



Efficiency matters...

The Annual Efficiency Statement and the bigger picture.

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Efficiency matters...

15 April 2005 is the deadline for delivery of your first **Annual Efficiency Statement** (AES). Are you ready?

This pocket guide explains what you need to do.

What you need to achieve

An efficiency target of **£6.45 billion** in **efficiency gains** has been set for the local government sector (including schools and the police). This has to be achieved over the three years to 2007/08. That translates into **7.5 per cent** off the **2004/05 baseline** – **2.5 per cent** year-on-year.

This target came out of the '**Gershon Review**' (*Releasing Resources to the Frontline*) published in July 2004. Through **Spending Review 2004** Gershon's recommendations were incorporated into the government's spending plans to 2007/08.

As the title suggests the aim is to identify resources that can be **reinvested** in the frontline or used to hold down Council Tax.

The Gershon Review covered the **entire public sector**. It identified scope for significant efficiencies in the following areas:

- procurement
- back office (i.e. corporate support services)¹
- transactional services (like revenues and benefits)
- productive time (actions that increase productivity)
- policy, funding and regulation (streamlining for both the public and private sectors)

Two ODPM **information packs**, circulated to leaders and chief executives, set out what **councils** are required to do (*Delivering Efficiency in Local Services*, November 2004 and January 2005, www.odpm.gov.uk)².

At least **half** the 2.5 per cent annual efficiency gains must be **cashable**. Otherwise, councils are free to decide how to meet the target. You can pursue efficiency gains in any of your services and in 'cross-cutting' functions like corporate support services and procurement (including construction and commodities).

There are rules on how the baseline is to be calculated and on which efficiency gains count towards the target³. One to note is that savings resulting from '**cuts**' (withdrawal of service, lowering of quality standards) **will not count**.

¹ This category includes finance, human resources, payroll, ICT, legal, procurement, property, security and communications functions.

² There are separate arrangements for the fire and rescue service and the rest of the social housing sector (ODPM), for schools (DfES) and for the police (Home Office).

³ ODPM's Efficiency Technical Note (ETN) for Local Government (January 2005) provides detail on how the revenue and capital baseline should be calculated, what can and cannot be counted as an efficiency gain and the treatment of inflation etc. Supplementary information is posted on the ESD toolkit (www.esd-toolkit.org) in the form of FAQs. HRA housing, the schools budget and EU grants, for example, are all excluded from the baseline. A Measurement Taskforce will produce additional guidance, including performance indicators for "quality cross checks", efficiencies in capital spend, and fees and charges. Government departments will produce measurement toolkits for specific services beginning in May or June 2005. You should consult the ESD toolkit for the most up-to-date information.

As a transitional measure, efficiency gains achieved in 2004/05, which carry through to 2007/08 **will count** against the target for 2005/06.

Achievement of the targets will become progressively more challenging in years two and three, calling for greater degrees of **collaboration** between councils and other public bodies in order to achieve them.

ODPM guidance explains that **efficiency gains** can be achieved by the following actions:

1. reducing inputs (money, people, assets, etc) for the same outputs
2. reducing prices (procurement, labour costs, etc) for the same outputs
3. getting greater outputs or improved quality (extra service, productivity, etc) for the same inputs
4. getting proportionately more outputs or improved quality in return for an increase in resources

1 and 2 produce **cashable** efficiency gains, while the gains from 3 and 4 are **non-cashable**.

How efficiency relates to CPA

The Audit Commission has received a large number of consultation responses about its proposed approach to the use of resources judgement including value for money. Until the Commission has reviewed those responses, and considered whether the proposed approach should be amended, the information in this section is provisional and based on the proposals published by the Commission at the end of 2004.

From **2005** your **CPA rating** will be calculated in a new way⁴.

Under the Commission's proposals, if you are a **single tier or county council** it will no longer be possible for you to remain in the **excellent** category or move into it, unless you score highly on **use of resources**.

Your use of resources score will be as important to your CPA rating as your score for adult social care and children and young people.

The scoring system for use of resources gives heavy weighting to **value for money** (VFM). Among other things, the VFM criteria cover -

- **cost** management
- **procurement** practices
- **efficiency gains** achieved

You need to complete a **self-assessment** against the VFM criteria and provide this in **July** to your external auditor. From 2006 this will include the efficiency gains reported through the **Annual Efficiency Statement** (see below).

The Audit Commission will provide **guidance** in relation to the completion of the self-assessment in due course and will be arranging **briefing sessions** about the use of resources judgement for councils in **June 2005**.

In addition to VFM, the use of resources judgement focuses on financial management (including asset management), financial standing and internal control. This judgement is therefore mainly about economy, efficiency and effectiveness in the use of **financial resources**.

Practices in the following areas are examined from a number of perspectives:

- programme and project management
- option appraisal
- risk management

⁴ Following a consultation exercise ending in February 2005, final details of the CPA 2005 methodology are due to be published by the Audit Commission in May 2005. The advice offered in this leadership guide is therefore provisional and should be read in the context of the new Commission methodology once published. Proposals are also being developed for a use of resources judgement for districts.

The **December 2005** use of resources judgement will take into account any evidence that is available on **efficiency gains** achieved in **2004/05**.

From **December 2006 onwards**, it will take account of the external auditor's **review** of efficiency gains reported for the year in the **Annual Efficiency Statement** (*see below*) including the **audit trail**.

The **corporate assessment** continues to be key to CPA ratings. Efficiency considerations feature prominently in the new criteria.

"Is capacity used effectively and developed to deliver ambitions and priorities?" is a key question. The council's practices and achievements in the following areas form part of the answer:

- value for money
- human resources
- asset management
- ICT
- e-government
- commissioning
- procurement

Following pilots, the Audit Commission intends to carry out the new corporate assessments on a rolling basis between **September 2005** and **December 2008**.

For single tier and county councils, this will be combined with joint area reviews of children's and young peoples services, which also involve OFSTED, CSCI and the Healthcare Commission.

Throughout the new corporate assessment criteria – and CPA more generally - there is an emphasis on working with **partners**. This encompasses:

- Local Strategic Partnerships
- collaboration on shared services (eg, customer, transactional and corporate support services)
- joint commissioning and joint service delivery arrangements
- partnerships for service delivery and in construction ('strategic partnerships').

What you need to do

Annual Efficiency Statement

2005 AES deadlines

Forward look	15 April 2005
Backward look	16 June 2005 (looks back to 2004/05)
Mid-year update	17 November 2005

An **Annual Efficiency Statement** (AES) must be prepared and submitted **electronically** to ODPM.

ODPM will require that the statement is endorsed by the **leader, chief executive** and **chief financial officer**.

There are two main elements to the AES:

- an **action plan** (strategy, key actions and expected efficiency gains) for the year
- a **report** on efficiency gains achieved in the year

These are referred to as the 'forward look' and 'backward look'.

The forward look must be submitted in **April** each year. The backward look is required by **June**. (The June 2005 report looks back to efficiency gains achieved in 2004/05 as these count towards the 2005/06 total if they carry through to 2007/08).

In between (**November**), single tier and county councils (except those in the excellent category) must submit a **mid-year update**. Excellent councils and districts are encouraged to do the same.

The AES should be submitted online using the **electronic template** made available through ESD Toolkit (www.esd-toolkit.org).⁵ You must be registered to do this.

Guidance and FAQs can be downloaded from the toolkit site.

The ESD toolkit is a resource that is owned and managed by local government with support from IDeA. It was used successfully for the submission of IEG4 statements this year (e-government). It has the potential to play a much bigger role in the efficiency agenda, particularly on process improvement.

There are active discussion forums on efficiency topics.

Action plan

The template for the AES forward look requires you to include information by **service block** ('sector') on your **strategy, key actions** and **expected annual efficiency gains** together with an indication of which gains are expected to be **cashable**.

⁵ By agreement with ODPM it may be possible in some circumstances to submit the AES in spreadsheet format.

Where it is difficult to assign efficiency gains to a service block or the activity is genuinely cross-cutting, the information should be included in the section on **cross-cutting efficiencies**. There is the opportunity here to include information on **corporate services, procurement, productive time** and **transactional services** not entered elsewhere.

All gains, whether cashable or not, are to be expressed in £.⁶ This includes improvements in quality where costs remain constant⁷.

Information can be included on **social housing**, and efficiency gains in this area will count, even though the HRA does not form part of the baseline.

Councils are asked (but not required) to include a breakdown of efficiency gains between **capital** and **revenue** for the **social housing** and **local transport** blocks.

Projects included in the action plans should be clearly defined (estimated start and finish dates, scope, lead officers etc). This will help in the identification of opportunities for **collaboration**.

If **major projects** (particularly those involving procurement) are to start to deliver measurable benefits in years two and three (when the targets step up) they will need to get underway in 2005/06.

End-of-year report

The format for the backward look is similar. This time you must include details of efficiency gains that have been **achieved** in the year and the **cumulative** efficiency gains.

This done on a **self-assessment** basis. Cashable and non-cashable gains are both expressed in £. The information must be inserted by service block. Cross-cutting actions should be treated in the same way as in the forward look.

Activities undertaken to achieve the efficiency gains must be recorded.

In this report you will need to demonstrate that the efficiency gains achieved by the council are not disguised 'cuts' by indicating that relevant '**quality cross checks**' have been met. These are performance indicators relating to quality standards chosen by the council from a list developed by the Measurement Taskforce⁸.

Mid-year update

The mid-year update will ask for an **estimate** of efficiency gains achieved since the April forward look together with a **forecast** for the whole year. This is also on a self-assessment basis.

A breakdown will be required as for the other reports, but a narrative describing activities is not necessary.

If **shortfalls** in relation to the plans set out in the forward look are indicated a brief explanation will be required together with an action plan.

⁶ As a transitional measure, efficiency gains achieved in 2004/05 will count towards the 2005/06 target (those gains are recorded in the June 2005 backward look). So the efficiency gains total on the 2005/06 forward look may not equal 2.5 per cent of the baseline.

⁷ ODPM will publish further guidance on this.

⁸ Check the ESD toolkit for details

Getting organised

To develop efficiency action plans and deliver them successfully – in a context where your CPA rating may be affected – requires leadership and considerable planning and management. But it should not mean creating a new '**efficiency silo**'.

Leadership will be critical to success. Members and the council's top management will need to look beyond the technical requirements of the efficiency agenda to the positive **opportunity** it presents to reshape public services and improve outcomes for citizens (*see below* on the 'bigger picture').

Of course, you also need to have confidence that your **management arrangements** are giving appropriate weight to efficiency. In part, this is what the new corporate assessment and use of resources judgement will be looking at. For example -

- **Service and financial planning** may require a sharper focus on efficiency. The council's corporate strategy and **improvement programme** should be clearly aiming to improve **efficiency**, as well as **effectiveness** (outcomes). Continuous improvement is about eliminating waste as well as driving up performance. Resources that are released can be redirected into **improving frontline services** or keeping the Council Tax low.
- Productivity improvements should already be a consideration in workforce planning and **human resources** policies and strategies (including sickness absence and flexible working) and your **ICT/e-government strategy** (including mobile technology).
- Your corporate **procurement strategy** should provide for a segmented approach targeting efficiency savings in appropriate categories of spend, and reductions in **transaction costs**, and you should be using the full range of **e-procurement** tools including **e-auctions**.
- If you have sound **programme and project management** arrangements in place that you apply to the delivery of performance improvement, e-government and major procurement projects, then they will serve you well for efficiency too.
- The specific **AES reporting requirements** need to be built into your **performance management** system including Best Value obligations. You need to gear up to produce the CPA **VFM self-assessment** each July, for the **auditor's review** in **September**, and for the **publication** of the judgement in **December**.

As you will see from the discussion below of the 'bigger picture' you may be talking about a large and integrated **change programme** and **collaboration** with other public bodies that will require joint arrangements for **governance**.

Baselining

One of the first steps is to create a **baseline** and identify the '**gaps**' that need to be addressed. This is familiar territory from Best Value, e-government and similar programmes.

At the outset, this is likely to be a challenge for some services because performance indicators and **data benchmarks** relating to efficiency are not readily available. Under Best Value the spotlight has been on measuring outcomes for citizens. In particular, getting a clear picture of the performance of corporate support services (the back office) is not straightforward.

In some cases, action planning may need to be preceded by a Best Value review or similar **strategic review**. There may be a need for joint reviews with other agencies (see *below* on the 'whole system' approach).

The Audit Commission plans to publish an online tool that will enable a comparative analysis to be carried out using existing **cost** and **performance data**. In due course, councils will be able to use this information to review their performance and identify areas for further investigation and explanation in the VFM self-assessment required for CPA. Launch is planned for May 2005.

A variety of change agents (see *below*) are developing performance indicators that can be used for benchmarking. This should not be confused with the accountability arrangements for efficiency gains (the AES).

Action planning

Councils are free to take any action they choose to deliver the required efficiency gains. However, in practice efficiency projects are likely to fall into one or more of the following categories:

- smarter **procurement** (including collaborative procurement and e-procurement)
- **process** improvement ('BPR')
- investment in **ICT**
- **asset** management
- **HR** strategies
- **sharing** of customer, transactional and support services
- **joint commissioning** and/or **joint service delivery** arrangements for frontline services

In some services (including adult social care, education and children's services, housing and supporting people) the 'processes' involved in delivering services are complex and span many agencies. In this case, the '**whole system**' needs to be looked at for efficiencies.

The investment that is being made in **e-government** is principally about improving **customer services** – the **front office**. The efficiency agenda puts an emphasis on **transactional services** – all the processing that happens in the **back office** (e.g. revenues and benefits, housing management, planning, parking).

Logically, the two go hand-in-hand because many of the **benefits** (service improvements and savings) from investment in websites, contact centres and CRM systems can only be realised once **back office processes** have been **redesigned** and fully **integrated** with customer services.

Looked at together with corporate support services (particularly those supported by ICT) the need for an integrated '**architecture**' to support frontline delivery emerges.

While the drive has been on to e-enable services to **citizens** there has been less of a focus on **doing business electronically** – e-procurement. The potential of **e-procurement** is yet to be realised and it is a significant platform on which to make efficiency gains.

Seeing the bigger picture

If you look beyond the 'technical' requirements of the efficiency agenda a much bigger picture begins to emerge.

There is an opportunity here to **reshape public services** for the benefit of local citizens.

To grasp that opportunity councils need a compelling **vision**, strong **leadership** and a willingness to **collaborate** across the public sector on an unprecedented scale.

For once the **entire public sector** is in the same boat. Local government has not been singled out. Every part of the public sector from health to civil central government to defence has to deliver efficiencies.

Everyone is looking in the same areas and everyone knows that by working together more can be achieved than when working alone. In years two and three of the programme, the targets will really begin to bite on everyone. The efficiency agenda is about **collaboration**.

Councils are the **community leaders** for their localities. Who better to foster collaboration among public sector bodies? **Local Area Agreements** and **Public Service Boards** are already getting under way. The alignment of strategies and funding streams is being complemented by collaboration on projects: shared customer services, accommodation and support services.

In every English region a **Regional Centre of Excellence** (RCE) has been set up specifically to promote collaboration of this kind, including the pump-priming of **demonstration projects** that chart a path that others can follow.

Who can help?

At the regional level your first point of contact on the efficiency agenda is your **Regional Centre of Excellence** (RCE).

The remit of the Centres which are hosted by, run by, and act for local authorities, also includes:

- Co-ordinating and analysing data relating to local authority performance across the four workstreams to enable decisions makers in local authorities to understand the options for improved performance
- Providing support, including identifying and bringing to bear available resources, to local authority-led projects designed to achieve efficiencies
- Developing opportunities for shared working across local authorities and the wider public sector, involving, where appropriate, the private and voluntary and community sectors Co-ordinating the support for local authorities to ensure that efforts of individual organisations support the needs of the region

Your RCE can also put you in touch with national support programmes for the efficiency agenda being delivered by:

- The Local Government Taskforce (construction)
- The LGA Performance Partnership (IDeA, EO, 4ps)
- ODPM, OGC and other government departments performing the role of 'change agent' for particular local government services and cross-cutting functions like procurement, corporate and transactional services.

Contact details for RCEs are provided below. From April 2005 you can access information on their work via www.idea.gov.uk/rce

North West RCE	0161 342 3762	colin.cram@tameside.gov.uk
Yorkshire and The Humber RCE	0113 247 4483	tony.wiltshire@leeds.gov.uk
North East RCE	0191 433 2230	necpe@gateshead.gov.uk
West Midlands RCE	01527 839204	hjasper@wmcoe.gov.uk
East Midlands RCE	0115 977 38 75	chris.allison@nottsc.gov.uk
East of England RCE	01603 704014	steve.holland@norfolk.gov.uk
South West RCE	01305 225423	j.morely@dorsetcc.gov.uk
London RCE	020 7934 9955	julia.vernalls@alg.gov.uk
South East RCE	01622 696317	andrew.larner@kent.gov.uk
LGTF	020 7592 1100	peter.bishop@constructingexcellence.org.uk
IDeA	020 7296 6847	john.hayes@idea.gov.uk

EO	020 7296 6731	tracey.connage@lg-employers.gov.uk
4ps	020 7808 1470	enquiries@4ps.gov.uk

Delivering Efficiency in Local Services – 2 (ODPM, January 2005) provides details of government change agents, resources and support programmes. This guidance, together with the Efficiency Technical Note is available on the ODPM website: www.odpm.gov.uk

IDeA's Regional Associates work with the RCEs and other regional partners to mobilise packages of funding and support, including support provided through the LGA Performance Partnership. Their contact details are shown below.

North West	07747 791654	helen.platts@idea.gov.uk
Yorkshire and The Humber	07733 113251	jo.webb@idea.gov.uk
North East	07990 591574	annette.stansfield@idea.gov.uk
West Midlands	07747 636910	mark.edgell@idea.gov.uk
East Midlands	07747 636910	mark.edgell@idea.gov.uk
East of England	07747 791754	dennis.skinner@idea.gov.uk
South West	07773 775904	stephen.fletcher@idea.gov.uk
London	07747 791754	dennis.skinner@idea.gov.uk
South East	020 7296 6600	marianne.abley@idea.gov.uk (From May 2005)