

# **Report to the Finance and Performance Management Scrutiny Panel**

**Date of meeting: 19 June 2007**



**Portfolio: Finance, Performance Management and Corporate Support Services**

**Subject: Gershon Efficiency Savings**

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## **Recommendations:**

**To note the contents of the report and consider the efficiencies proposed for inclusion in the backward-looking Annual Efficiency Statement for 2006/07 to be submitted to the Department for Communities and Local Government on 5 July 2007.**

## **Report**

### **Background**

1. As part of the 2004 Comprehensive Spending Review (CSR) the Government published a report entitled "Releasing Resources to the Front Line". This report was written by Sir Peter Gershon and led to a target of 2.5% per annum efficiency gains for local government to deliver £6.45bn of gains by 2007/08.

2. Every local authority is required to submit a forward looking efficiency statement in April, which covers the gains anticipated for the financial year that has just commenced, followed by a backward looking statement in July, which covers the gains achieved in the financial year that has just finished. To date forward looking statements have been submitted for 2005/06, 2006/07 and 2007/08, and backward looking statements for 2004/05 and 2005/06. Guidance issued by the Department for Communities and Local Government (DCLG) requires that backward looking data is subject to Member scrutiny, hence this report on the financial data that will form the basis for the 2006/07 backward look.

### **Definition of Efficiency**

3. From the start of the process the guidance notes have stressed that the initiative is about increasing productivity and improving value for money, it was not aimed simply at cutting budgets. Volumes of guidance have been issued on techniques for measurement, quality cross checks and other key issues. Although some of the guidance has been late and unclear and Members may recall that this led to the extending of the reporting deadline last year.

4. 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 used elsewhere);
- Reduce prices for the same outputs (representing a cashable gain);
- Get greater outputs or improved quality from 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).

5. Some types of activity are specifically excluded, as whilst they may reduce overall costs they do not improve efficiency:

- Re-labelling of activity (e.g. reclassifying inspection as advice);
- Cuts that result in poorer services for the public; or
- Increasing income simply by raising fees and charges.

### Measurement of Efficiency Gains

6. The 2.5% per annum efficiency gain that local authorities are required to achieve is calculated from a 2004/05 net expenditure baseline. This means that by the end of the CSR period in 2007/08 efficiency gains equivalent to 7.5% of the 2004/05 baselines should be achieved.

7. At least half of the gains achieved must be cashable and the funds released can be used for other priority services or minimising increases in the Council Tax. So when looking at gains it must be remembered that they are measured against 2004/05 and may be non-cashable and so they will not necessarily equate to a reduction in continuing service budgets (CSB) for the period being considered.

8. The efficiency targets were initially calculated on predicted spending in 2004/05 but were later amended to reflect the actual outturn. As the combined revenue and capital outturn reduced to £16.4m from an estimated £17.7m, it can be seen in the table below that the targets for the later years were reduced.

	Annual Target	Total Gain on 2004/05 Baseline	Annual Cashable Target	Total Cashable Gain on 2004/05
2005/06	£0.44m	£0.44m	£0.22m	£0.22m
2006/07	£0.38m	£0.82m	£0.19m	£0.41m
2007/08	£0.41m	£1.23m	£0.21m	£0.62m

9. In recognition of the fact that local authorities have been achieving efficiency gains over a number of years in advance of the new requirement a concession was made that allowed efficiency gains achieved in 2004/05 to be included in the process. The table below summarises the gains achieved to date and shows that with one year of the process still to go the target has already been exceeded by nearly £2m.

	Annual Efficiency Gains	Cumulative Efficiency Gains
2004/05 – claimed	£0.29m	£0.29m
2005/06 – claimed	£1.17m	£1.46m
2006/07 - proposed	£1.76m	£3.22m

### Backward-Look 2006/07

10. In compiling the backward-look for 2006/07 Heads of Service were asked to re-visit their earlier efficiency statements to re-consider the contents and investigate any possible additional efficiencies. This process produced efficiencies totalling £1,756,973 that bring the cumulative figure to £3,215,496, as detailed in Appendix 1.

11. Members may now be familiar with the headings under which the efficiencies are analysed, as even though it is an unusual format the DCLG have not changed it since the process began. Brief comments on the main efficiencies under each heading are given below:

- a. Culture & Sport/Corporate Services – the gains of £66,000 and £114,000 respectively are the savings in support services following the externalisation of the management of the Council's leisure centres. These are cashable gains that were reflected in CSB reductions in 2006/07.
- b. Environmental Services – the gain of £209,591 has arisen from improved performance for street sweeping. This is a reduction on the gain of £426,653 calculated for 2005/06 as even though performance has continued to improve there has also been considerable additional expenditure under the transitional arrangements for the management of waste and street sweeping. This is a non-cashable gain.
- c. Social Housing/Homelessness – there are no significant new items in these figures, they reflect ongoing gains from improvements initiated in earlier periods. The gains are a mixture of cashable and non-cashable efficiencies.
- d. Procurement – similarly to c above the gains shown are mostly ongoing items. A number of initiatives on procurement have been developed and the efficiencies from these will be reflected in the backward looking statement for 2007/08. The gains from procurement are mostly cashable.
- e. Transactions – efficiencies have again been generated by improving collection rates for Council Tax and Non-Domestic Rates and improving processing times for benefit claims. Gains have been included for improvements in these areas in each of the backward looking statements, these are mostly non-cashable.
- f. Miscellaneous – the efficiencies under this heading arise primarily from interest earnings on the disposal proceeds of surplus assets. These were boosted in 2006/07 by the disposal of the Parade Ground site. These gains are cashable.

12. If Members are satisfied with the amount and spread of the efficiencies the official return will be completed on this basis and submitted before the deadline of 5 July. The final version of the document has to be approved by the Head of Finance, the Chief Executive and the Leader prior to submission to the DCLG.