SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Cabinet	11 September 2008
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EFFICIENCY SAVINGS PROJECT – UPDATE

Purpose

1. To provide Cabinet an update on the Council's efficiency savings project, Central Government's expectations and targets for efficiencies within local authorities and agree the forecast for National Indicator 179 (NI179).

Background

2. Following Sir Peter Gershon's recommendations on efficiency savings in the public sector, the Government required councils, from 2005/06, to make annual efficiency savings worth 2.5% of their 2004/05 budgets for each of the next three years.

3. In the first year of the Gershon 'regime', the Government set South Cambridgeshire District Council (SCDC) a target of making £513,000 of efficiencies in 2005/06. The Government subsequently revised SCDC's efficiency savings target for 2006/07 and 2007/08 down to £415,000 in each year, in view of the finalised outturn spending figures in the 2004/05 baseline year.

4. These were cumulative savings requirements, i.e. SCDC was expected to achieve £928,000 of efficiencies in 2006/07 (£513,000 plus £415,000) and £1,343,000 in 2007/08 (£513,000 plus £415,000 plus £415,000).

5. SCDC actually achieved £1,930,000 of efficiency savings over the three years, therefore exceeding its target by £587,000. (Source: Annual Efficiency Statement (AES) Backward Look 2007/08)

6. Within the Comprehensive Spending Review 2007 (CSR07), all public services have been set a target of achieving at least 3% net cash-releasing value for money gains per annum over 2008/09 to 2010/11.

7. For councils, the expectation is that £4.9 billion of cash-releasing efficiencies will be achieved by 2010/11. However, although the new national indicators include an indicator based on ongoing cash-releasing value for money gains, there is now no mandatory efficiency target for each individual council.

8. At the time of the budget setting process and approval of SCDC's Medium Term Financial Strategy (MTFS), an efficiency savings target was included to contribute to a balanced budget.

External drivers for delivering efficiencies

9. As highlighted in paragraph 7, there is no mandatory efficiency target now set for councils. However there are still a number of assessments which will be carried out on SCDC which lead to the need to deliver efficiency savings. These are:

- National Indicator 179 (NI179);
- Use of Resources assessment;
- New Managing Performance assessment.

10. NI 179 sets out the following requirement:

    Value for money – total net value of ongoing cash-releasing value for money gains that have impacted since the start of the 2008/09 financial year

11. This indicator replaces the previous AES and the Council will report on this indicator twice for each financial year (forecast in October, actuals in July).

12. The new Use of Resources assessment is now split over three areas; Managing Money; Managing the Business; and Managing Other Resources. Within these three areas, the detailed key lines of enquiry highlight the need for the Council to set efficiency targets based on an understanding of its costs, and to set a realistic budget supported by a savings plan if required.

13. In addition, the value for money score will be derived by the Audit Commission based on the overall performance in the three areas highlighted above, meaning clear achievement of efficiency gains resulting in improved value for money should contribute to a higher assessment score.

14. The Audit Commission has recently published the new Comprehensive Area Assessment framework for Councils. This new framework has removed the previous Direction of Travel assessments which councils were subject to under the old inspection regime. This has been replaced by a new Managing Performance assessment, which will be incorporated in an overall organisational assessment which will also include the Use of Resources assessment. The Managing Performance assessment will include looking at how effective a council is in identifying and delivering priority services, outcomes and improvements; providing the leadership, capacity and capability it needs to deliver future improvements. This assessment has no direct link with achieving efficiency gains, however as it is part of the overall organisational assessment and focuses on continuing improvement, the Council will need to demonstrate good performance in this area.

15. If a council is seen to be potentially underperforming, for example through low figures reported for NI179 or low scores in the Use of Resources assessment, then these will be discussed with the council concerned so that reasons can be understood. If the result of the discussion identifies actual underperformance then the options for improvement support and intervention set out by Government are available for use. These include: support and advice from within the local government sector and other sectors involved in local service delivery, including the new Regional Improvement and Efficiency Partnerships; action agreed with the local Government Office; targeted inspection; referral to the Secretary of State; Improvement Notices; directive action; or removal of functions. (Source: Local Government White Paper, paras 6.59 to 6.71)

Internal drivers for achieving efficiencies

16. As well as these external drivers, the Council's MTFS has previously included the need to achieve 3% cumulative efficiency savings from 2008/09 to 2010/11. Overall this is £2,692m, of which £1,212m is within the General Fund.

17. Although historically the Council has provided for 3% year-on-year savings allocated between General Fund, Housing Revenue Account (HRA) and the Capital Programme, there is now no specific requirement to achieve this level of savings. However, the Council still needs to achieve efficiency savings to contribute to the Council's MTFS.

18. Therefore with both these external and internal drivers for efficiency, SCDC needs to continue to identify and build efficiencies into its delivery of services; however, the amounts could be revised.

Efficiency Project progress

19. As mentioned in paragraphs 8 and 16 above, delivering 3% a year cumulative cashable savings has been built in to the Council's current MTFS, split across the General Fund, Housing Revenue Account (HRA) and Capital Programme as set out in the table below:

Area	***2008/09*** *£'000*	***2009/10*** *Cumulative £'000*	***2010/11*** *Cumulative £'000*
General Fund	369	804	1,212
HRA	287	625	942
Capital Programme	164	357	538
Totals	820	1,786	2,692

20. The General Fund savings built into the MTFS must be realised to contribute towards a balanced budget, or greater reliance will have to be placed on using existing balances or finding savings from other sources.

21. The Efficiency Project Team meet on a monthly basis to consider and generate savings proposals, and monitor the delivery of the savings already proposed. The current savings identified against the efficiency savings targets are set out in the table below. The shortfalls identified on the General Fund and HRA will be partly offset by income generation and other savings, which may not count towards savings targets:

Area	***2008/09*** *£'000*	***2009/10*** *Cumulative £'000*	***2010/11*** *Cumulative £'000*
General Fund Target	369	804	1,212
Savings proposed	194	247	331
(Shortfall)	(175)	(557)	(881)
Income generation and other savings	39	63	63
General Fund funding gap	(136)	(494)	(818)
HRA Target	287	625	942
Savings proposed	148	305	445
(Shortfall)	(139)	(320)	(497)
Income generation	10	20	20
HRA funding gap	(129)	(300)	(477)

Area	***2008/09*** *£'000*	***2009/10*** *Cumulative £'000*	***2010/11*** *Cumulative £'000*
Capital Programme Target	164	357	538
Savings proposed	506	731	831
Surplus	342	374	293
Overall efficiency savings target Surplus / (Shortfall)	28	(503)	(1,085)
Income generation and other savings	49	83	83
Overall Surplus / (Funding gap)	77	(420)	(1,002)

22. The table shows a considerable shortfall over the three year programme at this point in time, and more importantly that by 2010/11 there would be an annual demand on the General Fund of £818k if further savings, income generation, etc are not identified, and that there would be a reduction on the General Fund balance of £1,448k over this time (08/09 + 09/10 + 10/11 gap = £136k + £494k + £818k = £1,448k).

23. However, the Strategic Financial Diagnostic undertaken during the last financial year recognised that after the capping exercise resulting in a reduction of 25% of the net budget, that SCDC cannot be expected to reduce net expenditure further to any significant extent.

24. In addition, the fact that 80% of the Council's budget covers staffing makes the identification and achievement of further efficiency savings even more challenging.

25. For 2008/09, in aggregate SCDC should achieve the NI179 as shown above. The challenge for SCDC is in setting a realistic efficiency programme for future years taking into account achievements so far and the medium term financial outlook.

Considerations

26. The baseline for calculating the efficiency savings for 2008/09 onwards is defined in CSR07 as the estimated value for 2007/08 of Total Net Service Expenditure, plus Total Capital Expenditure. For SCDC, a notional 3% target would result in the following figures. (The figures for efficiency savings currently proposed are after applying inflation in future years, which is not the case in paragraph 21.)

	2008/09 *£'000*	***2009/10*** *Cumulative £'000*	***2010/11*** *Cumulative £'000*
Overall efficiency savings target	820	1,786	2,692
Efficiency savings currently proposed	848	1,315	1,688
Surplus / (Shortfall)	28	(471)	(1,004)
Income generation and other savings	49	85	87
Overall Surplus / (Funding gap)	77	(386)	(917)

27. As stated in paragraph 25 above, in aggregate SCDC should achieve NI179 efficiency savings of 3% in 2008/09; however, it will be very difficult to achieve further (i.e. cumulative) efficiency savings at this level in future years.

28. One possibility with regard to NI179 might be that, while SCDC looks set to achieve efficiency savings of 3% overall in 2008/09, it could seek a lower overall level of efficiency savings in future years. Against a notional target of 2%, for example, the efficiency savings currently proposed would result in projected shortfalls of £45,000 and £348,000 overall in 2009/10 and 2010/11, respectively.

29. The effects on the surpluses/(shortfalls) against efficiency savings targets of adopting a notional target of 2% for 2009/10 and 2010/11 are shown in the table below (note: as in the table under paragraph 26 above, before allowing for income generation and other savings):

Efficiency Savings Surplus / (Shortfall)	***2008/09*** *£'000*	***2009/10*** *Cumulative £'000*	***2010/11*** *Cumulative £'000*
	3%	2%	2%
General Fund	(175)	(359)	(568)
HRA	(139)	(163)	(246)
Capital Programme	342	477	466
Overall Surplus / (Shortfall)	28	(45)	(348)
Income generation and other savings	49	85	87
Overall Surplus / (Funding gap)	77	40	(261)

30. This shows that with current proposed savings for future years, the Council would still have a shortfall at this stage, however the revised target would be more achievable.

Options

31. Cabinet could agree to forecast NI179 to be 3% in 2008/09, but lower (i.e. 2%) in 2009/10 and 2010/11, recognising the difficulty of continuing to achieve 3% cumulative efficiency savings in future years. (***This is the recommended option.***) Alternatively, Cabinet could decide to either:

- maintain the forecast at 3% throughout the period of three years covered by CSR07 (this is not considered to be realistic in view of the difficulty of continuing to achieve this level of cumulative efficiency savings); or
- forecast different percentage efficiency savings in any of the years (however: any forecast higher than 2% will be difficult to achieve; any forecast lower than 2% might be difficult to justify).

Implications

32.

Financial	Changing the NI target for future years could impact the Council's MTFS. In addition, non achievement of the General Fund efficiency target will lead to an overspend.
Legal	None
Staffing	None
Risk Management	The proposed changes to future years targets will reduce the risk of the Council not achieving the NI179 and possible government intervention and criticism. This risk is monitored as part of the Council's risk management process.
Equal Opportunities	None

Consultations

33. The members of the Efficiency Project Team have discussed the proposed NI179 targets and agreed the proposals of this report.

Effect on Annual Priorities and Corporate Objectives

34.

Work in partnership to manage growth to benefit everyone in South Cambridgeshire now and in the future
Deliver high quality services that represent best value and are accessible to all our community
Enhance quality of life and build a sustainable South Cambridgeshire where everyone is proud to live and work
The achievement of efficiency savings contributes towards obtaining best value for money in the delivery of high quality services. Confirming the level of forecast efficiency savings will enable options to be prepared for when the revised MTFS is considered.

Conclusions/Summary

35. The previous mandatory target for efficiency gains has now been removed, however other external drivers and inspection processes, as well as the need to achieve a balanced budget, still require SCDC to identify and deliver efficiency savings.

36. The current MTFS has efficiency savings included in it over a three year period. The Efficiency Project Team has identified a significant proportion of these, however there is still a considerable gap to be identified.

Recommendations

37. Cabinet are asked to endorse the following recommendation:

- The amount to forecast for NI179 be 3% for 2008/09 and 2% for 2009/10 and 2010/11.

Background Papers: the following background papers were used in the preparation of this report: None unpublished

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