

**ANNUAL EFFICIENCY STATEMENT (“AES”)
(Report by the Director of Commerce & Technology)**

1. BACKGROUND

- 1.1 The ODPM has set all local authorities an efficiency target of 2½% p.a. for the three years 2005/6 to 2007/8 inclusive. After much confusion as to which figures the target should be based on, ODPM has now provided an “indicative” figure based on budget information we provided to them during the year.
- 1.2 The definitive figure will only be available once our external audit has been signed off in the Autumn, but the indicative figure must be used in the AES, which we are required to submit to the ODPM by 15th April 2005. Our targets based on this indicative figure are:

Efficiency Targets	2004/05	2005/06	2006/07	2007/08
	£000	£000	£000	£000
2004/05 Budget				
Net revenue expenditure	22,961			
Net capital expenditure *	0			
Total (as advised by ODPM on 11 th February)	22,961			
Cumulative Efficiency Target		574	1,148	1,722
50% Cashable element		287	574	861
<i>Included in budget/MTP (cashable)</i>		402	826	1,273

* includes net sales of non-specified investments

- 1.3 This updates the position which was reported to the Overview and Scrutiny Panel (Finance & Planning) on 8th March – see Annex A. The Panel had no comments which it wished Cabinet to consider.

2. WHAT SCOPE DO WE HAVE FOR IMPROVEMENT?

- 2.1 Annex A sets out in detail the areas of opportunity identified by the Treasury’s Gershon Review and by the ODPM itself. As set out in paragraph 5.7 of Annex A, our overall scope for efficiency savings is **low to medium**. The main areas of opportunity for us are:
- Procurement, where we will need to draw on external expertise and resources, particularly from the Eastern Region Centre of Excellence
 - Productive time, specifically through the process changes and improved information management being delivered by Customer First
- 2.2 We will focus on these areas in 2005/6 while developing plans to address the other areas in subsequent years.

3 REPORTING TO THE ODPM

- 3.1 The AES has to be in a specific format and must be submitted electronically on a template provided for that purpose. The submission has to be approved by the Leader, the Chief Executive and the Chief Financial Officer.
- 3.2 We cannot accurately quantify the potential savings by 15th April. However, we have made an assessment based on total levels of expenditure in various areas and overall estimates of the % savings which we might achieve in each.
- 3.3 Our estimate of the savings which can be achieved is set out in Annex B, according to the ODPM's template (including, for completeness, headings which are not relevant to us, such as Adult Social Services).
- 3.4 In June 2006 we will need to make another submission, this time setting out the efficiency savings we actually achieved in 2005/6. We will need to keep a record of these savings and be able to demonstrate to our auditors that they are genuine, so we will be issuing guidance to officers in the coming months to ensure that we maintain an adequate audit trail.
- 3.5 We will also be required to report to ODPM in June 2005, setting out those efficiencies which we achieved in 2004/5 and which have a continuing impact.

4 CONCLUSIONS

- We have demanding efficiency targets to achieve, and only low to medium scope for achieving them.
- Our initial areas of focus will be procurement and Customer First. We have very limited resources dedicated to procurement, so we will need to work with others, including the Eastern Centre of Excellence, to achieve savings in this area.
- We are not in a position to make accurate calculations of intended savings by 15th April, but have made informed estimates.

5 RECOMMENDATION

Cabinet is recommended to:

- Note the analysis of anticipated efficiency savings set out in the AES at Annex B
- Authorise the Director of Commerce & Technology to submit the AES to ODPM on or before 15th April 2005, after consultation with the Leader and the Chief Executive.

BACKGROUND INFORMATION

Report to the Overview and Scrutiny Panel (Finance & Planning) on 8th March 2005, attached at Annex A.

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DELIVERING EFFICIENCY SAVINGS
(Report by the Director of Commerce & Technology)

1. BACKGROUND

- 1.1 The ODPM has set an efficiency target of 2½% p.a. for each of the three years 2005/6 to 2007/8 inclusive. After much confusion as to which figures the target should be based on, ODPM has now clarified this. It is a complicated calculation and we won't have definitive outturn figures until the audit has been signed off in the Autumn, but our targets based on 2004/5 forecast outturn figures are:

EFFICIENCY TARGET	2004/05	2005/06	2006/07	2007/08
	£000	£000	£000	£000
Estimated Outturn				
Net expenditure (as defined by ODPM)	21,547			
Capital Expenditure	16,334			
Capital Receipts*	-16,334			
	21,547			
Cumulative Efficiency Target		539	1,077	1,616
50% Cashable element		269	539	808
<i>Included in budget/MTP (cashable)</i>		402	826	1,273

* includes net sales of non-specified investments

- 1.2 It is important to note that, while the target is based on the 2005/6 outturn figures, savings from 2004/5 can contribute towards meeting that target, providing they continue beyond 2004/5.
- 1.3 ODPM requires at least half of these savings to be cashable, i.e. resulting in reduced expenditure, as opposed to non-cashable, i.e. re-invested in services.

2. WHAT IS AN EFFICIENCY SAVING?

- 2.1. The ODPM's guidance describes what it means by efficiency savings, building on the review of public sector spending carried out by Sir Peter Gershon. It defines four categories of savings, as follows.

Type of saving	Cashable?	
	Yes	No
Reducing inputs (money, people, assets) for the same outputs	X	X
Reducing prices (procurement, labour costs) for the same outputs	X	
Greater outputs or improved quality (extra service, productivity) for the same inputs		X
Proportionally more outputs or improved quality in return for an increase in resources (e.g. 20% more output for 10% more resource)		X

- 2.2 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 (although it is possible that some increases, e.g. additional sales of Impressions memberships, might count as efficiencies).

3. HOW SHOULD EFFICIENCIES BE CALCULATED?

- 3.1 ODPM has decided not to specify performance indicators to be used in calculating efficiency savings. It will be up to each Council to measure savings as it sees fit, and to provide “an adequate audit trail” to demonstrate that they are genuine.
- 3.2 In theory, we need to be able to split changes in spending between changes in volumes and changes in unit costs in order to calculate efficiencies. In practice, as we don’t currently account this way, that analysis is likely to be difficult. We may have to use approximations or some other relatively crude measures, and it remains to be seen what view our auditors will take of that. This is likely to be a common problem for councils.

4. WHAT ARE THE OPPORTUNITIES?

- 4.1 Gershon highlighted 4 workstreams where, in his view, significant efficiency gains could be achieved:
- ◆ Procurement – reducing the cost of bought-in items
 - ◆ Productive time – increasing the amount available by reducing sickness and absence, or increasing productivity
 - ◆ Back Office integration – for example, financial services, IT, payroll, personnel, legal services and facilities management
 - ◆ Transactional services – for example, combining activities, improving processes or using electronic rather than manual processing
- 4.2 The ODPM has identified seven of the e-government National Projects as delivering efficiency savings as well as service improvements. These savings generally fall under the “productive time” heading, in that the benefits arise from using technology to streamline processes, join information together more effectively or enable greater self-service by the customers. The relevant projects are as follows:

- ◆ CRM (Customer Relationship Management) – joining-up customer-related information
- ◆ LAWs (Local Authority Websites) – enabling greater self-service by customers
- ◆ Workflow – tracking a customer enquiry or service request from receipt to completion
- ◆ Valuebill – joining up a Council's property database to that of the Valuation Office, ensuring that it bills 100% of the properties it should (HDC is a national Exemplar for this project)
- ◆ NOMAD (mobile working) – delivering joined-up services to the customer)
- ◆ PARSOL (Planning and Regulatory Services OnLine) – enabling greater self-service by customers
- ◆ E-pay (electronic payment rather than cash or cheque)

5. WHAT SCOPE DO WE HAVE FOR IMPROVEMENT?

5.1 Procurement

The scope for improvement here is **high**.

- ◆ We have decentralised procurement activity – each service tends to buy what it wants, when it wants, from whoever it wants, providing the cost is within budget.
- ◆ We have very few corporate contracts for commodity items, and even these are not compulsory – services can still buy from other suppliers if they wish.
- ◆ We have only a handful of fairly small contracts where we buy goods or services jointly with other Councils.

5.2 However, we have very limited resources in the area of procurement – a Procurement Manager and no other dedicated procurement staff. We will be concentrating on using the Eastern Centre of Excellence to provide expertise and funding to support us, as is their remit. We will also be working closely with other councils, both in Cambridgeshire and beyond, to develop collaborative solutions.

5.3 Productive time

The scope for savings here is **medium**. On the one hand:

- ◆ While we don't specifically measure productivity across the council, we do have an Excellent CPA rating. As CPA looked at both the quality of our services and our use of resources, our scope for improvement here is likely to be lower than for councils which weren't rated Excellent.
- ◆ Only about 2% of our total employee pay is at premium rates.
- ◆ We have low levels of agency staff – only about 2% of our payroll costs are to agency staff as opposed to direct employees.
- ◆ We are in the best quartile of local authorities for sickness absence (BVPI 12).

On the other hand:

- ◆ We currently duplicate a lot of information that we hold, particularly customer-related information, and we can reduce the time we spend collecting and managing this information by introducing new, joined-up systems.

- ◆ The EDM¹ project showed that we can improve productivity by storing and managing documents electronically, so that they are always immediately available and that our progress in processing them can be tracked effectively.
- ◆ Our initial process mapping work as part of the call centre implementation suggests that there are opportunities for increasing productivity through improving our business processes.

5.4 **Back-office integration**

The scope for savings here is **low**.

- ◆ Theoretically, there are big opportunities for savings through economies of scale by combining and / or outsourcing back-office services.
- ◆ Practically, there are a number of obstacles, including:
 - Agreeing ownership of shared services and changes in organisation structure
 - Employee willingness – savings are likely to take the form of job losses, and there may be a need to transfer employment to another organisation, which may not be welcomed
 - IT systems – where these are a key element of the service (for example, in financial services), integrating systems or transferring information from one to another can be risky and expensive.

5.5 **Transactional services**

The scope for savings here is **low**.

- ◆ The same obstacles exist in combining transactional service functions as do for back-office services (see above). For example, we investigated creating a shared NNDR service across Cambridgeshire (including Peterborough) in 2002. This project failed because two of the six authorities were only willing to participate if they hosted the combined service.
- ◆ Some services which ODPM views as being transactional have a vital qualitative element, particularly Planning and Housing Benefit. The financial benefits of combining such services with those of other councils could be far outweighed by a deterioration in service quality.
- ◆ As an excellent authority, there would be a real risk for us. Any arrangement whereby the management of one of our high-quality services was combined with that of a service which is poorer than ours could have a detrimental impact on our existing service.

5.6 **e-government**

The ODPM commissioned some consultants (Capgemini) to quantify the benefits for six of the National Projects. Their analysis, together with an assessment of the extent to which we believe we can achieve the benefits identified, is set out in Appendix A. We are in the process of implementing all these projects under the collective banner of Customer First.

¹ EDM – Electronic Document Management

5.7 Overall assessment of opportunity

The overall scope for efficiency savings is **low to medium**. The main areas of opportunity for us are:

- ◆ Procurement
- ◆ Productive time, specifically through the process change and improved information management being delivered by Customer First

We will focus on these areas in 2005/6 while developing plans to address the other areas in subsequent years.

6. REPORTING TO THE ODPM

- 6.1 We are required to submit our first Annual Efficiency Statement (AES) to the ODPM by 15th April. We are unlikely to be in a position to quantify the potential savings by then. However, we will need to make some kind of assessment based on total levels of expenditure in various areas and high-level estimates of the % savings which we might achieve in each.

7 CONCLUSIONS

- ◆ We have demanding efficiency targets to achieve, and only low to medium scope for achieving them.
- ◆ Our initial areas of focus will be procurement and Customer First. We have very limited resources dedicated to procurement, so we will need to work with others, including the Eastern Centre of Excellence, to achieve savings in this area.
- ◆ We will not be in a position to make accurate calculations of intended savings by 15th April, the required date for submission of our AES to ODPM, but will be able to make informed estimates.

8 RECOMMENDATIONS

- 8.1 The Overview & Scrutiny Panel (Finance & Planning) is recommended to:
- ◆ Note this report
 - ◆ Consider any comments that it might wish Cabinet to take into account when it considers the AES on 7th April 2005 prior to its submission to ODPM.

9 BACKGROUND INFORMATION

Releasing Resources to the Front Line – Sir Peter Gershon, July 2004

Delivering Efficiency in Local Services – Information for Leaders and Chief Executives – ODPM, November 2004

Efficiency Technical Note for Local Government – ODPM, 8 November 2004

Delivering Efficiency in Local Services – Further Guidance for Local Authorities – ODPM, January 2005

Efficiency Technical Note for Local Government – ODPM, January 2005

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**DELIVERING EFFICIENCY SAVINGS
CONTRIBUTION OF E-GOVERNMENT PROJECTS**

Scope for savings			
	Cappgemini assessment	HDC assessment	
Project	Nature of cost reduction	Saving	Comment
CRM	Reduced cost per resolved transaction More cost-effective use of service delivery channels	Medium	We will be implementing a CRM system in 2005/6 as part of the call centre project. Implementation & support costs for the CRM (as well as the supporting infrastructure) are being shared by County, South Cambridgeshire DC and HDC. Savings from more efficient and effective use of customer-related information should flow through from 2006.
Workflow	Reduced processing time Reduced storage space	Medium	We have introduced workflow in Revenues as part of the EDM ² project, and have achieved productivity improvements and major space savings as a result. We will be rolling this out across the council in 2005-7.
LAWs	Reduced software licence fees and maintenance costs	Low	We have chosen not to implement LAWs. Instead, we have introduced a Content Management System for our website which provides the same benefits and is easier to maintain and update.
NOMAD	Greater productivity for field officers Quicker assessments	Medium	We are piloting mobile working in Benefits in 2005/6. Having quantified the benefits from this we will look at the opportunities for extending mobile working across the council and for joint working with other councils / agencies.
PARSOL	More customer self-assessment	Medium	We have implemented an on-line facility for lodging planning applications and checking progress. To implement PARSOL fully, we need to extend this across Building Control (where we currently don't believe there is a business case to do so), Environmental Health and Licensing.
Valuebill	Increased revenue collection	Low	Already implemented. We are one of the lead pilots for the Valuebill National Project. As a result of the project we now collect additional NNDR & Council Tax revenue from properties in the District, and we are continuing to realise efficiency savings through the efficient and joined-up use of property information.
e-pay ³	Reduced transaction costs	Medium	We are implementing electronic payment over the intranet in the next few months, enabling staff to provide a mediated service, and will implement an internet-based system allowing self-service over the web later in 2005.

² EDM = Electronic Document Management

³ e-pay was not one of the projects evaluated by Cappgemini, but is listed by ODPM as one of the projects which is expected to deliver savings.