

**HM GOVERNMENT**

# ***Measuring and Reporting Value for Money Gains***

**Your questions about monitoring efficiency in CSR07 answered**

Information for Chief Financial Officers, Efficiency Champions and  
Officials Measuring or Reporting Value for Money Gains

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## Summary

1. In October 2007, the Department published *Delivering Value for Money in Local Government: Meeting the challenge of CSR07*<sup>1</sup> (hereafter referred to as the VfM Delivery Plan), which set out a route map for meeting the efficiency challenge during the 2007 Comprehensive Spending Review (CSR07) period.
2. Included in chapter 2 and annex A of that document were some summary details about the nature of measurement and reporting VfM gains<sup>2</sup> during CSR07, highlighting the changes from the current arrangements used to monitor progress against the 2004 Spending Review (SR04) targets.
3. Since then, the Department has received a number of enquiries seeking greater detail on this subject. In particular, because there are no mandatory VfM targets for individual councils in CSR07, there has been interest from a number of councils seeking advice on how to voluntarily define their 2007-08 baseline expenditure and proportionate share of the annual £4.9bn VfM gains that are expected from the sector as a whole by 2010-11.
4. Therefore, with the help of the Measurement Taskforce, we have put together this short note to expand on the themes in chapter 2 of the VfM Delivery Plan and answer some of the frequently asked questions received to date.
5. If you have any further queries on measurement and reporting of VfM gains in CSR07, please do get in touch. The online measurement discussion forum is an important site for asking questions and sharing answers<sup>3</sup>. Alternatively, our direct contact details are:

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6. Those interested in the wider improvement and efficiency agenda may also be interested to note that, in December 2007, the Department and the Local Government Association agreed and published the National Improvement and Efficiency Strategy<sup>4</sup> (NIES) referred to in the VfM Delivery Plan.
7. The Plan sets out the ambition and objectives for the improvement and efficiency agenda, and the principles by which local and central government will work together to deliver them. It will be followed up later in 2008 with a Prospectus setting out the specific actions and allocation of resources for the CSR07 period.

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<sup>1</sup> Available at: [www.communities.gov.uk/publications/localgovernment/deliveringvalueformoney](http://www.communities.gov.uk/publications/localgovernment/deliveringvalueformoney)

<sup>2</sup> In CSR07, the cross-government agenda is using the term "value for money" where "efficiency" was used in CSR07, hence the use of the term "VfM" in the national indicator on efficiency and throughout this document interchangeably with the term "efficiency".

<sup>3</sup> Available at: [www.esd.org.uk/forums/viewforum.php?f=130](http://www.esd.org.uk/forums/viewforum.php?f=130)

<sup>4</sup> Available at: [www.lga.gov.uk/Documents/07-12-21%20NIES%20Final%20version%20.pdf](http://www.lga.gov.uk/Documents/07-12-21%20NIES%20Final%20version%20.pdf)

# 1 Baseline Expenditure and Targets

## *The National Baseline and Target*

1.1 The calculation of the 2007-08 baseline expenditure by English local authorities for the purposes of determining the CSR07 VfM target was set out in Annex A of the VfM Delivery Plan. In short, the baseline is calculated as the estimated value for 2007-08 of:

- Total Net Service Expenditure
- **Plus** Passenger Transport and Waste Authority expenditure
- **Minus** Schools (Nursery, Primary, Secondary and Special Schools), Fire Service (Fire and rescue service), and Police Service expenditure
- **Minus** specific grants outside Aggregate External Finance (AEF): GLA Transport Grant; Education Maintenance Allowance; Higher Education Funding Council payments; Learning and Skills Council grant for Adult Education; and Mandatory Student Awards
- **Plus** Total Capital Expenditure
- **Minus** Education, Fire, and Police Capital Expenditure

1.2 This calculation produced the 2007-08 baseline expenditure for the sector of £53bn, comprising £41bn revenue and £12bn capital expenditure. It is important to note that this baseline does not represent the Government's assessment of the spending plans for council services in 2007-08, and does not provide a forecast of spending in that year to which councils must adhere. Its aim is simply to provide a starting point for evaluating expectations on efficiency in CSR07.

1.3 Like the rest of the public sector, local government is expected to achieve at least 3% per annum net cash-releasing VfM gains. However, whereas in SR04 the 2.5% per annum public sector target was additional (i.e. 2.5%, 5%, 7.5%), in CSR07, the target is multiplicative (i.e. 3%, 6.1%, 9.3%). Using the 2007-08 baseline expenditure figure of £53bn, this produces the following trajectory for VfM gains<sup>5</sup>:

Year	2008-09	2009-10	2010-11
<b>Target (% of 2007-08 baseline)</b>	3%	6.1%	9.3%
<b>Expected gains (£bn)</b>	1.5	3.2	4.9

1.4 As with SR04, this trajectory represents the improvement in annual expenditure compared to the baseline position, with each individual gain counted only once towards the target. In other words, if £1.5bn gains are achieved in the first year, then a further £1.7bn new gains need to be achieved *and* the full £1.5bn from the first year sustained, in order to meet the £3.2bn expected in the second year.

<sup>5</sup> Applying this approach simply, the figure for 2008-09 is closer to £1.6bn, but we have made an allowance for the time required to implement the bigger efficiency projects expected in CSR07. In any event, with the exception of the £4.9bn requirement, these figures represent expectations on the scope for gains and do not represent targets either for the sector or the Department.

## Understanding the Baseline Locally

- 1.5 As stated in the VfM Delivery Plan, there will not be a mandatory VfM target for all councils in CSR07. They will only exist where they are negotiated as one of the up to 35 targets in each Local Authority Agreement (LAA).
- 1.6 As there will not be a mandatory VfM target for all councils in CSR07, the Department will **not** be setting a baseline expenditure figure for each council individually as it did in SR04.
- 1.7 However, we recognise that many local authorities will want to understand their own baseline for the purposes of measuring improvement over the CSR07 period and, potentially, setting their own internal targets should they choose to do so.
- 1.8 It is important to be clear that the advice provided here is purely **voluntary**. Councils are not required to calculate their own baseline expenditure or targets, and if they choose to do so, they are free to amend the approach set out here or develop their own one.
- 1.9 Mirroring the process for calculating the national baseline expenditure, the table below sets out how councils can calculate their own 2007-08 baseline using figures that they will have submitted to the Department through the RA and CER forms:

	Total Net Service Expenditure	RA line 699, column 1
<b>Plus</b>	Passenger Transport Authority	RA line 722
	Waste Disposal Authority	RA line 724
<b>Minus</b>	Nursery, Primary, Secondary and Special Schools	RA lines 110, 120, 130 and 140
	Police Services	RA line 601
	Fire & Rescue Services	RA line 602
	Specific grants outside AEF (GLA Transport Grant; Education Maintenance Allowance; Higher Education Funding Council payments; Learning and Skills Council grant for Adult Education; and Mandatory Student Awards)	RA line 791
<b>Plus</b>	Total Capital Expenditure	CER line 26, column 1
<b>Minus</b>	Nursery, Primary, Secondary and Special Schools (capital)	Appropriate element of CER line 19, column 1
	Police Services (capital)	CER line 24, column 1
	Fire & Rescue Services (capital)	<i>Figures not directly available from capital estimate returns<sup>6</sup></i>
	Central government grant and prudential borrowing for Transport for London	
<b>Equals</b>	2007-08 baseline expenditure	

<sup>6</sup> If necessary, 2006-07 actual expenditure could be used for Fire & Rescue services (COR1 line 42)

- 1.10 There may be specific local circumstances that would make it sensible for councils to alter this method of calculation. In particular, councils that have a more ‘lumpy’ capital expenditure profile may find strict adherence to this approach could produce an unusually high – or, indeed, low – baseline. A suitable alternative in such situations could be to use the average annual capital expenditure forecast for the CSR07 period instead.
- 1.11 Councils may also wish to amend their baseline using outturn expenditure data for 2007-08 when that becomes available. However, the national baseline will not be amended in that way.
- 1.12 Having calculated the baseline, a council may wish to use that to set its own internal targets for VfM gains. Where councils want to understand what a proportionate share of the national target would mean for them, they should calculate their baseline expenditure according to the process set out in the table above and then their voluntary trajectory for gains would be as set out in the table below:

<b>Year</b>	2008-09	2009-10	2010-11
<b>Target (% of 2007-08 baseline)</b>	3%	6.1%	9.3%

- 1.13 It is worth reiterating that councils are under no compulsion to do this, and will not be held to any voluntary targets that they choose to use for internal purposes by central government.
- 1.14 The format of any formal targets negotiated as part of a LAA may take another format if that is appropriate locally. For example, it could cover a number of public sector organisations rather than an individual council, or it could be for a more challenging trajectory of VfM gains.

## 2 Measuring Efficiencies and the Indicator

### *Measurement Principles*

- 2.1 Chapter 2 of the VfM Delivery Plan set out the basic principles of the national indicator which will be the mechanism through which councils report their progress on achieving VfM gains in CSR07, replacing the Annual Efficiency Statement (AES) in use for the SR04 period. This chapter restates those principles in brief. Firstly, the definition of the VfM Indicator<sup>7</sup> is:

*The total net value of ongoing cash-releasing value for money gains that have impacted since the start of the 2008-09 Financial Year.*

- 2.2 This indicator is not as complex as it may at first appear. In fact, the figure that councils report for the indicator will be the equivalent to the figure that emerged in the bottom row of the AES for total cumulative cashable efficiency gains achieved. The definitions for each term used in the indicator are:
- **Net gains** – efficiencies should be reported net of investment and ongoing costs required for their implementation;
  - **Ongoing gains** – if an efficiency is not sustained in full or in part in later years, then the value of the indicator must be reduced accordingly;
  - **Cash-releasing gains** – only those efficiencies that reduce the level of resource required to achieve the same or better outputs, allowing resources to be redeployed, should be recorded<sup>8</sup>; and
  - **Gains since the start of the 2008-09 Financial Year** – valid gains may be the result of actions taken before April 2008, but only where they impact on a council's expenditure for the first time after 31 March 2008 (though overachievement in SR04 may also be recognised in the indicator; see the next section of this chapter for details).
- 2.3 As in SR04, a VfM gain will be valued by comparing performance with that in the previous (or baseline) year, in particular the amount of resource that has been freed up while maintaining the overall effectiveness of service delivery.
- 2.4 This principle, and others determining what can be counted as an eligible gain and their evaluation, will continue to be set out in the measurement guidance developed in partnership with the sector. For the foreseeable future, the current guidance<sup>9</sup> remains in force; the main change for CSR07 is that the sections on evaluating non-cashable gains will not be relevant. Revisions to this guidance will be published as necessary during the CSR07 period.
- 2.5 Councils will be required to submit a figure for the VfM indicator twice in each calendar year. On the first occasion, starting from October 2008, councils will

<sup>7</sup> A public consultation on the definitions of all indicators in the National Indicator Set closed on 21 December, and the information in this chapter is liable to change subject to the responses received. Details available at: [www.communities.gov.uk/publications/localgovernment/indicatorsdefinitions](http://www.communities.gov.uk/publications/localgovernment/indicatorsdefinitions)

<sup>8</sup> This type of gain was termed 'cashable' in SR04; in measurement and reporting terms, for councils, the effective meanings of these terms are identical.

<sup>9</sup> *Measuring and Reporting Efficiency Gains* (March 2007) Department for Communities and Local Government, available at: [www.rce.gov.uk/rce/aio/26849](http://www.rce.gov.uk/rce/aio/26849)

report their *forecast* for the position at the end of the financial year. This is akin to the output of the Forward Look AES, though looking at the whole period since March 2008 rather than only the particular year in question, and will help bodies working with councils to identify any emerging issues early.

- 2.6 On the second occasion, starting from July 2009, councils will report the *actual* position as at the end of the financial year that ended on the previous 31st March. This is akin to the output of the Backward Look AES. Specific deadlines for reporting on the indicator, and the method through which this will be done, will be announced in due course.
- 2.7 To assist councils with the monitoring of efficiency plans and achievements, the Department and Regional Improvement & Efficiency Partnerships (RIEPs) have commissioned RSe Consulting to develop a simple spreadsheet tool. At the time of publication, this work is at an advanced stage with a testing phase in the East Midlands region in January 2008 prior to a national rollout.

### *Recognising SR04 Achievement*

- 2.8 As the VfM Delivery Plan states, where councils have achieved a significant level of ongoing cash-releasing gains in SR04, there is a mechanism to recognise this success in the CSR07 period.
- 2.9 In short, the value of any ongoing cash-releasing efficiencies achieved in SR04, as reported by councils in their 2007-08 Backward Look AES, that are over and above 7.5% of their 2004-05 baseline expenditure (i.e. their target for total gains – cash-releasing and non-cashable – in SR04) may be carried forward into CSR07.
- 2.10 Any council that has achieved this level of cash-releasing gains will be able to carry the appropriate value forward to report against their VfM indicator. This principle is illustrated through three fictional scenarios below:

Council A had a target to achieve £1m annual efficiency gains by the end of 2007-08 (both cash-releasing and non-cashable). In its 2007-08 Backward Look statement it reports that it has achieved £1.8m efficiency gains, of which £1.3m are cashable and all are expected to be ongoing. In this case, Council A will be able to carry £300,000 forward into CSR07.

Council B had a target to achieve £2m annual efficiency gains by the end of 2007-08 (both cash-releasing and non-cashable). In its 2007-08 Backward Look statement it reports that it has achieved £2.3m efficiency gains, of which £2.1m are cashable, but £150,000 of these are one-off gains that will only have an impact in 2007-08. In this case, Council B will not be able to carry forward any gains into CSR07.

Council C had a target to achieve £1m annual efficiency gains by the end of 2007-08 (both cash-releasing and non-cashable). In its 2007-08 Backward Look statement it reports that it has achieved £1.2m efficiency gains, of which £0.9m are cashable and all are expected to be ongoing. In this case, Council C will not be able to carry forward any efficiency gains into CSR07.

## Definition of Cumulative Gains

- 2.11 The figure reported through the indicator will represent the improvement in annual expenditure compared to the baseline position, with each individual gain achieved counted only once. As in SR04, it will **not** involve saying project X saved £10k in year 1, and as that project was ongoing, it meant £20k had been saved by the end of year 2. If such a project is sustained then £10k has been saved against the baseline expenditure and its impact is reported just once. The table below illustrates the principle:

<b>Gains Achieved (£m)</b> <sup>(a)</sup>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
In SR04	0.1 sustained <sup>(b)</sup>	0.1 sustained	0.1 sustained
In 2008-09	1.8 new gains <i>Incl. 0.2 one-off</i> <sup>(c)</sup>	1.6 sustained	1.6 sustained
In 2009-10		1.6 new gains <i>Incl. 0.4 one-off</i>	1.2 sustained
In 2010-11			1.9 new gains <i>Incl. 0.3 one-off</i>
<b>Cumulative Total</b>	<b>1.9</b>	<b>3.3</b>	<b>4.8</b>
<b>Notes:</b>			
<sup>(a)</sup> To simplify this illustration, the impact of inflation on the value of gains carried forward from previous years is not shown			
<sup>(b)</sup> The rules under which gains may be carried forward from SR04 are set out above			
<sup>(c)</sup> One-off VfM gains only score in the year in which they accrue; councils must deduct the value of gains not sustained when they next report on achievement			

### **3 CSR07 Questions Answered**

3.1 In this chapter we answer some of the questions that people have about CSR07, the Value for Money agenda and what it means for them.

#### *The Agenda*

#### **1. What is your aim for efficiency in councils in CSR07?**

Councils have made good progress in driving efficiency to date; during CSR07 we expect to see more challenging change projects taken forward, building on the good practice and learning that has been developed on service redesign, smarter procurement and exploiting new technology. This should enable councils to offer greater value for money and customer-focused services.

#### **2. Does the fact you are continuing with this mean councils are failing?**

No. Efficiency is not something that is "done" once and forgotten about. It is an ethos of continually reviewing the way things are done to ensure they are offering value for money. Councils – like all public service providers – are facing growing customer expectations and efficiency will be a vital part of meeting that challenge within the tight fiscal context of CSR07.

#### **3. Is there any scope for cross-public sector efficiency gains?**

There are many opportunities both in integrated service delivery and through the sharing of corporate functions. LAAs should offer a route to driving collaboration that will enhance service quality and release resources.

#### **4. What is the role of the Audit Commission?**

The Audit Commission's role includes working with local services inspectorates to take a more proportionate and tailored approach to inspection, and working with local authorities to identify risk, spot adverse trends and promote best practice.

#### *The Delivery Plan*

#### **5. What is the purpose of the Local Government VfM Delivery Plan?**

The VfM Delivery Plan for local government sets out a route map for meeting the efficiency challenge. It isn't prescriptive for councils, but suggests the means to achieve efficiency and details the support activities designed to promote them.

#### **6. What consultation took place in developing the VfM Delivery Plan?**

The Department drew up the Plan using evidence from consultants, Regional Centres of Excellence (RCEs) and others. In finalising the Plan we consulted with a range of partners including representatives from local government, LGA, the private sector and other government departments, to ensure it meets the needs of councils.

#### **7. What help will councils receive?**

Regional Improvement & Efficiency Partnerships (formed from the merger of RCEs and Improvement Partnerships) will be the first port of call for councils looking to draw on their broad knowledge of efficiency and improvement. The RIEPs will also promote partnerships and projects in their regions to identify new opportunities for efficiency and good practice for delivering them.

The Department will provide an extra £150m support to help realise further efficiency gains; together with other funding, this will provide over £380m during CSR07 to

deliver the improvement and efficiency agenda. Further information on funding allocation will be set out in the 2008 Prospectus (see the NIES for more details).

Other government departments, Government Offices, IDeA, 4ps and others will also play their part, working with the regional partnerships where appropriate. The Internet will be a key resource, with tools and advice available through the Business Improvement Package, esd-toolkit and the Knowledge Network.

#### **8. Aren't there too many organisations trying to help councils on efficiency?**

There are a number of bodies that work with councils (and others) looking to improve the way they deliver services; the VfM Delivery Plan sets out the roles of the principal players. However, councils need only remember that their first 'port of call' for advice should be the RIEPs, which have a broad knowledge of the agenda and can help point councils in the right direction.

#### *Value for Money Gains Target*

#### **9. What is the efficiency target for local government?**

Local government – along with the rest of the public sector – is expected to achieve annual cash-releasing VfM gains of 3%. For councils, this equates to £4.9 billion over the three years of the spending review period (2008-09 to 2010-11).

#### **10. Has the sector been penalised with a 3% target because they achieved so much in SR04?**

No. Councils – and their local residents, taxpayers and service users – have benefited from their success in delivering gains ahead of target, releasing more resources for reallocation to support services. The minimum expectation for gains in CSR07 – 3% per annum cash-releasing gains – is the same across the public sector; local government has not been singled out for a higher target.

#### **11. Will there be a 3% efficiency target for all councils individually?**

No. A specific target will only apply locally where this has been negotiated as part of the up-to-35 targets within a LAA. We do, however, expect to see each council continuing to make appropriate progress on the efficiency agenda, and their progress will be evaluated through the new performance framework.

#### **12. Will there be a target for gains in individual service sectors?**

As in SR04, there are no efficiency targets for councils to meet in individual services.

#### **13. Is £4.9bn really deliverable if individual councils do not have a target?**

We believe councils will be looking to make efficiency gains because they want to deliver better services within the resources they have available; not having a target will increase flexibility but it will not reduce the need and drive for improvement.

#### **14. What will happen to councils that report less than 3% efficiency gains?**

The main thing that will happen is that they will release fewer resources for reallocation to meet their local priorities. However, where there is evidence of real underperformance then there are a range of options to help support improvement that can be drawn from, in particular close working with the RIEPs.

#### **15. How will you identify "underperformance" if there are no targets?**

To some extent this will develop with experience, but the point is that it will be based on a broader range of information than simply asking "has council x achieved 3% efficiencies?". For example, a potential sign might be a low VfM score from the Audit

Commission combined with low achievement of efficiency gains as reported in the VfM indicator or a general deterioration in the wider National Indicator Set. This would then prompt a closer look to understand whether there was a problem or not.

**16. What incentives are there for councils to deliver this level of efficiencies?**

It is in all councils' interest to free up as much resource as possible as they retain the cash released for reallocation to meet local priorities. The Audit Commission's use of resources assessment continues to act as a strong incentive for councils to secure efficiency gains and challenges any areas of underperformance.

**17. Have councils had their SR04 gains removed from their CSR07 funding?**

No. The funding settlement has been determined without reference to the value of efficiency gains reported by councils through the AES.

**18. Will money saved through efficiency be taken away from councils' budgets during the CSR07 period?**

No. Money councils release through efficiency gains will be retained by them for reinvestment into local services or to hold down council tax, according to their own local priorities.

**19. But has 3% been taken away from councils in the Settlement?**

The overall settlement has been determined by considering both the cost pressures and opportunities for further efficiency in local government. Efficiency gains will enable councils to deliver more with the resources that they would have received in any event.

**20. Isn't it impossible to achieve 3% gains as councils already highly efficient?**

We know that councils have been successful at making efficiencies, and there are many examples of good practice, but there is always room for improvement with new ideas, technologies and ways of working that can be taken on board. Our evidence suggests that 3% is tough, but achievable.

**21. Can 3% gains be made when councils are locked in long-term contracts?**

Our assessment is that councils, like the rest of the public sector, can deliver 3% efficiency gains overall. This is not the same as suggesting that councils can deliver 3% on all of their services or on every contract.

**22. How will the overachievement to date be recognised against this target?**

The value of ongoing cash-releasing efficiency gains achieved in excess of councils' 7.5% target for the 2004 Spending Review period will be carried forward into CSR07 to count against the £4.9bn target.

**23. Could councils achieve efficiencies greater than the 3% target?**

Our evidence suggests that, overall, 3% is a challenge, but achievable. A greater level may be possible in some areas, however, and we would encourage councils to aim for this to provide even better value for money.

**24. What targets are there for reductions in job posts?**

There are no targets for job reductions. Decisions on employment will be taken at a local level as is appropriate for devolved bodies. Nevertheless, it is in everyone's interest to deliver better services by increasing the number of frontline workers through appropriate redeployment.

**25. How will you know if the target has been met?**

All councils will be required to report the value of cash-releasing VfM gains that they have achieved as one of the 198 indicators in the new National Indicator Set. However, they will only have to report a single number – the total gains achieved – rather than breaking it down by service sector and providing text on actions taken.

**26. Will the Annual Efficiency Statement continue to be collected in CSR07?**

No. The 2007-08 Backward Look AES (due in July 2008) will be the last efficiency statement required from councils.

**27. Why are you still making councils measure efficiency as you already know the amount of money that they have to spend?**

Councils will need to choose how they respond to the tight fiscal context of CSR07; efficiency is only one of the potential responses. However, it is a response that we want to promote because it will help to protect and nurture public services. The fact that it is one of our 198 priorities in the National Indicator Set underlines the value we place on further efficiency in CSR07.

**28. Why is there an efficiency indicator, as it is a process not an outcome?**

Good levels of efficiency are central to underpinning the improvements in outcomes that the public want to see. Inclusion of the indicator enables the RIEPs to focus their support as well as providing the necessary accountability on performance.

**29. Will the new system be less robust without the information in the AES?**

Efficiency measurement will continue to be important for councils; what we are doing is to reduce the reporting requirements. Councils' internal audit systems should be effective in monitoring the way the organisation measures the efficiency benefits obtained from projects even without the AES. In addition, we expect that the processes for measuring efficiency will still be an area considered by auditors appointed by the Audit Commission in the new Comprehensive Area Assessment.

**30. If councils still have to measure the gains, have you reduced the burden?**

Identifying efficiency benefits from actions undertaken should be part of good project management in any organisation. What we have done is to reduce the reporting requirements on councils, thereby allowing them more flexibility on how to structure the way they monitor efficiency delivery. The change recognises that councils, rightly, are driving the agenda for themselves.

**31. Have councils been consulted on decisions about measuring efficiency?**

Yes. We have invited a number of councils to help us devise the efficiency indicator and comment on the VfM Delivery Plan in its draft stages. On an ongoing basis, the Measurement Taskforce, comprised of a variety of local and central government representatives and other interested stakeholders, provides advice to the Department on technical issues regarding the measurement of efficiencies.

**32. What support will be provided to help councils measure their gains?**

The Department will continue to maintain and enhance the efficiency measurement guidance document used in SR04, drawing on advice from the Measurement Taskforce. Further support, through sector-specific guidance and practical toolkits will be provided in cooperation with local government where a need is identified.