targets</b>
Authority A had a budget expenditure of £1m in 2004-05, but actually spent £0.95m during the year.
Its targets for cumulative efficiency gains over the period 2004-05 to 2007-08 are as follows: <ul style="list-style-type: none"> <li>• By the end of 2005-06: £25,000 = 2.5% * £1.00m</li> <li>• By the end of 2006-07: £47,500 = 5.0% * £0.95m</li> <li>• By the end of 2007-08: £71,250 = 7.5% * £0.95m</li> </ul>

## Annex B: Annual efficiency statement process checklist

- B.1 This self-audit checklist has been compiled by understanding good practice for assessing efficiencies and producing the backward look statements across a sample of local authorities. It is provided as an aide for councils to help them assess and improve their current performance, and is *not* an additional set of requirements to meet. It has been reviewed by local authorities, government departments, OGC and the Audit Commission for comment.
- B.2 This checklist is intended to balance the need to identify true efficiencies with the burden of scrutiny by encouraging the implementation of processes that will help to provide more confidence in the value of gains being reported. The checklist demonstrates that the process for completing the backward look statement should fall out of existing processes rather than be a separate stream of work.
- B.3 For each checklist item, there are bullets setting out the characteristics of those councils that are “Gershon Compliant” (i.e. have processes in place to meet their efficiency targets) and those that are going “Beyond Gershon” to embed efficiency in all its activities. Authorities should use the examples to see where they currently stand in relation to these broad categories, and where there may be opportunity for improvement in the future.
- B.4 The contents of the checklist are still at a reasonably early stage and further development in the light of experience is likely. We would welcome feedback from councils about the checklist to assist in that improvement work.

Item	Beyond Gershon	Gershon Compliant
<b>Leadership – Efficiency agenda is led by council members and managed by the Corporate Management Team (CMT)</b>		
<ul style="list-style-type: none"> <li>• Role and importance of efficiency agenda</li> </ul>	<ul style="list-style-type: none"> <li>• Council members lead the agenda, which is managed robustly by CMT. CMT critically challenges service areas to ensure that resources are used effectively. Senior service area managers understand the agenda.</li> </ul>	<ul style="list-style-type: none"> <li>• All stakeholders understand the agenda. Finance department leads the agenda. CMT, service areas and members are aware of the agenda, but have only a limited role.</li> </ul>
<ul style="list-style-type: none"> <li>• Drivers behind finding efficiencies</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure to lower costs or improve service quality is not solely driven by the Gershon agenda.</li> <li>• Finding efficiencies is part of wider value for money activity, e.g. a strategic priority may be to provide high quality service and keep council tax low.</li> <li>• Internal Audit activity is directed to areas of greatest risk through a formal risk assessment of the efficiency agenda.</li> </ul>	<ul style="list-style-type: none"> <li>• Finding efficiencies is focused on meeting the Gershon 2.5% target.</li> </ul>

Item	Beyond Gershon	Gershon Compliant
<ul style="list-style-type: none"> <li>• Strategy to find efficiencies</li> </ul>	<ul style="list-style-type: none"> <li>• Service area targets for gains are based on council strategic priorities, unit costs, assessment reports from the external auditors (i.e. CPA, Ofsted, etc.), etc. to determine what level of gains are achievable on a service area by service area basis.</li> <li>• Requirements for when to develop a detailed business case articulated (business case includes stating risks and factoring them into the forecast of financial and qualitative benefits).</li> </ul>	<ul style="list-style-type: none"> <li>• A 2.5% target is applied consistently across the entire authority.</li> <li>• A high level business case that does not require measurable outcomes to be forecast is used on an ad hoc basis.</li> </ul>
<ul style="list-style-type: none"> <li>• The level and clarity of accountability for meeting the efficiency agenda</li> </ul>	<ul style="list-style-type: none"> <li>• Accountability for meeting the agenda clearly articulated, including responsibility for who is delivering which elements of the efficiency agenda.</li> <li>• CMT periodically reviews progress towards meeting efficiency target, and reports regularly to members. Key members understand progress of high efficiency value projects; particularly those that affect service quality.</li> </ul>	<ul style="list-style-type: none"> <li>• Accountability for completing the AES sits with Finance.</li> <li>• Service areas are aware of gains related to their projects but not necessarily assigned responsibility for delivering them.</li> <li>• CMT and members monitor progress of the efficiency agenda.</li> </ul>
<p><b>Process – Processes for identifying and calculating gains are robust</b></p>		
<ul style="list-style-type: none"> <li>• Transparency and consistency of calculations</li> </ul>	<ul style="list-style-type: none"> <li>• Gains are based on existing data or assumptions.</li> <li>• Sources for all data and assumptions that go into the calculations are clearly defined.</li> <li>• Assumptions are refined as projects progress and better data becomes available.</li> <li>• Benchmarking is used to calculate gains.</li> </ul>	<ul style="list-style-type: none"> <li>• Calculations are based on a consistent methodology across the council.</li> <li>• Basis for calculations is reported although the source of the data/assumptions is not recorded.</li> <li>• Assumptions not consistently refined.</li> <li>• Audit trail exists to support calculations.</li> </ul>
<ul style="list-style-type: none"> <li>• Impact of identified gains on outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• All cashable and non-cashable gains are linked clearly to outcomes.</li> <li>• CMT and service managers are aware of the decision they can make to turn non-cashable gains into cashable gains.</li> <li>• Cashable gains are linked to processes, i.e. budget or service planning process.</li> </ul>	<ul style="list-style-type: none"> <li>• Overall outcome measures are tracked but not linked to individual projects.</li> <li>• Non-cashable gains measure expected output (i.e. freed time), but may not be translated into better outcomes (i.e. greater productivity).</li> </ul>

Item	Beyond Gershon	Gershon Compliant
<ul style="list-style-type: none"> <li>Maintenance of service quality assured</li> </ul>	<ul style="list-style-type: none"> <li>Selection of quality crosschecks (QCCs) has an objective basis, properly reflecting the overall performance of the sector or clearly relating to a large proportion of the gains.</li> <li>The QCC input into the statements is a proper record of the performance indicators chosen.</li> <li>There is a clear storyline to show service quality has been maintained.</li> </ul>	<ul style="list-style-type: none"> <li>Quality crosscheck identified as a secondary process to enable completion of AES as is required; but are not seen as key to the internal efficiency programme.</li> <li>Appropriate arrangements in place to secure adequate data quality.</li> </ul>
<ul style="list-style-type: none"> <li>Level of understanding of Government guidance</li> </ul>	<ul style="list-style-type: none"> <li>Clear understanding of guidance demonstrated by relevant stakeholders in relevant service areas.</li> <li>Guidance used effectively across the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>Good understanding of guidance at corporate centre.</li> <li>Awareness of guidance in service areas.</li> </ul>
<ul style="list-style-type: none"> <li>Handling of complex issue areas including:               <ol style="list-style-type: none"> <li>Sharing of partnership costs and gains</li> <li>Reporting of net versus gross benefits</li> <li>Understanding of quality cross checks</li> <li>Understanding of distinctions around efficiencies from asset sales</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>Potentially complex issues are understood at the corporate centre and across service areas and are flagged up across the organisation.</li> <li>Guidance properly understood and applied. For example, only net gains are reported, partnership gains are shared according to an appropriate model, land sales handled in accordance with guidance.</li> </ul>	<ul style="list-style-type: none"> <li>Guidance understood and applied at the corporate centre.</li> <li>Awareness of guidance and key principles in service areas.</li> </ul>
<ul style="list-style-type: none"> <li>Levels of engagement with key stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>All key stakeholders believe the gains identified and plan to deliver them.</li> <li>All key stakeholders have delivered all identified gains and/or have translated into outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>All stakeholders are aware of the gains that have been identified.</li> </ul>

Item	Beyond Gershon	Gershon Compliant
<b>Realisation – Gains realisation established as key part of efficiency drive</b>		
<ul style="list-style-type: none"> <li>• Consideration of the likelihood (or risk) of realising a gain</li> </ul>	<ul style="list-style-type: none"> <li>• Projects of high value and low likelihood of realisation are scrutinised more heavily.</li> <li>• Likelihood of delivery revised as project progresses.</li> </ul>	<ul style="list-style-type: none"> <li>• Awareness of level of risk associated with a project but this is not always factored into forecasts.</li> </ul>
<ul style="list-style-type: none"> <li>• Awareness of when gains are realised</li> </ul>	<ul style="list-style-type: none"> <li>• Gains are tied to outcomes and seen in budget or in performance quality.</li> </ul>	<ul style="list-style-type: none"> <li>• Cashable gains are tied to budget and non-cashable gains are tied to outputs.</li> </ul>
<ul style="list-style-type: none"> <li>• Sustainability of gains assured</li> </ul>	<ul style="list-style-type: none"> <li>• Processes in place to ensure that those efficiency gains from earlier years reported as ongoing through to 2007-08 have indeed been sustained.</li> <li>• Efficiency calculations form part of performance management processes to ensure gains are sustained.</li> </ul>	<ul style="list-style-type: none"> <li>• Ad hoc review of statement to check value of gains sustained from previous years.</li> </ul>