

**Report to the Finance and Performance  
Management Cabinet Committee  
Report reference: C/ /2004-05  
Date of meeting: 18 April 2005**



**Portfolio: Finance and Performance Management**

**Subject: Gershon Efficiency savings**

**Officer contact for further information: Peter Haywood – (Ext: 4080)  
Committee Secretary: Graham Lunnun (Ext 4244)**

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**Recommendations/Decisions Required:**

1. To note the contents of the report including
  - i) the establishment of the 2004/05 baseline figure for this authority of £17.06m;
  - ii) the requirement to identify cumulative efficiency gains of £0.44m, £0.88m, and £1.32m in 2005/06, 2006/07, and 2007/08 respectively, at least half of each total being cashable gains.
2. To consider the draft annual efficiency savings submissions from Heads of Service; and
3. To approve the forward-looking section of the Annual Efficiency Statement for 2005/06 as submitted in draft to the ODPM on the 15 April 2005.

Report:

**Introduction**

1. In August 2003 Sir Peter Gershon was commissioned by the Prime Minister and the Chancellor to consider the scope for efficiency savings across all public expenditure. He was asked to look at specific proposals to deliver efficiencies and more general changes which could be made to the framework within which the public sector operates to improve efficiency. His objective was to release major resources from activities which could be undertaken more efficiently into frontline services which could meet the public's highest priorities.
2. The final report 'Releasing Resources to the Front Line', which was published in July 2004 alongside the 2004 Spending Review, made recommendations for stretching government departmental efficiency targets for the period 2005-06 to 2007-08, to deliver gains of over £20bn.
3. In November 2004, the Government introduced the efficiency agenda to local authorities. Local government was informed that it would be responsible for delivering over £6.45bn of total efficiency gains by 2007-08. This means that over the next three years, each local authority is expected to achieve 2.5% p.a. efficiency gains compared to their 2004/05 baseline.
4. In February 2005 guidance was issued to local authorities on the measurement and reporting of efficiency gains, examples of good practice and the role of the various change agents tasked with supporting authorities in delivering the efficiency agenda.

## Definition of Efficiency

5. The guidance notes make it clear that efficiency is about raising productivity and enhancing value for money: It is not about cuts. Efficiencies are required from capital investment as well as revenue expenditure although councils will have full flexibility on the work-streams by which they achieve efficiencies.
6. Efficiency gains can be achieved by one or more of the following:
  - Reducing inputs (money, people, assets, etc) for the same outputs;
  - Reducing prices (procurement, labour costs, etc) for the same outputs;
  - Getting greater outputs or improved quality (extra service, productivity, etc) for the same inputs; or
  - Getting proportionally more outputs or improved quality in return for an increase in resources.
7. Certain types of activity are not acceptable as efficiency gains:
  - Re-labelling of activity (e.g. reclassifying inspection as advice);
  - Cuts that result in poorer services for the public; or
  - Increased income purely from higher prices in fees and charges.
8. The details on how these principles should be applied in practice are still unclear. However the ODPM will produce further guidance notes each year based on advice developed by the Local Government Efficiency Measurement Taskforce, whose members will include representatives from local government as well as the ODPM.

## Measurement of Efficiency Gains

9. The requirement for councils is to achieve 2.5% per annum improvements on their 2004/05 net expenditure baseline. By 2007/08, efficiency gains equivalent to 7.5% of the 2004/05 baseline should be achieved.
10. At least half of the efficiency gains should be cashable, which means that they release funding for use elsewhere, either for investment in frontline services or holding down Council Tax.
11. The baseline expenditure figure is obtained from returns previously submitted to the ODPM. The RA/CER returns which set out the net expenditure estimates for 2004/05 for both revenue and capital have been used to obtain the relevant figures for this authority which are summarised as follows :

Total Service Net Revenue Expenditure	£17.297m
Total Service Net Capital Expenditure	£ 0.409m

Baseline Expenditure 2004/05 £17.706m

12. This means the following set of efficiency gains are required during the Spending Review period.

	Year-on-year improvement	Total improvement relative to 2004/05	Year-on-year improvement - cashable	Total improvement relative to 2004/05 cashable
2005/06	£0.44m	£0.44m	£0.22m	£0.22m
2006/07	£0.44m	£0.88m	£0.22m	£0.44m
2007/08	£0.44m	£1.32m	£0.22m	£0.66m

13. It should be noted that :

- The target for 2005/06 is based on estimated 2004/05 out-turn data;
- Available 2004/05 actual out-turn data will be used to calculate the target on a more robust basis in subsequent years

### **Mechanisms for Reporting and Auditing Efficiency Gains**

14. The ODPM has introduced a formalised process of accountability for reporting efficiency gains. Each council must submit to the ODPM an Annual Efficiency Statement (AES) which will be signed by the Leader of Council, the Chief Executive and the Chief Financial Officer. It will comprise two parts.
15. The forward part should be a very brief (one or two pages) outline of the strategy for securing efficiency gains, the key actions that will be taken during the next year, and the efficiency gains that are expected to result from them. The first submission will be required on the 15 April 2005.
16. The backward-looking part should set out the cashable and non cashable efficiency gains achieved in the past financial year by service sector and crosscutting area. The first submission of this part of the AES will be required on the 15 June 2005. It should be noted that efficiencies achieved in 2004/05 count against the target, providing that a clear audit trail is available, and that those gains continue throughout the SR04 period;
17. The ODPM will invite district councils to provide a mid-year update for submission on or before the 17 November 2005 but this is not a mandatory requirement.
18. It is important to note that a caveat will be included in returns for 2005, to note that the statement is a new development with limited good practice available and consequently that results are subject to change.
19. From 2006 the AES will be subject to review by the Audit Commission. The Council's appointed auditor will require an adequate audit trail with evidence to support the reported gains and show how they were calculated.
20. The Commission will include an assessment of the AES in the 'Use of Resources' section for the CPA as part of the annual external audit process. The assessment of the AES will be provided to the Council and the ODPM by mid-December each year.
21. The following table sets out the timescale for future actions:

<b>Timescale for future actions on measurement (2004-2006)</b>	
<b>Date</b>	<b>Action</b>
15 April 2005	Submit the forward part of the AES looking ahead to the year 2005/06
15 June 2005	Submit the backward looking part of the AES, setting out efficiency gains achieved in 2004/5
17 November 2005	Single tier and county councils that do not have Excellent status are required to provide a mid-year update to ODPM <b>Exempt councils are invited to provide returns to this timescale</b>
14 April 2006	Submit the forward part of the AES, looking ahead to the year 2006/07
16 June 2006	Submit the backward part of the AES, setting out efficiency gains achieved in 2005/6
17 November 2006	Single tier and county councils that do not have Excellent status are required to provide a mid-year update to ODPM <b>Exempt councils are invited to provide returns to this timescale</b>

22. The template below is to be used for the forward-look on the 2005/06 efficiency gains:

a) Strategy for securing efficiency gains		
<b>A textual statement</b>		
b) Key actions to be taken during the year		
<b>A textual statement</b>		
c) Expected efficiency gains		
	Expected annual efficiency gains	...of which cashable
Culture and sport		
Environmental services		
LA social housing		
Supporting People		
Other cross-cutting efficiencies not covered above		
- Corporate services		
- Procurement		
- Productive time		
- Transactions		
- Miscellaneous		
<b>Total</b>		

23. The template is split into two distinctive parts in relation to identifying where the efficiency gains can be achieved. The direct service sector is fairly self evident but the cross-cutting sector probably requires more explanation. The following sets out basic definitions of the Gershon workstreams:

- **Corporate services** includes, but is not limited to Finance, HR, ICT Procurement (the function not the spend), Legal, Facilities Management, Security services and Marketing 7 Communications.
- **Procurement** includes commodity goods and services –utilities, commodity IT, equipment & supplies, telecoms, vehicles etc – as well as professional services, temporary labour and construction. It also includes sector specific markets for social housing and environmental services etc.
- **Productive time** focuses on increasing the productivity of frontline staff and those who support them.
- **Transactions** efficiencies are those that can be gained through such means as combining activities to produce more efficient ways of dealing with customers or streamlining processes, or making a major shift from manual to electronic processing.

## The Role of Change Agents

24. The guidance notes identify a number of change agents that will be available to work with local authorities to help them achieve efficiency gains at both national and regional levels. The Regional Centres of Excellence (RCEs) are the lead change agents for local government and are very much the first port of call. Other agents include ODPM, the e-Government unit, 4ps and IDeA at national level and Regional Employers Organisation and Regional LGA and e- Government Partnerships at regional level.

## Current Position

25. In addition to that outlined above the guidance notes give some basic advice on:
- Taking inflation into account;
  - Distinguishing between cashable and non cashable gains;
  - How to demonstrate the maintenance or enhancement of quality ;
  - Treatment of capital spend and receipts; and
  - Treatment of efficiencies gained from partnerships, one-off improvements and outside factors

However, the reality is that this advice, in most cases, raises more questions than it answers. The process has been rushed through without detailed planning and advice is sketchy at best.

26. Having said that we must still comply with the process as best we can. Therefore Heads of Service have been requested to consider the guidance notes and produce some early thoughts on potential efficiency savings. These are set out in the attached schedules in Appendix 1.
27. It is hoped Members will accept that because of the extremely tight timescale and the lack of detailed guidance in existence, these schedules are brought before Members without the opportunity to edit them. However, work will continue to be undertaken on these schedules and the potential gains identified, before a consolidated schedule is submitted to the ODPM on the 15 April. The consolidated schedule will be tabled at the meeting for Members consideration.

## Resource implications:

Budget provision: Target efficiency gains as set out in the report

Personnel:

Land:

