

Performance Improvement Network

The Efficiency Agenda: Preparing for the future and learning from the past

Results and Observations from the joint FAN/PIN Efficiency Survey (Summer 2007)

Introduction

In July 2007, IPF's Financial Advisory (FAN) and Performance Improvement (PIN) Networks asked subscribing authorities to send in copies of the annual efficiency statements (AES) they had submitted in 2007. These statements formed the main evidence base for this paper and we would like to thank all authorities that participated in the survey.

In previous years, the Communities and Local Government department published all councils' 'forward-looking' AESs on its website shortly after they had been submitted in late spring.

Unfortunately, these statements have not been made available this year. As a result, our analysis of 2006/07 efficiency activity is based on:

- 47 backward-looking AESs we received from FAN and PIN members
- 143 'mid year update' statements from those authorities who submitted one in autumn 2006 and did not participate in our survey
- Forward looking statements from the remaining 199 councils, which were written in spring 2006.

This paper discusses councils' approaches to delivering efficiency, incorporating both quantitative and qualitative analysis. It provides an update on last year's detailed report, which PIN members can download [here](#), and FAN subs can find [here](#).

For a more detailed picture of what local authorities are doing to deliver efficiency, this paper should be read in conjunction with our 2006 report.

Key findings from the research

- Local authorities remain on course to beat the government's target of realising 7.5% efficiencies by a wide margin
- Of those workstreams identified by Peter Gershon, the biggest gains are being delivered in adult social care, corporate services and procurement
- Authorities anticipate delivering an increasing amount of efficiency by improving procurement practices and negotiating cheaper prices. However, given that many councils were unable to deliver their planned procurement gains in 2006/07, it may be difficult to realise this in the current and future financial years
- Councils also expect to become more efficient by changing organisational structures and practices, absorbing additional costs and making better use of corporate assets
- In many cases the forward-looking statements for 2006/07 included inaccurate predictions about where the gains would be delivered. This was particularly the case in procurement and, to a lesser extent, adult social services. However, extra efficiencies from corporate services were largely able to make up the difference, and therefore the overall estimations were fairly accurate
- Many authorities will find it very difficult to continue to deliver savings over the medium term.

Quantitative analysis

Due to the relatively small sample, extrapolating the figures from the 47 statements we received across the whole of local government would not give us an accurate picture of the efficiencies that are being delivered. However, they have allowed us to update our findings from last year and provide a more accurate picture of how councils are managing to implement the agenda.

Key findings from our qualitative analysis include:

- Total efficiency gains for 2005/06 and 2006/07 were estimated at £3.1bn, of which £2.3bn were cashable
- This represents efficiencies of 7.6% (5.8% cashable) on the 2004/05 baseline. Thus local government's three year target of 2.5% per annum was exceeded in year two – although efficiencies delivered towards the end of 2004/05 were allowed to contribute to this total
- 97.4% of authorities expected to achieve their individual 5.0% savings target for 2005/06 and 2006/07. 58.4% expected to exceed the three year overall target of 7.5% by the end of 2006/07, a year ahead of requirement
- In terms of Peter Gershon's workstreams, the highest saving areas are adult social services (16.5% of the total), corporate services (15.1%) and procurement (8.9%)
- Slightly less efficiency is being delivered each year. 4.6% of the gains to date were achieved in 2005/06 (although this includes savings delivered towards the end of 2004/05), whereas 3.1% were realised in 2006/07. Although our sample of forward-looking statements for 2007/08 was too small to use as a basis for extrapolation, it suggests that the figure for the current financial year will be lower still
- Non-metropolitan district councils are delivering the biggest gains, in terms of the percentage of their expenditure, followed

by London boroughs, county councils and Metropolitan authorities and unitaries.

- Overall efficiency gains equate to £61 per head of population, with a high in London of £74 per head and a low in unitary authorities of £55 per head.

The following figures illustrate some of the above points further and reinforce our findings from last year.

Efficiencies by Gershon workstream

As Figure 1 shows, significant gains are being delivered in adult social services, and corporate services. With the exception of productive time, the majority of efficiencies in all work-streams are cashable.

Efficiencies by type of authority

As Figure 2 illustrates, district councils are delivering a greater percentage of their budgets in efficiencies than other types of authority – something we also identified from last year's survey. Since they are not responsible for adult social services, corporate services account for an even greater proportion of these gains.

Progress against targets

The vast majority of authorities remained on course to deliver at least 5% in overall efficiencies (with more than half of these cashable) during 2005/06 and 2006/07. Figures 3 and 4 show how some are making significantly more progress than others, with each dot on the scatter graph representing an individual council.

Efficiencies by year of delivery

Councils expected to deliver less efficiency in 2006/07 than 2005/06 (see Figure 5). This may be partly because gains realised in 2004/05 could be incorporated into the 2005/06 figures, which therefore included efficiencies delivered over more than 12 months. However, it is probably also the case that authorities are finding it more difficult to find areas where efficiencies can be delivered now that a lot of 'low-hanging fruit' has been picked. If so, this would suggest that councils

will find it increasingly difficult to maintain the current rate of efficiencies over the medium to longer term, especially when the demands on

them increase following the Comprehensive Spending Review.

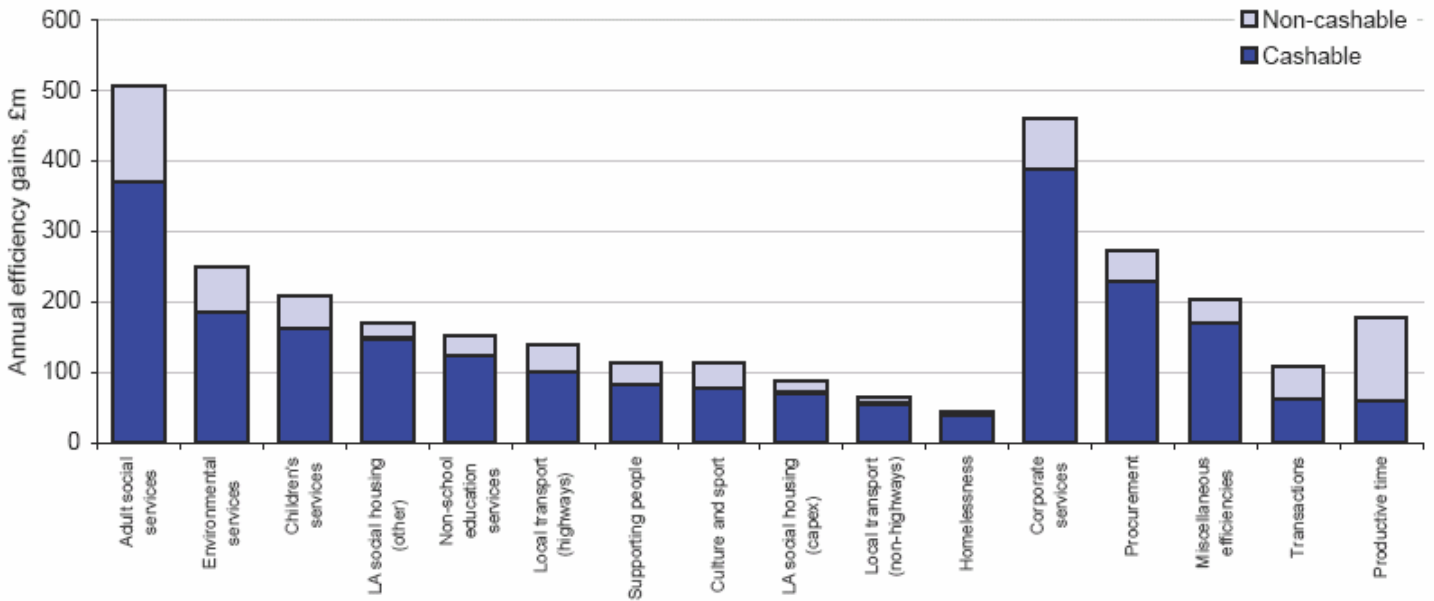


Figure 1: Cashable and non-cashable efficiencies by workstream

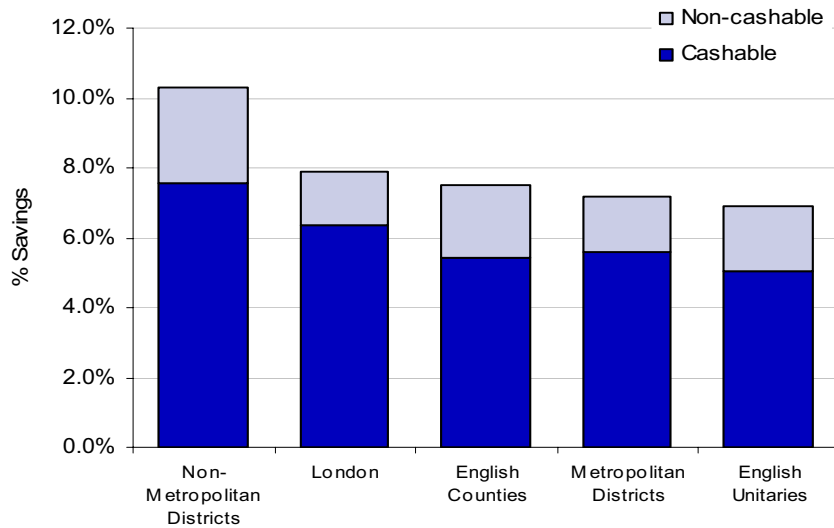


Figure 2: Cashable and non-cashable efficiencies by type of authority

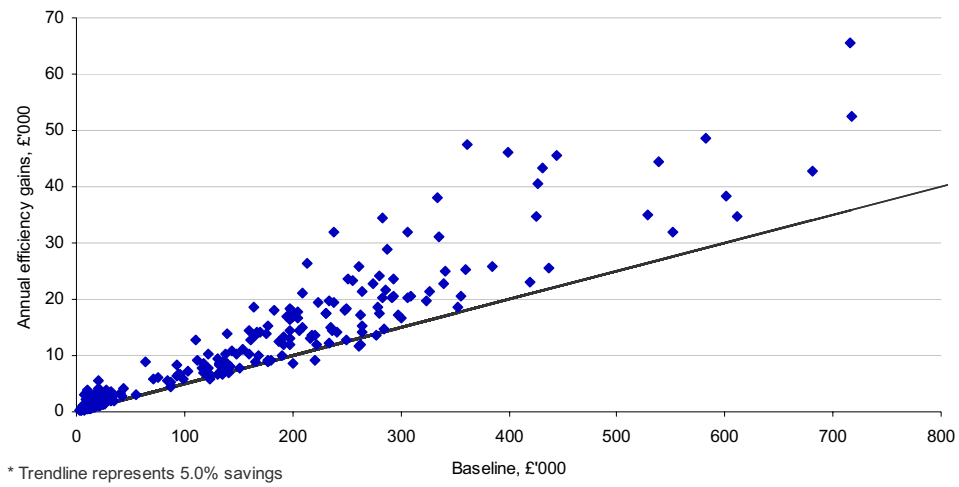


Figure 3: Plot of baseline 2004/05 expenditure against total gains for 2005/06 and 2006/07

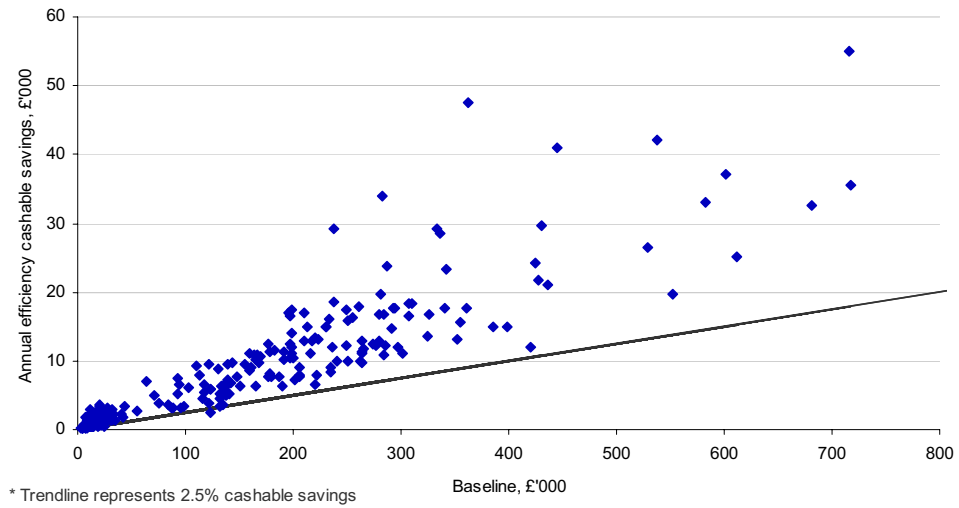


Figure 4: Plot of baseline 2004/05 expenditure against cashable gains for 2005/06 and 2006/07

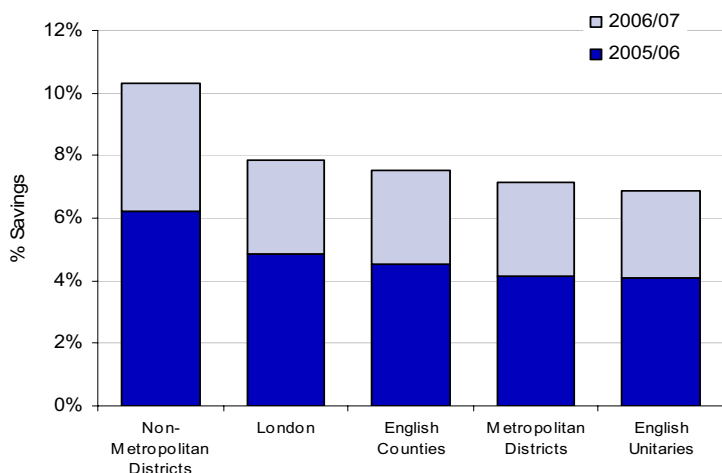


Figure 5: Efficiencies by year and authority type

Qualitative analysis

Our qualitative analysis involved detailed study of forty statements (20 backward-looking for 2006/07 and 20 forward-looking for 2007/08) that were submitted as part of the survey. As in previous years, some of the statements are much more detailed than others and a number of activities can only loosely be described as 'efficiencies'. Nevertheless, we have endeavoured to include them in this analysis where applicable.

Although Peter Gershon's 'workstreams' provide readers with an easily recognisable format to categorise efficiencies, they are not necessarily the best way to identify good practice in terms of the strategies, approaches and activities authorities have adopted to deliver efficiency. Therefore, as with last year's report, we have grouped individual activities under the following activity-based themes:

1. **Organisational change** – redesigning, restructuring or rationalising services or departments
2. **Procurement** – agreeing cheaper prices for goods and services, renegotiating existing contracts or improving the management of the procurement function

3. **e-Procurement** – adopting IT-enabled procurement techniques, such as e-marketplaces, online auctions and purchasing cards

4. **Project management** – improving the management of business cases, projects and programmes

5. **Partnerships** – implementing joint working and/or shared services involving other public sector organisations

6. **Customer self-service** – allowing citizens, businesses and staff to serve themselves online or via an automated telephone line

7. **IT and e-Government** – using technology and IT systems to support new ways of working

8. **Flexible working** – adopting remote or home-working

9. **Use of private and voluntary sector** – partnering more closely with the private and voluntary sectors

10. **Vacancy management** – reducing dependency on agency staff and not filling vacancies once existing staff leave

11. **Sickness absence** – reducing the number of days staff take off sick

12. **Prioritising services** – focusing resources on meeting corporate priorities and reducing spend in other areas

13. **Asset use** – getting more value from existing council assets and/or selling those that are no longer required.

In addition, a large number of the forward looking statements we analysed discuss delivering gains by 'absorbing additional costs' – something that was not so apparent in previous years. As a result, this has been added as a further theme in our analysis of 2007/08.

How the gains are being delivered

Our qualitative analysis is restricted somewhat by the fact that not all authorities attribute a specific figure to each activity they list in their statements. However, where individual

initiatives were costed, we have listed the percentage attributed to each of our generic themes in Table 1.

As the table shows, nearly half of all the efficiencies delivered in 2006/07 that were included in our sample of backward-looking statements came from organisational change. This represented a significant increase on the 2005/06 figures.

However, it also suggests that councils aim to focus much more on better procurement to deliver gains in 2007/08 (although organisational change will continue to play a major role). Some of the other areas have all but disappeared and represent less than one per cent of councils' planned efficiencies for the current financial year.

Similarly, a detailed study of the statements reveals that some councils have focused most of their efforts on a particular cross-cutting issue (e.g. not taking on new staff, improving procurement, better management, BPR or reducing their reliance on agency staff), rather than a range of different initiatives.

Gains by generic theme/activity	2005/6 Total (%)	2006/7 Total (%)	2007/08 Total (%)
Organisational change	35	49	33
Procurement	12	14	38
Partnership working	11	9	1
Prioritisation of services	7	6	0
IT & e-Government	6	5	2
Flexible working	5	3	0
Customer self-service	5	3	2
Vacancy management	4	3	1
Asset use	4	2	8
Use of private/third sector	4	2	0
Project management	3	2	2
E-Procurement	2	1	1
Sickness absence	2	1	1
Absorbing costs	N/A	N/A	11

Table 1: Efficiencies by generic theme during the three-year Gershon period

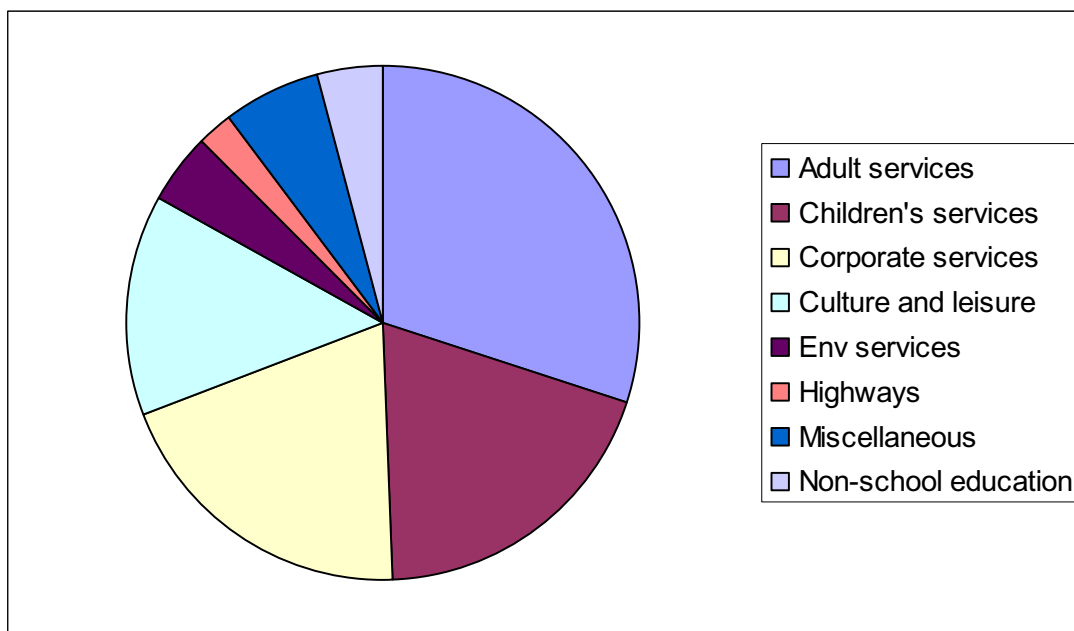


Figure 6: Efficiencies delivered through organisational change by workstream

There could be several reasons for the shift away from some efficiency activities in 2007/08:

- Authorities recognise that they have gone as far as possible in delivering efficiencies from certain activities and it would be better to direct their resources elsewhere than 'flog a dead horse'. For example, sickness absence will never equate to zero days per year – trying to improve attendance rates will eventually suffer from the law of diminishing returns
- Councils are focusing on those activities that have delivered significant gains in previous years, particularly procurement and organisational change
- Major contracts that were signed before Gershon published his report are coming to an end. Suppliers are settling for lower prices upon renewal, in the knowledge that local government has less money available
- The Audit Commission may have warned some councils that they are unable to prioritise some services above others or freeze recruitment without having a detrimental impact on their customers –

and thus these activities no longer count as efficiencies

- The expected benefits from some activities have either already been delivered or are proving much more difficult to realise than anticipated. One example here might be using ICT to increase customer self-service and enable more flexible working

Key efficiency activity

We have addressed each of the major themes in greater detail, to identify the key activities authorities are undertaking.

Efficiencies from organisational change

Most of the efficiencies filed under organisational change stem from one of the following activities:

- Service/staff restructure (often in corporate services)
- New approaches to service delivery
- Better use/monitoring of existing service costs
- Moving services in-house

- Reducing landfill costs by increasing recycling and home composting

As Figure 6 shows, most of this organisational change is taking place in adult and children’s services, corporate services and culture and leisure. This represents a small change from our 2006/07 figures, when environmental services and housing also featured heavily.

Efficiencies through improved procurement

Our ‘themed’ approach provides a better picture of the extent to which authorities are delivering efficiencies through improved procurement. Many of these gains are listed under service areas rather than the cross-cutting workstream; bringing them together allows us to get a more accurate indication of its role. Figure 8 shows that bigger savings are actually expected by better procurement in adult services than are costed in the specific procurement workstream:

Key activities in this area include:

- Contract changes and renegotiations resulting in cheaper prices (notably in social care, insurance, ICT, agency staff, stationery and energy)

- Authorities taking a more strategic approach to procurement
- Reductions in councils’ supplier bases and/or the number of contracts they have to manage

As mentioned earlier, procurement will be the main area where efficiencies are expected in 2007/08, at least where individual activities have been costed in our sample statements. It covers both more efficient running of the procurement function and cheaper prices. There could be several reasons for this:

- Existing contracts that were in place at the start of the efficiency period may be coming to an end, and councils have got better at negotiating cheaper deals
- Councils are being much more strategic about their procurement. Many are reducing the number of suppliers, introducing a corporate procurement unit rather than devolving purchasing to departments, or buying jointly with partners to aggregate demand
- Where authorities are paying lower prices through better procurement this is an easy area to measure efficiencies so they are more confident about putting a figure on it.

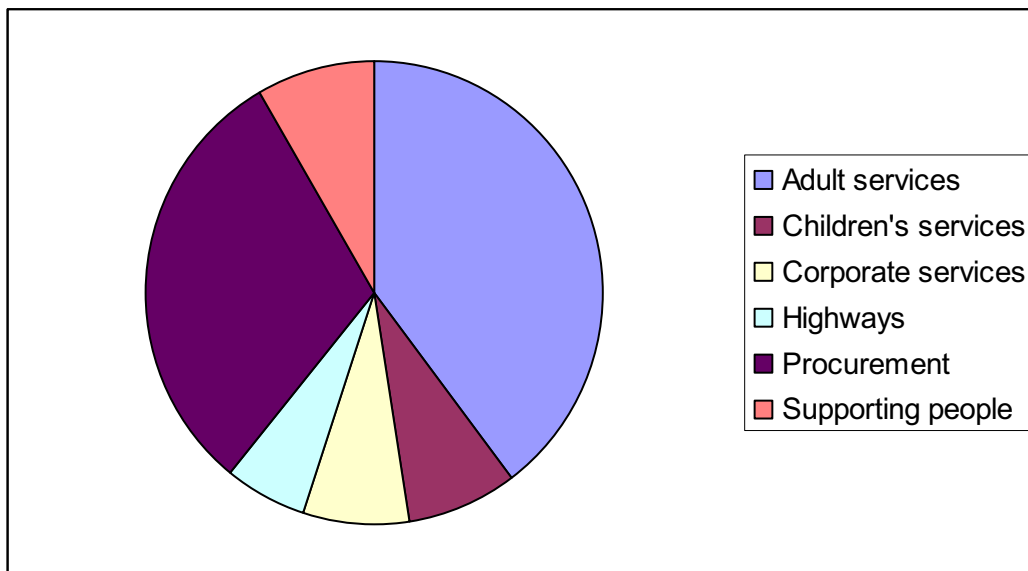


Figure 7: Efficiencies delivered through improved procurement by workstream

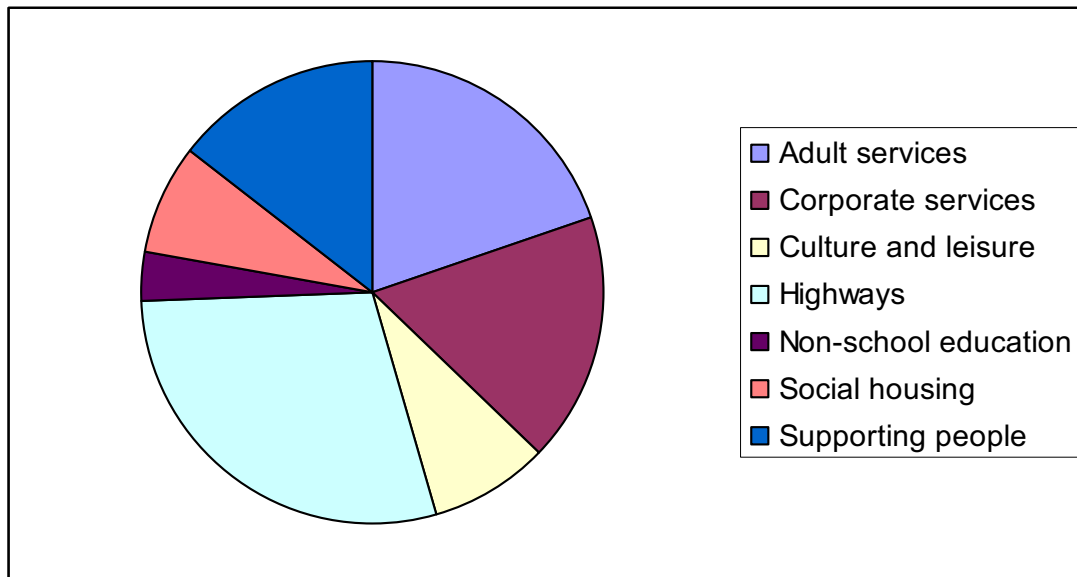


Figure 8: Anticipated efficiencies in 2007/08 through absorbing additional costs (by workstream)

Efficiencies through 'absorbing costs'

As discussed above, a lot of the forward-looking statements analysed for 2007/08 said that authorities expected to save money by 'absorbing additional costs'. Although most did not go any further into how this would be achieved, examples included keeping pay awards below inflation and giving greater responsibilities to lower-paid staff to prevent the need to recruit new managers.

It may well be the case that, as with some other areas (such as prioritising services and asset use), 'absorbing additional costs' is some kind of code for 'cuts', in which case it does not bode well for the future. For example, Figure 9 shows that major savings are expected in Highways through absorbing additional costs, despite the fact that this workstream does not account for a significant percentage of the overall figures. This might mean that routine roads maintenance work is being postponed until more resources are available – but since money will remain tight for the foreseeable future, it will be some time before the work can be carried out.

Figure 9 also highlights the fact that the efficiencies anticipated from absorbing additional costs are spread across services.

This suggests that authorities could be trying to deliver efficiencies by freezing departmental budgets and hoping that service managers are able to find savings from somewhere, rather than taking a corporate approach to changing ways of working.

How accurate are our predictions?

Although the headline figures suggest that local government is well on the way to achieving its efficiency targets, the results from our survey sound a note of caution.

As Figures 9 and 10 demonstrate, many of the predictions made in last year's forward-looking statements for 2006/07 have proved inaccurate. Although these charts rely solely on data from those 47 councils that participated in our survey, some of the forecasts were incorrect enough to ring alarm bells across local government.

Figure 9 demonstrates that some types of authority appear to have made more accurate predictions than others. Taken together, county councils over-estimated the amount of money they could save, but metropolitan districts were able to compensate by spending less than they had predicted.

Similarly, Figure 10 shows that the predicted efficiencies were not delivered in some

workstreams, but this shortfall has largely been made up by savings in corporate services. Although reducing unnecessary bureaucracy in the back-office was one of the major initial drivers for the agenda, most organisations will only be able to save a limited amount of money in this area before services suffer.

Perhaps more importantly, the two workstreams for which predictions were too over-optimistic were adult social services and procurement. These are also the areas upon which most councils are relying to deliver efficiencies in the future. If the forward-looking statements for 2007/08 prove to be similarly inaccurate, many authorities might find that they struggle to meet their expectations for the current financial year.

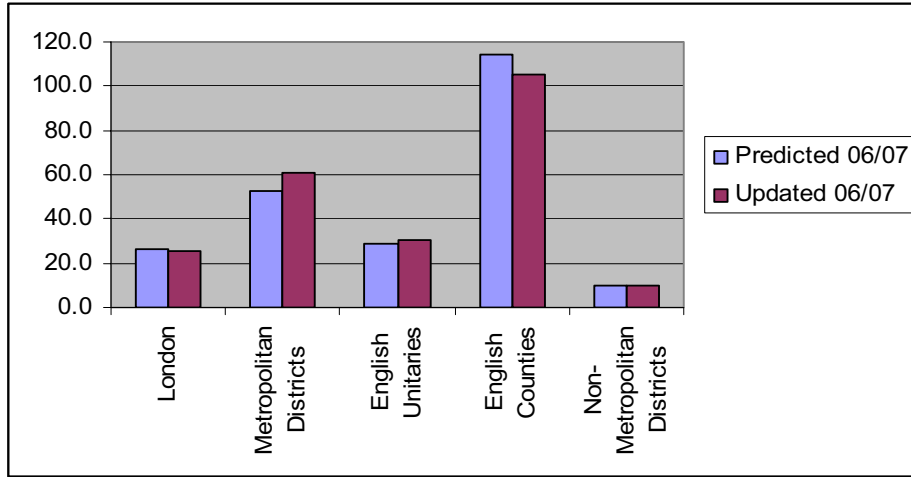


Figure 9: Predicted and updated efficiencies for 2006/07 by type of authority (£m)

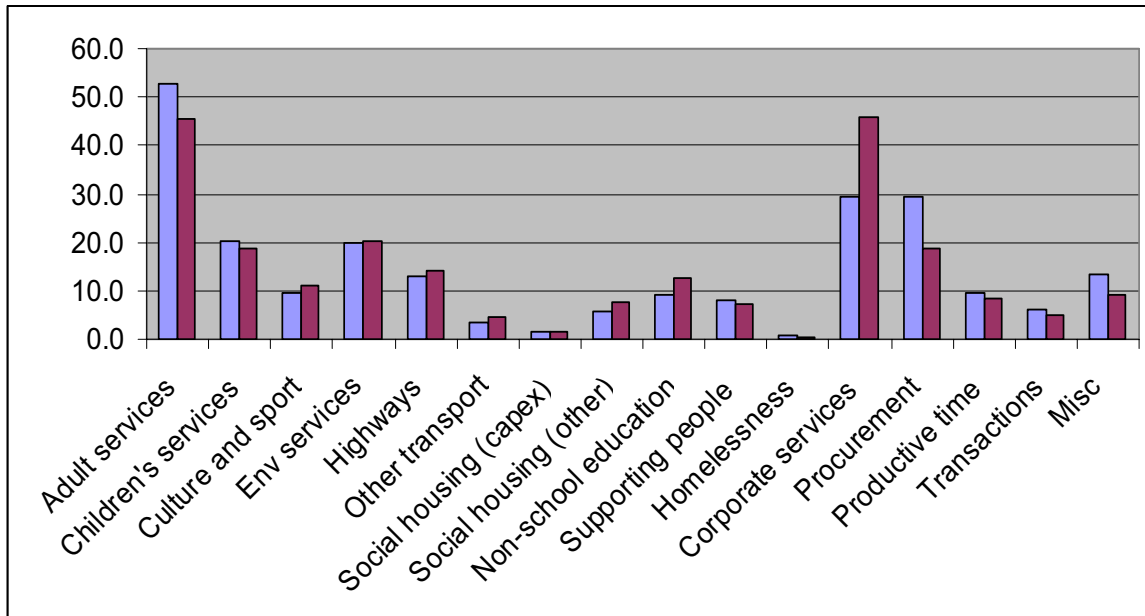


Figure 10: Predicted (in blue) and updated (in red) efficiencies for 2006/07 by workstream (£m)

How will the efficiency agenda develop in the future?

The Comprehensive Spending Review (CSR) will be published in October 2007. It will require local government to deliver efficiencies of 3 per cent each year – all of which must be cashable. Whether this can be achieved with affecting service delivery remains to be seen; since our analysis suggests that many of the gains realised so far may not be sustainable, it appears unlikely. The following issues could become increasingly important – especially as all efficiencies will need to be ‘cashable’ in the new CSR period:

- Councils will not be able to continue to absorb inflationary/staff costs without reducing service levels
- Non-essential maintenance work and the purchase of replacement equipment cannot be postponed indefinitely
- Up to now, most front-line staff have accepted the need for efficiencies, and many have agreed lower pay increases and undertaken additional work unpaid as a result. But the public service unions are now talking about strikes
- In 2007/08, one authority will rely on work experience students rather than managers to carry out important tasks. Organisational change at this level is bound to have an impact on service delivery
- Adult Services will need increasingly more resources during the CSR period as ‘baby boomers’ get older and require more support
- Authorities from our 2006/07 backward-looking sample were not able to deliver the gains in procurement that they had expected. This does not bode well for 2007/08, when a much bigger percentage of efficiencies are anticipated from improved procurement.

However, the reporting burden on local authorities will be reduced – the last statement they will have to produce will be the backward-

looking AES for 2007/08 next summer. Future efficiency activity will almost certainly be monitored through the use of resources part of Comprehensive Area Assessment that will replace CPA in 2009. Only if there is evidence of underperformance will central government intervene – but councils will probably have to survive on direct grants that will reduce every year.

Work done so far by CLG suggests that this improvement can be achieved. Most councils have made significant progress in improving procurement and e-Government in recent years, and a number have begun to adopt approaches such as shared services, business process re-engineering and lean thinking to reduce unnecessary activity. The Audit Commission is also undertaking a major research project to identify good practice from councils’ efficiency approaches and develop a toolkit that will help all authorities introduce proven tools.

For more information about our survey or the Performance Improvement Network, please contact:

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