

**MEDIUM TERM PLAN 2005-2010 – PROGRESS UPDATE**

**(Report by the Director of Commerce and Technology)**

**1 PURPOSE**

**1.1** The purpose of this report is to update the Cabinet on two aspects included in the MTP Progress report. These are:

- the Government's statement on efficiency targets published on the 8 November.
- a delay in the announcement of the Revenue Support Grant figures.

**2 GOVERNMENT EFFICIENCY REVIEW**

**2.1** Following the Gershon review of public spending, which considered a wide range of opportunities including better procurement, the Government has been considering how best to achieve the significant potential for more efficient services that was identified.

**2.2** The report on MTP Progress that was considered on 4 November anticipated that the Government would require local authorities to:

- Publish plans on how they will achieve efficiency savings of 2.5% of **net** spending per year for at least the next 3 years. The report also assumed this would be extended to the end of the 5 year MTP period.
- Achieve half the savings as cashable.
- Have external auditors review what has been achieved.

**2.3** The Government's report was substantially as expected except that the 2.5% is to be based on **gross** expenditure (excluding benefit payments) rather than **net**. It also refers to the cashable part being **at least** half. This results in the implications shown in the table below.

|                                | 2004/<br>2005<br>£000 | 2005/<br>2006<br>£000 | 2006/<br>2007<br>£000 | 2007/<br>2008<br>£000 | 2008/<br>2009<br>£000 | 2009/<br>2010<br>£000 |
|--------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Cabinet Report</b>          |                       | <b>2.5%</b>           | <b>5.0%</b>           | <b>7.5%</b>           | <b>10.0%</b>          | <b>12.5%</b>          |
| Gross efficiency target        |                       | -418                  | -836                  | -1,254                | -1,672                | -2,090                |
| Non-cashable element           |                       | 209                   | 418                   | 627                   | 836                   | 1,045                 |
| <b>Net impact</b>              |                       | <b>-209</b>           | <b>-418</b>           | <b>-627</b>           | <b>-836</b>           | <b>-1,045</b>         |
| <b>Government Announcement</b> |                       |                       |                       |                       |                       |                       |
| Base (estimated)               | 31,390                |                       |                       |                       |                       |                       |
| Inflated                       |                       | 32,181                | 33,043                | 33,936                | 34,852                | 35,793                |
|                                |                       | <b>2.5%</b>           | <b>5.0%</b>           | <b>7.5%</b>           | <b>7.5%</b>           | <b>7.5%</b>           |
| Gross efficiency target        |                       | -804                  | -1,652                | -2,546                | -2,614                | -2,684                |
| Non-cashable element           |                       | 402                   | 826                   | 1,273                 | 1,307                 | 1,342                 |
| <b>Net impact</b>              |                       | <b>-402</b>           | <b>-826</b>           | <b>-1,273</b>         | <b>-1,307</b>         | <b>-1,342</b>         |

**2.4** The table shows that the Government's target of 7.5% after 3 years, based on **gross** spending, exceeds the assumed 12.5% over 5 years based on **net** spending.

**2.5** The Council will be required to produce an Annual Efficiency Statement (AES), to be signed by the Leader and Chief Executive. It will contain:

- a forward-looking part, forecasting savings to be achieved in the coming year and explaining how they are to be achieved; and, unsurprisingly
- a backward-looking part, setting out what has been achieved and splitting the efficiencies between cashable (i.e. we spend less money) and non-cashable (i.e. we improve service or free up resources to do other things).

**2.6** The Government is piloting two approaches to the AES – a self-assessment and a framework assessment. The latter involves using a set of pre-determined Government efficiency measures.

**2.7** The Council will be allowed to keep all the efficiency savings in order to improve services and/or to keep the level of Council tax increase low.

### **3. EFFICIENCY SAVINGS**

**3.1** The guidance describes what the Government means by efficiency savings, building on the Gershon review.

**3.2** Efficiency savings can be achieved in 4 ways:

- The same outputs for reduced inputs (e.g. 2 hours to do something instead of 3)
- The same outputs for cheaper inputs (i.e. lower unit input costs – reduced goods and services prices or reduced average employee costs)
- More or better outputs for the same inputs (better service, higher productivity)
- Improved ratios of cost / output (likely to be a combination of the above).

3.3 The following are **not** efficiency gains:

- Any savings arising where the service quality in that area is not maintained (including the removal of a whole area of service).
- Increases in fees and charges to the public.

3.4 It is not clear exactly how improved quality for the same cost (or even marginally higher cost, presumably) will be converted into a notional efficiency saving.

3.5 Gershon highlighted 4 workstreams where, in his view, significant efficiency gains could be achieved:

- Procurement – reducing the cost of bought-in items
- Back Office Integration – for example, financial services, IT, payroll, personnel, legal services and facilities management
- Productive time – increasing the amount available by reducing sickness and absence, or increasing productivity
- Transactions – for example, combining activities, improving processes or using electronic rather than manual processing

#### 4. **CONCLUSIONS ON THE EFFICIENCY REVIEW**

4.1 The proposals are broadly sensible, but there are a number of issues and concerns:

- The usual “one size fits all” approach. ODPM has set a target of 2½% p.a. for all authorities, irrespective of how efficient they are already.
- There is a comment in the document from the LGA and IDeA that “authorities will need to collaborate to an unprecedented extent”. Recent experience within Cambridgeshire suggests that this can be difficult and it might be necessary to consider arrangements involving authorities outside the County.
- ODPM have not yet decided how to measure the efficiency savings Councils are expected to achieve. The guidance says that they intend to ensure that measurement will not be onerous and that, wherever possible, they will use existing mechanisms such as CPA and BVPIs. Detailed guidance will be published in December 2004.
- It is entirely reasonable to look at the level of service when assessing whether supposed efficiency gains have come at the expense of service quality. In practice, though, there are any number of variables which affect service quality.
- It may not be possible to achieve the first year’s target given the short preparation time remaining in the current year. In order to achieve £804k in 2004/05 it will be necessary to have £1.6m of savings in place by, on average, half way through the year.
- There may not be sufficient resources to achieve these savings in

parallel with the other service development priorities already planned.

- There is a need to integrate the efficiency review with Best Value reviews and the CPA improvement plan.

4.2 Whilst the three year level of savings based on gross spending exceeds the assumption in the MTP Progress report by £600k this does not significantly alter the illustrations contained in that report. There is still a need for further significant savings (over and above the efficiency review) by about 2010 if Council Tax increases are at or close to 12% per year. If these are to be avoided higher Council Tax rises of closer to 14% per year would be required.

4.3 A further report on Efficiency Review will be presented to Cabinet once there has been time for further officer discussion in the light of the awaited detailed guidance.

## **5. REVENUE SUPPORT GRANT**

5.1 The announcement was expected week commencing 15 November but has now been delayed to the week commencing 29 November. There is some press speculation that this may be because ODPM have accepted that current proposals may lead to higher than desired Council Tax levels and so the Treasury is being consulted on the possibility of extra Grant.

### **ACCESS TO INFORMATION ACT 1985**

Source Documents:

1. "Delivering Efficiency in Local Services" HM Government
2. "Efficiency Technical Note for Local Government" ODPM

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