

HM GOVERNMENT

**MEASURING AND REPORTING
EFFICIENCY GAINS**

—

**A GUIDE TO COMPLETING
ANNUAL EFFICIENCY STATEMENTS**

**Information for Leaders, Chief Executives, Chief
Financial Officers and Heads of Services**

FEBRUARY 2006

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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
- 1.2 This version incorporates information included in previous guidance documents in a fully revised and updated format, taking on board the lessons learned from experience with the first AES rounds in April and June 2005. It is correct as of 28 February 2006. Further versions may be issued as the efficiency agenda proceeds; the next edition is planned for publication in early May 2006.
- 1.3 This Guidance is underpinned by the assistance of the Measurement Taskforce, whose members are drawn from a range of organisations¹ in local and central government. We are very grateful for their efforts.
- 1.4 For advice and assistance on the measurement and reporting of efficiency gains you may contact:

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- 1.5 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 list of areas for which toolkits exist is given in the table below. 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>). Advice and assistance may also be received from the contacts shown below in the table:

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¹ The following organisations were represented on the Measurement Taskforce: ODPM, the Audit Commission, CIPFA, DCMS, DfES, DEFRA, Department of Health, Department for Transport, DWP, Employers Organisation, Highways Agency, HM Treasury, IDeA, IPF, Local Government Association, Office of Government Commerce, Society of County Treasurers, Society of District Treasurers, Society of London Treasurers and Society of Metropolitan Treasurers.

- 1.6 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.
- 1.7 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.
- 1.8 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 forums area at: www.esd-toolkit.org. The deadlines for submission of future statements are:

18 April 2006	2006-07 Forward Look
16 June 2006	2005-06 Backward Look
17 November 2006	2006-07 Mid-Year Update
12 April 2007	2007-08 Forward Look
14 June 2007	2006-07 Backward Look
15 November 2007	2007-08 Mid-Year Update
12 June 2008	2007-08 Backward Look

- 1.9 What follows is a discussion of the core principles underpinning the measurement of efficiency. Paragraph 2.1 seeks to set out a clear statement of the principles. These are discussed in the rest of Chapter 2, and supported in the more detailed chapters that follow.

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 light touch and balanced approach to measurement endorsed by stakeholders;
- All councils have the same efficiency target as a percentage of their 2004-05 baseline;
- Councils need not make 2.5% efficiencies in every year, as long as they remain above their cumulative targets;
- The baseline is 2004-05, now updated to use outturn data;
- Efficiency is about measuring yourself against your previous performance;
- Efficiency is about raising productivity;
- Efficiency can occur even if expenditure rises or is held constant;
- Not everything that leads to reduced cost is countable as an efficiency;
- The GDP deflator is the default rate of inflation except for certain areas;
- Efficiency gains may be cashable or non-cashable;
- Improvements in service quality can potentially count as efficiencies;
- One-off efficiencies only count towards annual targets;
- On-going efficiency gains must genuinely continue over time;
- Efficiency gains which fluctuate need to be updated in the AES;
- Efficiency gains before 2004-05 and after 2007-08 are excluded;
- A drop in standard from a 'gold plated' service is not an efficiency unless the service is maintained with another activity;
- Efficiencies in the AES must be shown net of costs;
- Efficiency gains can be made from the HRA;
- Efficiency gains may be achieved from capital spending;
- Fees and charges can generate efficiency gains in certain circumstances;
- Efficiency gains may be generated through partnerships;
- Efficiency gains may be achieved from the management structures undertaking Treasury Management functions, but not the activity itself;
- Quality cross-checks must be used with the backward look AES;
- The AES must be approved by senior officers and Members;
- Efficiency gains recorded in the AES should be based on robust processes;
- The AES will be subject to review;
- The AES must be submitted through the ESD-toolkit;
- Efficiency gains should be recorded in service sectors wherever possible;
- Improvements that take place during a financial year can be counted in that year; and
- Efficiencies claimed in respect of the voluntary sector should be in line with good practice principles on risk, full cost recovery and funding stability.

A light touch and balanced approach to measurement endorsed by stakeholders

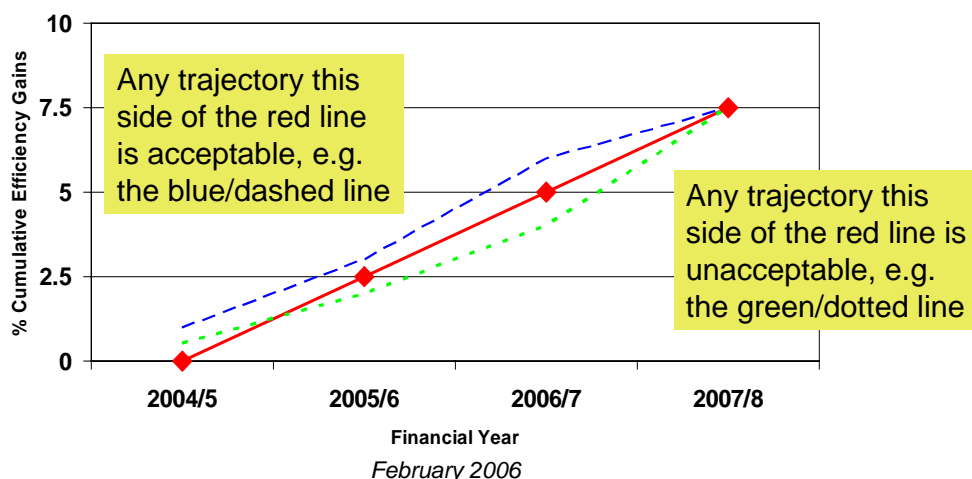
- 2.2 The AES process has been established on a self-assessment approach. It was initially endorsed by the Audit Commission, CIPFA and a consultative study of councils led by INLOGOV of the University of Birmingham. Latterly, the Measurement Taskforce advises ODPM on matters relating to the AES process and measurement issues.
- 2.3 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.

All councils have the same efficiency target as a percentage of their 2004-05 baseline

- 2.4 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%.
- 2.5 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.

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

- 2.6 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:



The baseline is 2004-05, now updated to use outturn data

- 2.7 The method of calculating the 2004-05 baseline is set out in Annex 2 of the Local Government ETN.
- 2.8 The baseline (and hence target) for each local authority has been updated to take account of outturn data on expenditure and grants submitted by the local authority in its expenditure return forms. The baseline also takes into account changes in the funding of magistrates courts.
- 2.9 The latest baselines and annual targets for each local authority are being published on the ODPM and national RCE websites and ODPM is writing to each local authority.

Efficiency is about measuring yourself against your previous performance

- 2.10 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).
- 2.11 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.

Efficiency is about raising productivity

- 2.12 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).

Efficiency can occur even if expenditure rises or is held constant

- 2.13 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.
- 2.14 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 paragraph 2.18).
- 2.15 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.
- 2.16 Improvements in service quality achieved for the same cost count as efficiency gains. Local authorities may already have data on the value that users attach to better services, and in such situations this may be used to determine the efficiency gain. This is not a straightforward issue, however, and the Measurement Taskforce is actively investigating steps to provide advice in time for the next version of guidance to be published in early May.

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

- 2.17 Some actions to reduce costs are not eligible as efficiency gains to be recorded in Annual Efficiency Statements. 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;
 - Reclassification – where activities are simply re-labelled but which involve no change in the inputs or outputs;
 - 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.
 - 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 paragraph 2.82);
 - Higher charges – either an increase in prices or introduction of new charges for services provided; and
 - Treasury Management – efficiency gains driven by management restructuring are allowable. However, for the time being, all other improvements in this area should not be counted in efficiency statements.

This position is under review and final advice will be published in early May 2006. Paragraph 2.61 contains further details.

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

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

Sector	Description
Default	GDP deflator – current HMT estimates for each year are: 2005-06: 2.38%; 2006-07: 2.46%; 2007-08: 2.66%
Adult social care	<i>Commissioning and delivery of adult social care:</i> Personal Social Services (PSS) Pay and Prices Index
Local transport	<i>Highways:</i> The ROADCON Index
Non-school education services	<i>Home-to-School transport:</i> Local authorities should provide evidence of historic trends in costs for this service
Social housing	<i>Housing capital works:</i> BCIS 'all-in' Tender Price Index (TPI) <i>Housing management & 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

Efficiency gains may be cashable or non-cashable

2.19 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.

2.20 Therefore, looking at how efficiency gains might be achieved (outlined above) 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.

2.21 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.

2.22 To put this in context, a council which normally handles 1,000 benefit applications with 10 staff at a cost of £350,000 can now cover the same number of applications but with 9 staff. The reduction in one team member is a cashable efficiency gain (salary and overhead costs) and the member of staff can be redeployed to other activity. Alternatively, the council has increased productivity and is able to handle 1,100 applications with its 10 members of

staff. This represents a £35,000 non-cashable efficiency gain, no staff or financial resources are actually released to be recycled or to hold down council tax.

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 over the past year to facilitate this. INLOGOV has been contracted by ODPM to review progress on methods to report such efficiencies and recommend next steps for the 2005-06 and 2006-07 rounds of efficiency statements. As part of this process, INLOGOV organised a workshop on 17 January, attended by a range of stakeholders.

2.25 INLOGOV's provisional findings draw upon an extensive literature review, the results of discussions at the workshop, further consultation with stakeholders, and the expertise of NIESR. Key basic principles 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 efficiency gains, 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.

2.26 Future work by central government will develop toolkits, case studies and good practice examples. This will build upon approaches identified by the INLOGOV study, and be published as part of the guidance for the 2005-06 Backward Look in May.

2.27 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. 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.

2.28 In using cost-effectiveness approaches it is vital to focus on the overall objective, and the indexes should be based around outcomes that clients value. Departments have role to play in setting out model baskets of indicators. These need not be mandatory, however, and if the council adopts an alternative basket it should seek to present a clear and credible argument to support its choice.

2.29 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.

One-off efficiencies only count towards annual targets

2.30 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.'

2.31 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.

2.32 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.

2.33 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 2005-06 will be allowed to contribute to the in-year target for 2005-06 and the 2004-05 and 2005-06 cumulative total, but it will not contribute to any totals in 2006-07.

2.34 One-off efficiency gains are defined as:

'An efficiency gain which is not present for two full financial years after the year it is generated is a one-off efficiency'

2.35 Put another way, a sustainable efficiency gain is defined as:

'An efficiency gain which exists for the current year and at least two subsequent financial years afterwards is a sustainable efficiency'

2.36 From the forward looking AES for 2006-07 (due to be submitted on 18 April 2006) councils will be asked to record the level of one-off efficiency gains in their AES.

2.37 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 per cent of the 2.5 per cent annual target for 2007-08 (8.3 per cent of the 2007-08 cumulative target).

2.38 Though a higher level of one-off efficiency gains will be allowed, in the 2007-08 forward and backward look AES councils will be asked to give a reason for one-off efficiency gains that exceed 25 per cent of their annual 2.5 per cent target and an explanation of how the gains will contribute to future sustainability.

2.39 The example below seeks to capture these principles:

Example of one-off, in-year and cumulative efficiency gains (ignoring inflation)				
£ Million	2004-05	2005-06	2006-07	2007-08
Targets:				
Annual	N/A	1.5 in year	1.5 in year	1.5 in year
<i>Adding</i>			1.5 (from 05-06)	1.5 (from 05-06) 1.5 (from 06-07)
Cumulative	N/A	1.5	3.0	4.5
Achieved:				
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 0.24 one-off	1.56 (from 05-06)	1.56 (from 05-06)
From 2006-07			1.7 in year 0.17 one-off	1.53 (from 06-07)
From 2007-08				1.9 in year 0.46 one-off
Cumulative	0.59	2.39	3.85	5.58
Notes:				
(1) One-off efficiency gains only score in the year they accrue (except 2004-05, when one-off gains were not accepted)				
(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.				

Ongoing efficiency gains must genuinely continue over time

2.40 Adequate processes must be in place to ensure that those efficiency gains reported in one year as being ongoing and sustainable 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.

Efficiency gains which fluctuate need to be updated in the AES

2.41 Efficiency gains, albeit on-going efficiency gains may fluctuate over time for a range of reasons. Once recorded in an AES, any fluctuations in on-going efficiency gains must be recorded in subsequent statements whatever the circumstances of the fluctuation.

2.42 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 2700, reducing the on-going efficiency gain from the expected £6,000 to £5,400. The revised on-going efficiency gain must be recorded in the 2006-07 backward look AES.

2.43 To facilitate this, future backward look AES templates (starting with the 2005-06 backward look AES) will pre-show the previous year's on-going efficiency gain (derived as the total cumulative efficiency gain for the previous year less the in-year one-off efficiency gains). Councils will be required to confirm this figure as the on-going efficiencies from the previous year or amend the figure to take account of fluctuations. Efficiency gains previously reported as ongoing but which have not been sustained must be removed from future statements.

2.44 It is expected that councils will have the monitoring systems to support the measurement of fluctuations and that tracking of efficiency gains over time by councils is both good and common practice.

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

2.45 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].'

2.46 A principle of the efficiency agenda has generally been to encourage new activity to derive efficiency gains which can contribute to the spending review 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. Therefore, efficiency gains will be allowed when they accrue during the SR04 period (2004-05 to 2007-08) but any gains before 2004-05 or after 2007-08 will be excluded.

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2.47 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
2004-05	141	4
2005-06	136	5
2006-07	130	6
2007-08	123	7
2008-09	115	8
2009-10	106	9

2.48 The council will be able to count efficiencies worth £4, £5, £6 and £7 in the respective Spending Review 2004 (SR04) years (2004-05 to 2007-08). The efficiency gains of £2 and £3 for 2003-03 and 2003-04 respectively cannot be counted. Similarly, the gains of £8 and £9 for 2008-09 and 2009-10 cannot be recorded. However, the principle set out here suggests that the efficiency gains for 2008-09 and 2009-10 respectively are likely to be countable towards Comprehensive Spending Review 2007 (CSR07) targets. That said, we cannot prejudge decisions to be taken in CSR07.

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

2.49 Following the principle that councils must compare their performance to themselves and no other external benchmark, leads to the conclusion that cash savings that drop outputs, even to an acceptable level, are not efficiency gains. They may be legitimate budget decisions but they are not efficiencies.

2.50 However, the Gershon work 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.

2.51 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.

2.52 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 (possibly only perceived) a drop in service 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.

Efficiencies in the AES must be shown net of costs

2.53 Where there is an initial cost in undertaking a project to deliver efficiency gains, that cost should be apportioned on a straight-line basis in line with standard accounting practice on amortization. All costs should be included, regardless of the source of funds to pay them. 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. This principle stands even if costs are deferred to a time period beyond 2007-08.

Example: A project that delivers efficiency gains over three years
Authority A spends £500,000 on a project that will lead to efficiency gains amounting to £800,000 over three years.
The net annual benefit is one-third of £800,000 (i.e. £266,700) less a straight line amortization of the asset over the period the benefit will be derived.

Efficiency gains can be made from the HRA

2.54 The baseline for efficiency targets includes capital HRA, but not revenue HRA. However, councils can include efficiencies from either area in their AES.

Efficiency gains may be achieved from capital spending

2.55 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. Chapter 3 sets out the detail of efficiency gains from capital expenditure. 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; and
- Sale of surplus assets.

2.56 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.

2.57 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.

2.58 The Measurement Taskforce's Capital Sub-Group has considered whether a 2004-05 baseline which combines revenue and capital expenditure is appropriate for measuring capital efficiencies. It has concluded that the current derivation of the 2004-05 baseline should remain in place though consideration

should be given in the 2007 Comprehensive Spending Review to moving to a baseline which includes capital charges instead of capital expenditure to facilitate a closer link with whole life cost approaches.

Fees and charges can generate efficiency gains in certain circumstances

2.59 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.

Efficiency gains may be generated through partnerships

2.60 Delivering services in partnership with another body can be a good and legitimate way of driving efficiency gains. 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.

Efficiency gains may be achieved from the management structures undertaking Treasury Management functions, but not the activity itself

2.61 This has been the subject of positive and significant activity by a sub-group of the Measurement Taskforce.

2.62 Actions to make the management of a Treasury Management function (e.g. reducing inputs such as staff) can generate legitimate efficiency gains subject to a suitable crosscheck which shows that service standards have been maintained. The sub-group will confirm a suite of appropriate crosschecks for publication in the next version of guidance due in early May 2006.

2.63 The sub-group is actively considering specific proposals on measurement which may allow efficiency gains from the operation of a Treasury Management function to be included future AES. The sub-group intends to finish its work in time for a definitive view to be published in the next version of guidance.

2.64 In the meantime, the operation of a Treasury Management continues to be an area where efficiency gains cannot be recorded in the AES.

Quality crosschecks must be used with the backward look AES

2.65 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 that the quality of service delivery has been maintained at the local level and hence that true increases in efficiency are being maintained rather than service cuts achieved.

- 2.66 Councils are required to provide a quality crosscheck for every sector in which they claim an efficiency gain in their backward look statement. Quality crosschecks do not apply to the forward look.
- 2.67 Only one quality crosscheck is required for each sector for which an efficiency gain is claimed, though a council may supply further crosscheck information, particularly where more than one action is recorded in a given sector of workstream. The crosscheck should be appropriate to the activity, though not necessarily specific, to the efficiency activity undertaken by the councils. There are issues regarding consistency in the choice of crosschecks; this is covered in more depth in chapter 6.
- 2.68 Chapter 6 also provides a list of quality crosschecks that have been developed and approved by the Measurement Taskforce for use with backward look statements. Councils may feel that local circumstances mean that it would be more appropriate to use its own non-approved quality crosscheck – this is acceptable subject to certain criteria, as set out in chapter 6.

The AES must be approved by senior officers and Members

- 2.69 The Leader or Directly Elected Mayor, Chief Executive and Chief Financial Officer (Section 151 Officer) must see, certify and approve the AES and evidence should be available to prove this.
- 2.70 The act of submitting an AES through the ESD-Toolkit is accepted as an indication that this approval has been obtained, unless the statement makes it clear that it is a draft. It is not necessary to send a hard copy of a signed statement.

Efficiency gains recorded in the AES should be based on robust processes

- 2.71 It is essential that proper arrangements are in place to ensure that a robust process takes place to identify and report efficiencies through the AES.
- 2.72 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 been in place) should only be used if they can be clearly defined.
- 2.73 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. Chapter 7 provides further details.
- 2.74 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.

The AES will be subject to review

- 2.75 It is important that local government, ODPM 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.
- 2.76 The AES will continue to be scrutinised within the council. The backward look statements will also be reviewed by the Audit Commission as part of the CPA process, on a mandatory basis as of the 2005-06 Backward Look statement. A council will be invited by ODPM to amend its 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 ODPM.
- 2.77 ODPM is commissioning a small study to review the workings of the 2004-05 Backward Look AES process. The results will be considered by the Measurement Taskforce to assess any changes that may need to be made to future guidance. Chapter 7 provides further details.

The AES must be submitted through the esd-toolkit

- 2.78 The mechanism for submitting AES returns is the esd-toolkit (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 in submitting 'Implementing e-Government' (IEG) statements. The template for the 2006-07 Forward Look statement is planned to go live on the esd-toolkit site in the first week of March. Templates for future statements should be accessible for at least six weeks prior to the submission date.
- 2.79 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

Efficiency gains should be recorded in service sectors wherever possible

- 2.80 Preference should be given to reporting efficiency gains in service sector rows. The crosscutting 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.

Improvements that take place during a financial year can be counted in that year

- 2.81 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

Council Z 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).

Efficiencies claimed in respect of the voluntary sector should be in line with good practice principles on risk, full cost recovery and funding stability

2.82 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.

2.83 Actions that cut against these principles should not be counted as efficiency gains. However, if councils enter into professional relationships with VCS organisations that achieve more outputs for the same resource then that does count as an efficiency gain.

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; and
- (E) 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 incurred², unless the particular nature of the costs and the efficiency measure(s) justify³ 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.

Example: Efficiency in pre-contract costs – One-off gains
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.
The total efficiency gain is £500,000 - £350,000 = £150,000. The efficiency gain in year 1 is $250/350 \times 150,000$, i.e. £107,143, of which 40% (£42,857) is Audit Social Care and 60% (£64,286) Children's Services. The efficiency gain in year 2 is a further $100/350 \times 150,000$, i.e. £42,857 of which 40% is (£17,143) is Audit Social Care and 60% (£25,714) Children's Services.

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.

² '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.

³ 'Justify' and 'justified' mean as is determined by the Chief Financial Officer.

Example: Efficiency in pre-contract costs – Ongoing efficiency

Authority A 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
Year 1 schemes			
<i>Pre-efficiency bid costs (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	
	100,000	50,000	
Year 2 schemes			
<i>Pre-efficiency bid costs</i>		300,000	30,000
<i>Post efficiency bid costs</i>		-220,000	- 0
		80,000	30,000
Year 3 schemes			
<i>Pre-efficiency bid costs</i>			150,000
<i>Post efficiency bid costs</i>			-105,000
			45,000
Cumulative gains claimed in each year	100,000	130,000	75,000

(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.

Example: Efficiency in initial cost of capital assets – One-off gains

Authority B 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.

Example: Efficiency in initial cost of capital assets – Ongoing efficiency

Authority B 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.

	Year 1	Year 2	Year 3
Year 1 schemes			
<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
	650,000	100,000	50,000
Year 2 schemes			
<i>Pre-efficiency capital expenditure</i>		3,500,000	700,000
<i>Post efficiency capital expenditure</i>		-3,150,000	- 630,000
		350,000	70,000
Year 3 schemes			
<i>Pre-efficiency capital expenditure</i>			4,500,000
<i>Post efficiency capital expenditure</i>			-
			4,050,000
			450,000
Cumulative gains claimed in each year	650,000	450,000	570,000

(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);

Example: Investing to save in adult social care	
<p>Authority C 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 including capital charges for the new facility⁴ 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>	
Year	Cost of service (£m)
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

⁴ Capital charges are only made for operational assets. If the new asset is valued at £2.0m and is amortized 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).

the efficiency measure(s) should be measured as part of the efficiency calculation.

Example: Asset optimisation			
Authority A 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.			
	Cost of service without efficiency measure £	Cost of service with efficiency measure £	Efficiency gain £
Year 1			
- 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	<u>+ 120,000</u>	<u>+ 120,000</u>	
Total	<u>470,000</u>	<u>470,000</u>	
Year 2			
- Supporting people			
- Capital charges	20,000	12,000)	
- Transition costs		1,000)	7,000
- Other net costs	103,000	103,000)	
- Homelessness			
- Capital charges	40,000	24,000)	
- Transition costs		1,000)	15,000
- Other net costs	154,000	154,000)	
- Non-school Edu			
- Capital charges	40,000	24,000)	
- Transition costs		2,000)	
- Other net costs	<u>122,000</u>	<u>122,000)</u>	<u>14,000</u>
Total	<u>479,000</u>	<u>443,000</u>	<u>36,000</u>
NB Total capital charge for the building all staff are now accommodated in is £60,000 per annum.			

Example: Asset Optimisation - continued

Year 3	£	£	£
- Supporting people	20,000	12,000)	
- Capital charges	105,000	105,000)	8,000
- Other net costs			
- Homelessness			
- Capital charges	40,000	24,000)	
- Other net costs	157,000	157,000)	16,000
- Non-school Edu			
- Capital charges	40,000	24,000)	
- Other net costs	<u>125,000</u>	<u>125,000)</u>	<u>16,000</u>
Total	<u>487,000</u>	<u>447,000</u>	<u>40,000</u>

The efficiency gain is recorded as

— year 2		
Supporting people		7,000
Homelessness	15,000	
Total year 2		36,000
— year 3		
Supporting people		8,000
Homelessness		16,000
Non-school Education		<u>16,000</u>
Total year 2		<u>40,000</u>

The efficiency gains will continue into future years.

(E) Sale of surplus assets

3.10 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.

Example: Sale of surplus assets

Authority B achieves capital receipts of £1,000,000 from the sale of surplus assets and the available market interest rate is 5%.

It may count ongoing cashable efficiency gains of £50,000.

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 a facility for advertising on a council building/lamppost etc. for a fixed charge; and
- Introducing new charges for staff car parking.

(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:** An example might be an increase in Development Control applications resulting from a greater demand for residential development;
- **“Campaigns” to increase demand:** Introduction of a discount regime for leisure centre fees designed to attract more customers, or advertising campaigns; or
- **“Service improvement” to increase demand:** Introduction of security/CCTV facilities to increase car park usage or Improvement in frequency of bulk waste collection 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.

Example: Increase in the volume of Planning Applications

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

Example: Improvements to public car parks

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.

(D) Earlier receipt of income

4.8 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.

- 4.9 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

- 4.10 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 <i>plus</i> (2) the reduced bad debt provision <i>less</i> (3) the additional costs of collection.

(F) Transfer income from other public organisations

- 4.11 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.
- 4.12 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

- 4.13 A local authority may choose to sell one of its services (e.g. a golf course) to another organization 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.

5 PARTNERSHIPS AND EFFICIENCY GAINS

- 5.1 In the case of joint ventures, each of the councils should evaluate efficiency gains relating to services provided to its public (including retained profits) and not double-count the efficiencies that accrue to other authorities.
- 5.2 For partnerships with a clear lead, the commissioners of the activity should assess the efficiency gains achieved for their council by looking at changes in costs and outputs. The lead partnership should evaluate efficiency gains relating to services provided to its public (including retained profits) and not double-count the efficiencies that accrue to commissioning authorities.

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: <ul style="list-style-type: none">• 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)

- 5.3 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.
- 5.4 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
- 5.5 The Gershon agenda is about accruing benefits to the public purse and so any use of public/private partnerships will need to ensure benefits accrue to the public purse in order to count as delivering an efficiency gain. The benefits to the parties need to be set out at the start of the partnership using whole life costing to help determine the benefits.
- 5.6 Capital funds saved through the use of private sector funding to build a new facility do not count as efficiency gains when the on-going costs of using the

facility accrue to the public sector body. As with other areas, a suitable quality crosscheck will need to be put in place and monitored to ensure that service quality is at least maintained through engagement in public/private partnerships.

6 THE QUALITY CROSSCHECK PROCESS

Basic Principles

- 6.1 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.
- 6.2 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 will not be 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 following 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.
- 6.3 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'.
- 6.4 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.

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

LA social housing (Non-capital)			
Quality Crosscheck chosen	2004/5	2005/6	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

6.6 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 spending review 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.

6.7 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 in the next year.

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6.8 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 AES both the new crosscheck together with the previous year's different crosscheck and demonstrate that service standards have been maintained in both.

6.9 In subsequent years, if the crosscheck does not change again the council would only show the one crosscheck. However, councils are required report any previous crosschecks by exception if their service standards fall from previously recorded levels in the AES.

6.10 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 a 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;
- If council tax collection rates remained an appropriate crosscheck then this would continue into 2006-07 as the sole crosscheck;
- But, in 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

- 6.11 The table below sets out the current list of approved quality crosschecks as at February 2006. 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.
- 6.12 This list remains under review by the Measurement Taskforce and an amended version may be issued with the guidance planned for May 2006. At the moment the list does not take into account the new CPA 'Direction of Travel' ratings, and the Taskforce will consider whether these can be incorporated.
- 6.13 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 ODPM at MED@odpm.gsi.gov.uk or via the AES Discussion Forum on the esd-toolkit website.

Description	Expressed As	QCC Met If Same Or...
➤ Adult Social Services		
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	
➤ Children's Services		
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	
➤ Culture and Sport		
1. Uptake of service by participants/visitors	Percent	Increase
2. Customer/user/resident satisfaction	Percent	Increase
3. Compliance with public library standards	1=Weak; 2=Fair; 3=Good; 4=Excellent	
4. Percentage of population within 20 minutes walk (or 20 minutes drive for those on urban fringe/rural locations) of a sport and leisure facility	Percent	Increase
5. Non-approved indicator (explain fully in the text box)	0=Not met; 1=Met	
➤ Environmental Services		
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
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

Description	Expressed As	QCC Met If Same Or...
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	
➤ Local Transport (Highways)		
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. Percentage of unclassified roads where structural maintenance should be considered (BV224b)	Percent	Decrease
5. Non-approved indicator (explain fully in the text box)	0=Not met; 1=Met	
➤ Local Transport (Non-highways)		
1. Number of local bus passenger journeys (BV102)	Number	Increase
2. Percentage of buses arriving between 1 minute early and 5 minutes late (Local Transport Indicator 5)	Percent	Increase
3. Annual Progress Report score	Percent	Increase
4. Non-approved indicator (explain fully in the text box)	0=Not met; 1=Met	
➤ LA Social Housing		
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	
➤ Non-School Education Services		
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 (BV 221a)	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
4. Non-approved indicator (explain fully in the text box)	0=Not met; 1=Met	
➤ Supporting People		
1. Average performance level for all local Supporting People services, using the six Core Objectives (or four in 2003) 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	
➤ Homelessness		
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	

Description	Expressed As	QCC Met If Same Or...
➤ Corporate Services		
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	
➤ Procurement		
1. Corporate procurement strategy in place and/or updated in the last year	0=No; 1=Yes	
2. Percentage of milestone activities completed in the National Procurement Strategy for Local Government (LIB/P1)	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 (LIB/P3)	Percent	Increase
4. Percentage of medium and high risk projects managed under a structure project management method (LIB/P6)	Percent	Increase
5. Non-approved indicator (explain fully in the text box)	0=Not met; 1=Met	
➤ Productive Time		
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	
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	
➤ Transactions		
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	
➤ Miscellaneous		
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	

7 SCRUTINY AND GOOD PRACTICE

7.1 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 process. This will ensure that there are no complications when the statements are reviewed by auditors appointed by the Audit Commission. The details of that process are set out at the end of this chapter.

7.2 Naturally, it is a matter for councils to decide what arrangements they put in place, but we would expect the following issues to be taken into account when they are being developed:

7.3 Governance and Scrutiny Arrangements:

- The Leader, Chief Executive and Finance Director must see and approve the statement, and evidence should be available to prove this.
- It is recommended that there be at least one system in place (e.g. ad-hoc committee of officials, internal audit, member scrutiny) to challenge initial drafts of the Statements, and evidence should be available to outline its findings and show that these have been properly considered.

7.4 Ensuring that Statements Incorporate Accepted Definitions of Efficiency Gains:

- Methodologies for assessing efficiency gains must be in line with any mandatory elements of ODPM guidance (e.g. that cost shifting does not count as an efficiency gain).

7.5 Efficiency Calculations:

- An audit trail of any item should have clarity on the baselines for costs and output underpinning its efficiency calculations.
- It is recommended that efficiencies be measured against a comprehensive picture of inputs, outputs and service quality.
- Counterfactual baselines, estimating what would have occurred if an efficiency initiative had not been put in place, should only be used if they can be clearly defined.

7.6 Data Quality:

- Efficiency gains should be based on data from systems that are subjected to regular assurance processes.
- Adequate audit trails should be available for any checks made by the auditors on a sample check of statement entries. These should track data from collection through to processing and reporting.

7.7 Examination of Quality Crosschecks:

- The process of selecting these should have an objective basis, properly reflecting the overall performance of the sector or clearly relating to a large proportion of the efficiency gains.

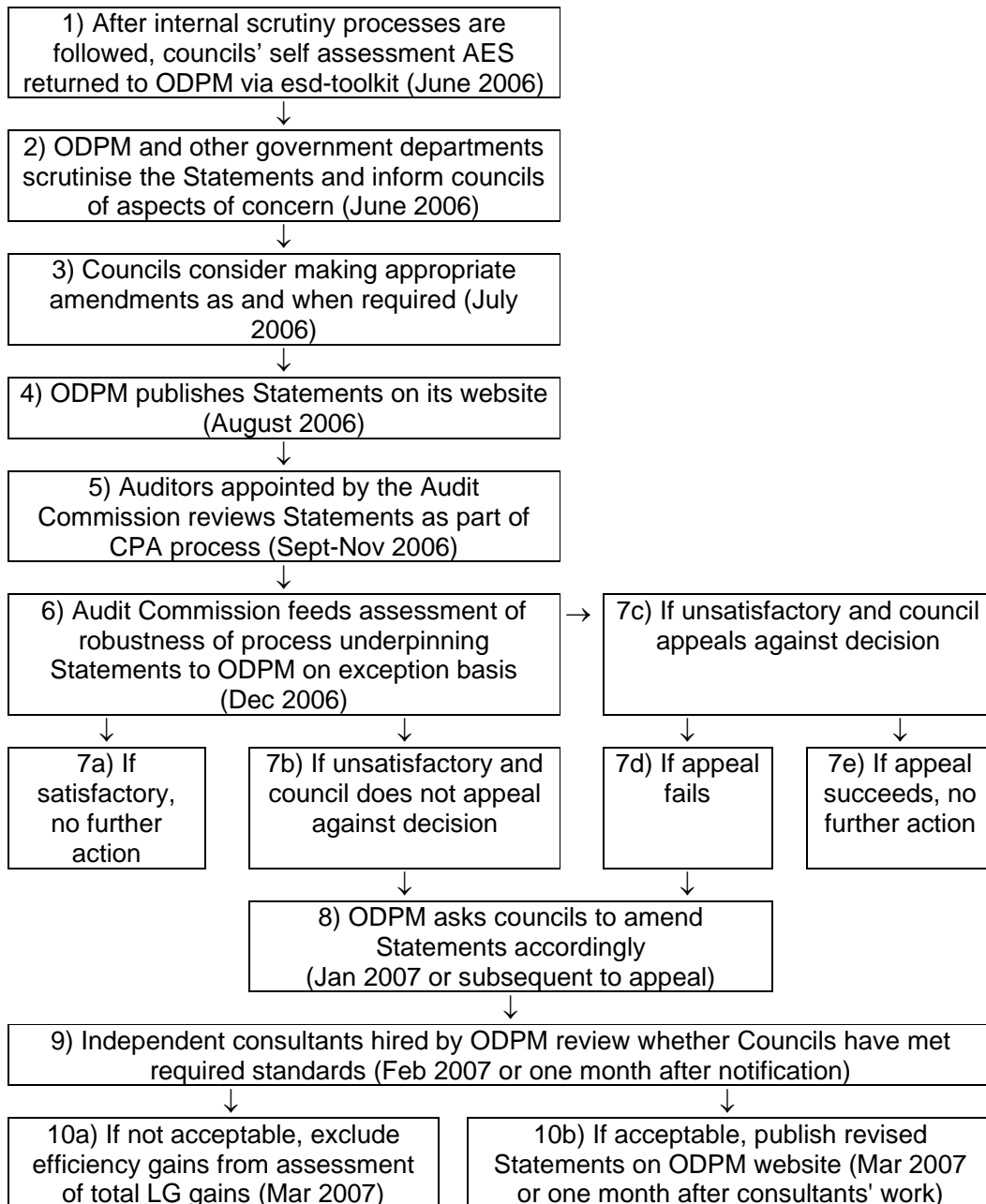
- The quality crosschecks should either be chosen from those approved by the Measurement Taskforce or, if alternative crosschecks were used, there should be robust processes in place to determine that such indicators better reflect the overall performance of the sector or relate to a large proportion of the efficiency gains.
- The quality crosschecks input into the statements must be a proper record of the performance indicators chosen.
- The clearer the storyline to show service quality has been maintained, the better.

7.8 Sustainability of Efficiency Gains:

- Adequate processes must be in place to ensure that those efficiency gains from 2004-05 reported as sustained through to 2005-06 have indeed been sustained.
- It is recommended that efficiency calculations form part of performance management processes to ensure gains are sustained.

Scrutiny Process

7.9 The Annual Efficiency Statement (AES) process will continue to be based on a self-assessment approach, as endorsed by the Audit Commission, CIPFA and a consultative study of councils led by INLOGOV of the University of Birmingham. To ensure robustness of results, the following scrutiny process will be adopted:



8 COMPLETING AN ANNUAL EFFICIENCY STATEMENT

The esd-toolkit

- 8.1 The mechanism for submitting AES returns is the esd-toolkit (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.
- 8.2 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). 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.
- 8.3 In order to submit a statement to ODPM, the nominated individual should click on the "Validate/Submit" button at the top of the template. The "Save Changes" function will only save the template; it will not submit it. The "Validate/Submit" function can be used repeatedly; ODPM will receive the version most recently validated. **However, ODPM will not receive statements unless they have been validated by using the "Validate/Submit" function.**
- 8.4 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. 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>
- 8.5 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

- 8.6 The Annual Efficiency Statement process comprises three parts, namely the Forward and Backward Look statements and the Mid-Year Report. The table below sets out the basic requirements for each of these statements:

Statement	Text Contents	Numeric Contents
<p>Forward Look</p> <p>Due mid-April (start of financial year) from all local authorities</p>	<ul style="list-style-type: none"> • The overall strategy for making efficiency gains over the three-year SR04 period (to 2007/08). • The key actions that should deliver efficiency gains during that financial year only. <p><i>NB: Maximum limit of 20,000 characters</i></p>	<ul style="list-style-type: none"> • The value of efficiency gains expected to be achieved during that financial year only, and how much of that will be cashable gains.
<p>Mid-Year Report</p> <p>Due mid-November (middle of financial year) from all local authorities <u>except</u> shire district councils and those with a CPA star rating equivalent to 'Excellent', for whom it is optional</p>	<ul style="list-style-type: none"> • An explanation for any significant difference in expected efficiencies compared with the Forward Look, e.g. new projects implemented or reasons for reduced expectations for projects in progress. <p><i>NB: Maximum limit of 10,000 characters</i></p>	<ul style="list-style-type: none"> • The value of efficiency gains achieved thus far during that financial year. • The value of efficiencies expected to be achieved during that financial year, and how much of that will be cashable gains. • The value of ongoing efficiencies expected to have been achieved by the end of that financial year since 2004-05, and how much are cashable.
<p>Backward Look</p> <p>Due mid-June (after end of financial year) from all local authorities</p>	<ul style="list-style-type: none"> • The actions undertaken that delivered efficiencies during that financial year and an explanation of any significant differences from the Forward Look. • Any information required for the quality crosscheck; e.g. explanation of a non-approved crosscheck; why the crosscheck has not been met; or status of data if only an estimate. <p><i>NB: Maximum limit of 20,000 characters</i></p>	<ul style="list-style-type: none"> • The value of efficiency gains achieved during that financial year and how much are cashable gains. • The value of ongoing efficiency gains achieved thus far since 2004-05 and how much are cashable gains. • The data for the primary quality crosscheck selected from the drop-down menu for that year and the previous year, and for the previous year's primary quality crosscheck if different.

8.7 For each statement, there are text and numeric boxes for each of the service sectors⁵ and crosscutting workstreams⁶. Please note that, as from the 2005-06 Mid-Year Report, Local Transport has been split into two rows (one covering Highways and the other Public Transport), as has Social Housing (one covering capital spend and one non-capital spend). 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.

8.8 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 latest edition of the Schools efficiency toolkit produced by DfES (available from the national RCE website – see paragraph 1.5).

8.9 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 efficiency gains being made during that financial year. For the Mid-Year Report 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.
- 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.

⁵ Adult social services; Children's services; Culture and sport; Environmental services; Local transport (Highways); Local transport (Public Transport); LA social housing (capital); LA social housing (non-capital); Non-school education services; Supporting people; Homelessness.

⁶ Corporate services; Procurement (Construction plus commodity goods and services); Productive time; Transactions; Miscellaneous efficiencies.

- 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.
- Local authorities may use information included in their IEG returns to inform entries in their AES. However, it must be remembered that in the AES, net rather than gross efficiency gains should be recorded. ODPM will not automatically transfer efficiencies included in IEG returns into AES returns.
- The 'Strategy' section should be used to set out a local authority's overall plan for making efficiency gains and so may cover issues outside the particular financial year in question.
- The 'Quality Crosscheck' section need only be completed if a non-approved crosscheck is used or 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.

8.10 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.
- 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).
- The value for efficiency gains made should be the sum of efficiency gains arising from capital and revenue spend, with the exception of social housing, where these two areas of spend are covered in separate rows.
- The values for efficiency gains made should exclude any impact that might be felt before or after the financial year in question. 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.
- 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 total value of efficiency gains reported in each sector; these totals cannot be altered by users.
- The template will also automatically calculate cumulative efficiency totals by adding in responses from the previous year's Backward Look statement. These totals, however, may be amended by users so that if a previously reported efficiency gain has not proved to be ongoing, its value can be subtracted from the cumulative total.
- The template will automatically calculate whether a quality crosscheck has been met or not from the data that is entered.
- 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).

8.11 In addition, 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 a 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"> • The value for 'Miscellaneous efficiencies' is more than 25% of the total value of gains expected. • The total value for the crosscutting workstream efficiencies is more than 50% of the total value of gains expected. • The total value of efficiency gains expected is less than the annual efficiency target. • The total value of cashable efficiency gains expected is less than the annual target for cashable gains.
Mid-Year Report	<ul style="list-style-type: none"> • The forecast efficiency gains for any individual sector is less than that set out in the Forward Look by 20% or more • The total forecast efficiency gains is less than that set out in the Forward Look by 10% or more • The forecast cumulative efficiency gains for any sector does not represent the sum of the forecast efficiency gains for that year and those brought forward from the previous year's Backward Look. • The forecast cumulative total (previous year's backward look plus forecast gains for that year) is below the target for that year.
Backward Look	<ul style="list-style-type: none"> • The value for 'Miscellaneous efficiencies' is more than 25% of the total value of gains reported. • The total value for the crosscutting workstream efficiencies is more than 50% of the total value of gains reported. • The cumulative total value of efficiency gains is less than the target for that year. • The cumulative total value of cashable efficiency gains is less than the target for that year. • The quality crosscheck data entered indicates that service quality has declined compared to the previous year.

8.12 An example of an 'ideal' AES response, illustrating the above points may be found at Chapter 9. Finally, each statement needs to be signed off by the Leader of the Council, Chief Executive and Chief Financial Officer. The act of submitting a statement through the esd-toolkit is accepted as an indication that this approval has been obtained, unless the statement makes it very clear that it is a draft. It is not necessary to send a hard copy of a signed statement.

8.13 When completing a Backward Look statement, local authorities should bear in mind that these are subject to review by the Audit Commission's appointed auditors, who will assess the robustness of the process by which a local authority identifies and calculates its efficiency gains. In addition, ODPM reserves the right to hire advisers to conduct a further review of the statements and any supporting information to those statements.

8.14 The Audit Commission will require an adequate audit trail with evidence to support the reported efficiency gains and show how they were calculated. Those categories that have a quality crosscheck that is met do not require further evaluation in relation to quality.

8.15 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 7 for more information about the scrutiny process.

8.16 The deadlines for future AES returns are:

18 April 2006	2006-07 Forward Look
16 June 2006	2005-06 Backward Look
17 November 2006	2006-07 Mid-Year Update
12 April 2007	2007-08 Forward Look
14 June 2007	2006-07 Backward Look
15 November 2007	2007-08 Mid-Year Update
12 June 2008	2007-08 Backward Look

9 MODEL ANNUAL EFFICIENCY STATEMENT

- 9.1 The following represents some model entries for the Annual Efficiency Statement (AES). We plan to include a fuller 'Model AES' for inclusion in the guidance to be published in May, but the basic principles will be the same as set out in this chapter.
- 9.2 The content of these entries reflects what would be expected from the Actions Undertaken section of a Backward Look AES, 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.
- 9.3 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.
- 9.4 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).
- 9.5 Guidance on the information that should be included in the Quality Crosscheck section of a Backward Look AES is included in Chapter 6, but an example entry is also shown in this chapter for ease of reference.

Activities Undertaken

Culture and sport
<p>1. The Barbarian 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. (Barbarian 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 2004-05 income with that for 2003-04, as demonstrated in the financial statements for the Centre.</p>
Local transport (Highways)
<p>1. Withstanding inflation at the HMT approved ROADCON Index deflator, which is assumed for this example to be of 4.5%. The revenue budget is £10m for highway works. Service levels have remained the same whilst absorbing inflation. Therefore, the cashable efficiency gain is 4.5% of £10m: £450,000.</p> <p>2. Efficiency gains on street lighting contract through improved item costs in a new contract. A comparison is made using the 2004-05 costs on the new contract and the correctly inflated prices/rates for same 2004-05 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 through 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>
Supporting People
<p>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.</p> <p>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.</p> <p>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. This resulted in cashable and non-cashable gains. We calculated the cashable gain by working out the difference between the new and the old contract price. For example, 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.</p>

We calculated the non-cashable gain by working out what the additional number of units would have cost under the old contract. For example, 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

LA social housing (Non-capital)			
Quality Crosscheck chosen	2004/5	2005/6	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)			