Department for
**Communities and
Local Government**

Measuring and reporting efficiency gains

A guide for fire and rescue authorities on completing annual efficiency statements

On 5th May 2006 the responsibilities of the Office of the Deputy Prime Minister (ODPM) transferred to the Department for Communities and Local Government (DCLG)

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Introduction

This guidance sets out the basic information required by a Fire & Rescue Authority (FRA) in order to complete an Annual Efficiency Statement (AES) in regard to the 2007/8 efficiency target. It builds on "Reporting Efficiencies – Arrangements for English Fire & Rescue Authorities", the document published for completion of the backward-looking 2004/05 AES and forward-looking 2005/06 AES. It is not our intention to repeat all that was set out in that document but to supplement it with more detailed guidance on completion of the Annual Efficiency Statements.

This guidance has been refined with the assistance of the FRA Efficiency Measurement Working Group whose members are drawn from FRAs, OGC, Audit Commission and the LGA.

Future deadlines for submission of Annual Efficiency Statements relating to the 2007/08 target are:

18 April 2006	Forward 2006/07 AES
6 July 2006	Backward 2005/06 AES
17 November 2006	Mid-year update
12 April 2007	Forward 2007/08
5 July 2007	Backward 2006/07
17 November 2007	Mid-year update
8 July 2008	Backward 2007/08

Background

1. Efficiency is an integral component of the wider FRS modernisation agenda. Many FRAs already follow good practice in planning for, and monitoring progress on, improved efficiency and value for money through:

   - Identifying actions to improve efficiency, and expected benefits from those actions,

   - Developing at their Integrated Risk Management Plans and setting an annual budget as part of their medium term financial planning process;

   - Monitoring progress on their actions, to determine whether any change in plan is required; and

   - Identifying and quantifying the financial impact of actions taken in the preceding financial year.

2. The arrangements put in place for reporting of efficiency gains through the AES formalises this process.

3. The AES comprises two parts.

- The **forward look** is a very brief (one or two pages) outline of the strategy for securing efficiency gains, the key actions that will be taken during the next year, and the efficiency gains that are expected to result from them. The forward look is reported at those times listed above in the introduction.

- The **backward look** sets out the efficiency gains achieved in the past financial year. Again, please see timetable in the introduction for relevant dates. We will consider providing further guidance on the backward look at a later stage.

Mid-year update

4. FRAs, except any that have 'Excellent' status under CPA, are also asked to provide an update each November, in line with the wider local government process, on the progress they have made towards improved efficiency. The format for this update is the same as the FRA-specific AES and will:

   – Report actual efficiency gains achieved in the first six months of the financial year

   – Show forecast efficiency gains in line with the FRS-specific AES; and

   – Set out the reasons for any expected major shortfall and plans for overcoming that shortfall.

5. Both the forward and backward look offer FRAs an opportunity to report both cashable and non-cashable efficiency gains that they are planning to or have achieved. However non-cashable and one-off gains will not count towards the current efficiency target other than in 2007/08, when one-off gains may be incorporated.

6. FRAs should have calculated their baseline of overall 2004/05 expenditure prior to completing the November 2005 AES. It is against this baseline that efficiency gains are measured throughout the period to the end of 2007/08 financial year.

7. The AESs must be signed by the Chair of the FRA, Chief Fire Officer and certified and post Chief Financial Officer.

8. FRAs are asked to submit their AESs to the DCLG emailing them to frs-efficiency@DCLG.gsi.gov.uk and sending a hard copy to:

   FRS Efficiency
   c/o Talia Watson
   4th Floor Zone C
   15 Allington Street
   London
   SW1E 5WY

A significant amount of guidance on measurement has already been produced in relation to the local government efficiency target and published on the Regional Centres of Excellence web site at www.rcoe.gov.uk/rce/aio/16540 to which FRAs are encouraged to refer. The Regional Centres of Excellence and DCLG have also set up a Fire and Rescue Service national discussion forum. The forum provides an ideal opportunity to ask questions and exchange ideas specific to the Fire and Rescue Service. Registration for the esd-tool can be found at http://www.esd.org.uk/esdtoolkit/Register.aspx

Similarly, you may find it helpful to refer to the Local Government Efficiency Technical Note (ETN) at **http://www.DCLG.gov.uk/pub/532/EfficiencytechnicalnoteforlocalgovernmentPDF336Kb_id1135532.pdf** for more detailed information on the principles for assessing efficiency gains.

SUMMARY OF CHANGES FROM JUNE 2006 ISSUE

The following grid summarises the key changes from the previous issue of "Measuring and Reporting Efficiency Gains" dated June 2006:

Page	Section	Summary of Changes
4	Para 17	The need to join-up AESs and notify DCLG of revised forecasts
16	Procurement crosschecks	Additional advice on evidencing procurement efficiency gains

Quality Crosschecks

9. FRAs are required to provide a quality crosscheck for each category against which they will record gross cashable efficiency gains and any non-cashable efficiency gains reported. The quality crosschecks are intended to demonstrate that performance has been at least maintained in the service area in which the efficiency is made, including operational performance against their Integrated Risk Management Plan. These need to be transparent, objective, accurate and capable of being independently validated. The person certifying the AES should be satisfied that there is sufficient evidence underpinning the claim to allow the gain to be verified by a third party.

10. DCLG encourages the use of BVPIs as quality crosschecks where these measure the quality of the service area in which the efficiency has been achieved. However, we recognise that there may be circumstances where a FRA wishes or will need to use an alternative quality crosscheck other than BVPIs. When using alternative crosschecks, it is important that FRAs bear in mind the following:

    – It needs to be a measure of service quality and should not simply repeat, or provide further evidence for, the efficiency gain being claimed. For example, a reduction in the cost of certain goods is an action, not a quality crosscheck. However, in this case, a FRA might demonstrate that quality had been maintained by showing that the goods had been procured using the same specification. Similarly, citing ‘revenue budget’ as a quality crosscheck is

incorrect, as this does not demonstrate that service level has been at least maintained. Spending the same amount or less does not demonstrate that service level has been at least maintained.

– If a quality crosscheck other than a BVPI is used, then details of this must be included in the narrative section of the AES. Examples of alternative quality crosschecks can be found at Annex A.

11. FRAs might wish to specify a single relevant quality crosscheck or a basket of crosschecks to provide an appropriate measure of maintenance of service quality. If a basket of crosschecks is being used, FRAs may wish to fix a weighting to each before the relevant information is collected. FRAs should also be careful to avoid choosing highly volatile crosschecks or ones subject to significant external factors that might not reflect fairly the level of service provided by the FRA.

12. Where BVPIs are used as a quality crosscheck but show a deterioration/decline in performance, this does not in itself invalidate an efficiency gain. However, the FRA must provide an explanation of why this is the case in order to demonstrate that the reduction in service quality results from other external factors and that the efficiency action has not caused the reduction in quality.

13. A list of BVPIs is at Annex A. It is important to note that not all BVPIs are appropriate measures of service outcomes therefore not all are appropriate quality crosschecks.

Reporting through the AES

14. Once you are satisfied that the relevant quality crosschecks have been met, gross cashable efficiency gains should be reported in the table section of the AES. It would also be helpful in assessing the impact of efficiency gains if FRAs reported any associated **non-cashable** efficiency gains, though these gains will not count against the target. However this is at the discretion of FRAs. We have produced a simple Excel spreadsheet template and would ask that you use this for your return. Further detail should be included in the narrative section that you should submit along with the table.

15. Unlike the previous AESs where categories were suggested, DCLG now requires efficiency gains to be reported against a standard set of categories – this was agreed with the FRS Efficiency Measurement Working Group – and these are included in the template. Annex B lists these categories and against them are examples of efficiency gains identified in FRAs' previous AESs

16. The value of on-going efficiency gains may fluctuate over time for a range of reasons. Once recorded in an AES, any fluctuations in the value of on-going efficiency gains must be recorded in subsequent statements whatever the circumstances of the fluctuation.

17. To facilitate this, future backward look AES templates will show the previous year's on-going efficiency gain (derived as the total cumulative efficiency gain for the previous year less the in-year one-off efficiency gains). FRAs will be required to confirm this figure as the on-going efficiencies from the previous

year or amend the figure to take account of fluctuations. Efficiency gains previously reported as ongoing but which have not been sustained must be removed from future statements. It is expected that FRAs will have the monitoring systems to support the measurement of fluctuations and that tracking of efficiency gains over time by FRAs is both good and common practice. FRAs should state explicitly in the backward look AES where gains reported in the forward look AES have not been achieved, and whether they are likely to be achieved in future years. FRAs should notify DCLG of likely revisions to their forecast at the earliest opportunity.

18. Efficiency is about raising productivity and enhancing value for money. FRAs will need to ensure benefits accrue to the public purse in order to count as delivering an efficiency gain. An efficiency gain is made when, for a given area of activity, an organization is able to:

- Reduce inputs for the same outputs (representing a cashable gain; i.e. money is released that can be reused elsewhere);
- Reduce prices for the same outputs (representing a cashable gain);
- Get greater outputs or improved quality for the same inputs (representing a non-cashable gain; i.e. money is not released); or
- Get greater outputs or improved quality in return for a proportionately smaller increase in resources (representing a non-cashable gain).

Cashable and Non-cashable efficiency gains

19. Cashable efficiencies release cash whilst maintaining outputs and allow the resources that are released to be diverted to other services or to hold down council tax increases. In other words, there is a direct financial saving or benefit with money released that can be spent elsewhere or recycled within a FRA to deliver better results. Non-cashable efficiency gains occur when productivity increases, either for the same resource inputs or a proportionately smaller increase in resource inputs.

20. Non-cashable gains may well reflect a temporary state whereby productive time has been freed up but not yet redeployed to productive use in cashable form. FRAs should look to convert this productive time into cashable gains wherever possible.

21. Efficiency gains may be calculated in a number of ways but would always need to be quantified in £. Like the quality crosschecks, the means of calculation need to be transparent, objective, accurate and capable of being independently validated but seek to minimise additional effort.

22. Before an efficiency gain can be qualified as cashable or non-cashable, it must have met the relevant quality measure. If it has not, and this demonstrates that there has been a material reduction in performance (as a result of the efficiency action taken rather than unrelated external factors), the associated savings cannot properly be counted as an improvement in efficiency (as there has been a reduction in the quality of service).

23. *An example of a cashable gain would be if a FRA introduces a "dual wholetime/retained" contract system. This works by using existing wholetime officers to provide cover at retained stations during their off-duty periods. This is a cashable gain as it maximises the use of the existing fire-fighter skill base, therefore saves money on training and development costs for new firefighters who have not been trained. The same results are produced from reduced input and quality of service has been maintained.*

24. *Another example would be if a FRA introduced a system of carrying out Home Fire Safety Checks during existing shift times by wholetime crews, resulting in an increase in the number of checks carried out. This represents a non-cashable efficiency gain arising from the more productive use of existing resources if the authority is not saving any money by, say, ceasing to employ somebody else to carry out the checks. If the FRA was employing somebody, and they remove this post, then that would result in a cashable gain.*

25. Quantification of efficiency gains should take account of inflation. This means that, for instance, the procurement of goods and services at prices that are constant in nominal terms is an efficiency gain, because in real terms their price has fallen by the rate of inflation. For the purpose of assessing the efficiency gains that result from holding down procurement prices, the default rate of inflation to be taken into account for any AES is the GDP deflator. This will apply in all cases, including the calculation of savings on posts.

    Current HM Treasury estimates for future years are as follows:

    2006/07 2.44%
    20070/8 2.66%

    Hence, if output in a given service area in 2005/06 is maintained at unit costs equal to those for 2004/05, this would represent a 2.38% efficiency.

26. To work through an example, an FRA might be able to reduce the price that it pays for particular goods and services (perhaps through successful negotiation with suppliers, regional or national collaboration, by using FiReBuy Ltd's framework contracts, or using the regional centres of excellence). The simplest way of calculating the resulting cashable gain and one that we recommend FRAs use where ever possible, is as follows:

Has the relevant quality crosscheck being met? If yes then the cashable efficiency gain =
The cost of procuring x or y goods and/or services before the efficiency improvement at 2004/05 prices ***Multiplied by*** Inflation over the period
Minus
The cost of procuring the same or equivalent goods and/or services after the efficiency improvement
= £ *cashable efficiency gain* (if a positive figure)

27. If it is impossible for a FRA to calculate the cashable efficiency gain on this basis, there may be plausible alternative approaches to calculating the same cashable efficiency gain, such as:

Has the relevant quality crosscheck been met? If yes then the cashable efficiency gain =
The price per unit of a specific good or service before the efficiency improvement ***Multiplied by*** Inflation over the period
minus
The price per unit of a specific good or service after the efficiency improvement
multiplied by
The number of units of that specific good or service procured
= £ *cashable efficiency gain* (if a positive figure)

28. To work through another example, an FRA might be able to reduce the number of firefighters required to crew its fire appliances (perhaps by improving the efficiency of its crewing arrangements, shift patterns or sickness management). If the resulting spare crew members leave the employment of the FRA or are redeployed on other additional duties such as community fire safety, then perhaps the simplest way of calculating the resulting cashable gain and one that we would propose to recommend FRAs use where ever possible, would be as follows:

Has the relevant quality crosscheck been met? If yes then the cashable efficiency saving =
The cost of employing firefighters** to crew the FRAs' fire appliances before the efficiency improvement at 2004/05 prices ***Multiplied by*** Inflation over the period
Minus
The cost of employing firefighters (i.e. pay, pensions and potentially other costs) to crew the FRAs' fire appliances after the efficiency improvement at 2004/05 prices ***Multiplied by*** Inflation over the period
= £ *cashable efficiency gain* (if a positive figure) **see paras 29 and 30 for the calculation of firefighter costs.

29. When calculating the cost of a wholetime fire-fighter you should take into account:

- Pay
- ERNIC
- Pension costs

Plus an evidence-based estimate that includes:

- training
- equipment
- travel and subsistence
- regional weighting
- special payments (such as long-service increment)

HM Treasury estimates for GDP deflators should be applied when calculating this (see para 25).

It should be noted that any broader savings associated with the reduction of fire-fighter posts, e.g. accommodation savings, should NOT be included in the efficiency gains category reporting the overall cost of a fire-fighter. Instead the direct efficiency generated by actions that reduce firefighter posts should be recorded against the most appropriate category for that action, e.g. revised shift systems/crewing arrangements (IRMP). The additional efficiencies generated as a result of a second efficiency action (e.g. reduce surplus accommodation following a reduction in fire-fighter posts) should be reported against the category most relevant to this second action (in this case corporate services).

30. DCLG recognises that there may be variations in costs of employing retained staff. However, when calculating the cost of a retained fire-fighter we suggest you take the following factors into account:

- annual retainer
- call-out payment
- hourly wage on incidents, regular training sessions
- training and equipment costs
- travel and subsistence
- regional weighting
- special payments (such as long-service increment)

When calculating pension costs, you should use the rate specified in the Fire-fighter Pensions funding guidance issued by DCLG.

It is NOT appropriate to include possible reduction in ill-health compensation costs associated with incidents such as involvement in accidents whilst on duty as a result of reduction in numbers of firefighters. Such efficiencies should only be claimed as a direct result of efficiency actions taken to improve health and safety and therefore reduce the incidence of accidents

31. Similarly, we would propose that if a FRA is unable to calculate the cashable efficiency gain on this basis, there might be plausible alternative approaches, such as:

Has the relevant quality crosscheck been met? If yes then the cashable efficiency gain =
The number of firefighters employed to crew the FRAs' fire appliances before the efficiency improvement
minus
The number of firefighters employed to crew the FRAs' fire appliances after the efficiency improvement
multiplied by
The cost of employing each firefighter (i.e. pay, pensions and potentially other costs) at 2004/05 prices
multiplied by
inflation over the period
= £ *cashable efficiency gain* (if a positive figure)

Recurring/one-off efficiencies are defined as:

One-off efficiency gains are defined as:

'An efficiency gain which is not present for two full financial years after the year it is generated.'

Recurring (or sustainable) efficiency gains are defined as:

'An efficiency gain which exists for the current year and at least two subsequent financial years afterwards is a sustainable efficiency.'

For example, a FRA converts a uniformed post into a non-uniformed post to undertake community safety, saving £15k pa, the difference between the uniformed post's salary and the non-uniformed post's salary. The uniformed post is no longer required because the quality crosscheck found no decrease in the quality of fire-fighting service. This is a recurring efficiency gain assuming that there is no reversion to the previous arrangements.

32. Long-term, efficiency gains must be based on the core Gershon principle of sustainability and therefore be on-going. So, temporary or one-off improvements in efficiency will not contribute to cumulative totals beyond the year in which they occur. For example, a one-off efficiency gain in 2005/06 will be allowed to contribute to that year's total and the cumulative total for 2005/06, but it will not contribute to any totals in 2006/07.

33. *For example, a FRA might negotiate a cheaper price from a supplier in a given year but find the discount over-turned the following year, or reduce the number of firefighters it requires to crew its fire appliances in 2005/6 but then increase the number of firefighters back to at least the 2004/5 levels by 2007/8 with no change of cover require.*

Fluctuating Efficiency Gains

34. Efficiency gains, albeit ongoing efficiency gains, may fluctuate over time for a range of reasons. Once recorded in an AES, any fluctuations in ongoing efficiency gains must be recorded in subsequent statements whatever the circumstances of the fluctuation. The revised ongoing efficiency gain must be recorded in the subsequent backward look AES.

An example of a fluctuating efficiency gain would be if a FRA implemented a new sickness management regime that was very successful in achieving a reduction in days lost through sickness plus maintaining quality of service:

2004/05: Sickness absence reduced to 9.5 days from 10.5 days = £1m gain
2005/06: Sickness absence falls to 9 days = another £500k gain, cumulative gain = £1.5m
2006/07: Sickness absence returns to 10 days = No new gains and £1m deleted from the cumulative gain, which is now £500k.

All these gains are declared as non-cashable.

Capital/Revenue

35. Efficiency gains arising from the disposal of surplus capital assets that result in capital receipts are recognised, however only the revenue impact of the capital receipts may be counted in the AES. If resources are released and the same level and quality of outputs is maintained, this represents a cashable efficiency gain. Capital receipts utilised to reduce borrowing or attain interest payments represent an efficiency gain that can be assessed on an on-going annual basis. You may also wish to refer to the local government guidance, which has a section on efficiency gains obtained from capital expenditure – page 17 refers http://www.rcoe.gov.uk/rce/aio/16540

Cumulative Cashable Gains

36. The cumulative figure to be entered into the AES table should show the FRA's total savings in comparison to the baseline. You should only include newly identified efficiency gains for that year in the AES table, and if these are recurring (sustainable), they will carry forward to the 2007/08 total. Any recurring efficiency should have one-year's saving brought forward.

37. *For example, if a risk-based assessment resulted in one station's operational hours being reduced to day crewing only from 24 hours, this might save £300k per year in uniformed posts. This will be a recurring saving as it will still be present in subsequent years. However, we do not expect to see any savings in subsequent years reported in the AES for the same saving (even though it could be said that it*

is being saved in future years) because we are comparing the savings against the baseline. This approach is consistent with the approach adopted for the overall local government efficiency target.

38. *Example – FRA X achieves/plans the following cashable efficiency gains through crewing arrangements*

2004/05: £300k recurring; and £450k one-off

2005/06: £100K recurring (full-year's saving, implemented mid financial year) and £34k one-off

2006/07: £20k recurring.

A simple illustration for this example to the 'cumulative' principle – FRA X's AES tables for these 3 years will show the following for its cashable efficiency gains reported against revised shift systems/crewing arrangements': The example below for 2006/7 illustrates how you would show a phased recurring gain.

2004/05

Category	**Quality cross-check** (QCC) met (see note 1)	**One off or recurring?**	**Capital or Revenue?**	**Annual Cashable Efficiency Gain** (see note 2)
Revised shift systems/ Crewing arrangements (IRMP)	BVPI143 BVPI206	Recurring	R	300
		One off	R	450

2005/06

Category	**Quality cross-check** (QCC) met (see note 1)	**One off or recurring?**	**Capital or Revenue?**	**Annual Cashable Efficiency Gain** (see note 2)	**Cumulative Cashable Efficiency Gain** (including recurring gains from 2004-05 and 2005-06) (see note 3)
Revised shift systems/ Crewing arrangements (IRMP)	BVPI143 BVPI206	Recurring	R	50	350
		One off	R	34	34

2006/07

Category	**Quality cross-check** (QCC) met (see note 1)	**One off or recurring?**	**Capital or Revenue?**	**Annual Cashable Efficiency Gain** (see note 2)	**Cumulative Cashable Efficiency Gain** (including recurring gains from 2004-05 and 2005-06) (see note 3)
Revised shift systems/ Crewing arrangements (IRMP)	BVPI143 BVPI206	Recurring	R	70	420
		One off	R	–	–

Double-counting avoidance

39. It is essential that completed AESs exclude any double counting of efficiency gains.

40. *For example, savings may have been made because of revised staffing arrangements and para 29/30 confirms that any associated training costs should be worked into the overall cost of employing a fire-fighter. This will be reported against the Revised shift systems/Crewing arrangements category. Where one efficiency action taken enables a second subsequent efficiency action to be taken then the results of the second action should be reported once against the most relevant category for that action.*

41. *For example: 1st Efficiency action – new crewing arrangements generate reduction in fire-fighter posts scored against revised shift systems/crewing arrangements 2nd efficiency action – reduction in (now) surplus accommodation generating a second efficiency scored against corporate services.*

Other categories where training efficiency gains might be reported are:

- *HR Other* – a commercial training facilities contract has been terminated and the same specialist training is provided in-house.

- *Better procurement*

42. *Another example would be if in 2006/07 sickness absence falls by 0.5 days per fte = £500k non-cashable efficiency gain. It also enables a reduction of 10 firefighter posts, a cashable efficiency gain. However, it is important to avoid double-counting both gains from the same action, so:*

The reduction of 10 posts at £35K (2004/05 firefighter costs uprated for 2005/06 and 2006/07 inflation) = £350K cashable efficiencies claimed

Leaving a residual £150K non-cashable efficiency gain which is also reported.

Note this illustrates that where elements of an efficiency gain are cashable the total gain must not be double counted and so the overall gain and the cashable element must be calculated, the cashable element is reported as cashable, the non cashable element is then reported as a result of calculating the total gain minus the cashable element claimed.

43. Double-counting also needs to be avoided in activities carried out between FRAs which result in efficiency gains. This will require appropriate co-ordination within and between FRAs and, where savings are shared, mutual agreement concerning amounts to be reported on the AESs.

Review Process

44. The Audit Commission, and its appointed auditors, will consider both forward and backward look AESs when undertaking its Code audit and Use if Resources (UoR) work. It is essential that proper arrangements are in place to ensure that a robust procedure is followed when identifying and reporting on efficiency gains through the AES process. This will ensure that there are no complications when the statements are reviewed by auditors appointed by the Audit Commission. The Commission will report by exception where it has concerns with the efficiency gains claimed by the FRA. Naturally, it is a matter for FRAs to decide what arrangements they put in place, but we would expect the following issues to be taken into account when they are being developed:

Governance and Scrutiny Arrangements

The Chair of the FRA, Chief Fire Officer and the Chief Financial Officer must see and sign off the statement. It is recommended that there be at least one system in place (e.g. ad-hoc committee of officials, internal audit, member scrutiny or scrutiny of budget savings) to challenge initial drafts of the Statements, and evidence should be available to outline its findings and show that these have been properly considered. You may wish to refer to section 3 of DCLG's guidance 'Delivering Efficiency in Local Services – One Year On' at http://www.rcoe.gov.uk/rce/aio/16537 for more information on monitoring progress.

Ensuring that Statements Incorporate Accepted Definitions of Efficiency Gains Methodologies for assessing efficiency gains must be in line with any mandatory elements of DCLG guidance (e.g. that cost shifting does not count as an efficiency gain).

Efficiency Calculations

An audit trail of any item should have clarity on the baselines for costs and output underpinning its efficiency calculations. It is recommended that efficiencies be measured against a comprehensive picture of inputs, outputs and service quality. Counterfactual baselines, estimating what would have occurred if an efficiency initiative had not been put in place, should only be used if they can be clearly defined.

Data Quality

Efficiency gains should be based on data from systems that are subjected to regular assurance processes. Adequate audit trails should be available for any checks made by the auditors on a sample check of statement entries. These should track data from collection through to processing and reporting.

Examination of Quality Crosschecks

The process of selecting these should have an objective basis, properly reflecting the overall performance of the sector or clearly relating to a large proportion of the efficiency gains. The quality crosschecks used should either be BVPIs or, if alternative crosschecks were used, there should be robust processes in place to determine that such indicators better reflect the overall performance of the sector or relate to a large proportion of the efficiency gains. The quality crosschecks input into the statements must be a proper record of the performance indicators chosen. The clearer the storyline to show service quality has been maintained, the better.

Sustainability of Efficiency Gains

Adequate processes must be in place to ensure that those efficiency gains from 2004/05 reported as sustained through to 2007/08 have indeed been sustained. It is recommended that efficiency calculations form part of performance management processes to ensure gains are sustained.

The Audit Commission will play a similar role for Fire & Rescue authorities' AESs as with other local government authorities' AESs in the context of the Use of Resources (UoR) judgements carried out under the Code of Audit Practice (COAP). That is to review FRAs' AESs as part of the work supporting their value for money judgements and will, by exception, report on whether they consider the methods and approaches used by an FRA in calculating and assessing their AES is appropriate. Such an opinion will be included in the Annual Audit and Inspection Letter. An authority will be invited by DCLG to amend its statement where the Audit Commission highlights concerns about the processes the authority has adopted to produce its statement.

When completing a Backward Look statement, local authorities should bear in mind that these are subject to consideration by the Audit Commission's appointed auditors, who will assess the robustness of the process by which an authority identifies and calculates its efficiency gains. The Audit Commission will require an adequate audit trail with evidence to support the reported efficiency gains and show how they were calculated. In addition, DCLG reserves the right to hire advisers to conduct a further review of the statements and any supporting information to those statements.

If the Audit Commission report, as part of its work, that arrangements are not adequate, the FRA must either fix this satisfactorily or the gains will be taken out of the final figures.

What will DCLG do with the information provided?

45. DCLG will use the information to assess FRAs' progress towards achieving the target. We expect every FRA to aim to achieve efficiency gains and collectively that these will be at least equivalent to the target and milestones. We will ask questions of any FRAs failing to achieve expected levels of efficiency gains but they will not automatically be deemed to have failed to make a sufficient contribution to the target. Equally, any FRAs achieving these levels will not automatically be deemed to have made a sufficient contribution to the target if we believe that they have capacity to deliver more.

46. Individual FRAs are asked to submit their own AESs, but the target set is a national one. The achievement of the aggregate national target is what is most important. DCLG can aggregate the individual AESs that it receives to inform its judgement on whether the target has been met at the end of the SR04 period but would encourage the FRAs to work together to ensure that the target is met in aggregate

47. We will continue to extract good, notable and innovative practice where it emerges and continue to share this with CFOA, the LGA and all FRAs as an aid to every FRA identifying means to maximise its contribution towards achieving the target.

48. The AES will also provide DCLG with the information that it needs to meet its reporting requirements. DCLG needs to report in its annual performance report efficiency gains generated against its SR04 efficiency targets. The government corporately needs to be able to monitor, track and report performance against all SR04 efficiency targets each financial year and to show that quality of service has been maintained or improved. In addition DCLG needs to be able to provide various progress reports e.g. for the Budget and Pre-Budget Report and for the Office of Government Commerce's regular (half-yearly) report to the Chancellor and the Prime Minister.

The Government's powers to act

49. These are set out in the document "Reporting Efficiencies – Arrangements for English Fire and Rescue Authorities", issued under fire circular number 48-2005 to which you should refer for this information.

Contact Point

Queries about the arrangements for measuring efficiency gains should be directed to:
Talia Watson at frs-efficiency@DCLG.gsi.gov.uk or on 020 7944 4509

ANNEX A

Best Value Performance Indicators	
BVPI 142 **Fire Prevention**	ii) primary fires per 10,000 population; iii) accidental fires in dwellings per 10,000 dwellings.
BVPI 143 **Operational response**	The number of – i) deaths; ii) injuries (excluding precautionary checks), arising from accidental fires in dwellings per 100,000 population.
BVPI 144 **Operational response**	The percentage of accidental fires in dwellings confined to room of origin.
BVPI 146 **Operational response**	i) Number of calls to malicious false alarms not attended per 1,000 population; ii) Number of calls to malicious false alarms attended per 1,000 population.
BVPI 149 **Operational response**	i) False alarms caused by automatic fire detection per 1,000 non-domestic ii) Number of those properties with more than 1 attendance; iii) The % of calls which are to a property with more than 1 attendance.
BVPI 150* **Quantity measure not suitable as a service quality crosscheck for efficiency reporting	Expenditure per head of population on the provision of fire and rescue services.
BVPI 206 **Fire prevention**	i) Number of deliberate primary fires (excluding deliberate primary fires in vehicles) per 10,000 population; ii) Number of deliberate primary fires in vehicles per 10,000 population; iii) Number of deliberate secondary fires (excluding deliberate secondary fires in vehicles) per 10,000 population; iv) Number of deliberate secondary fires in vehicles per 10,000 population.
BVPI 207 **Fire prevention**	The number of fires in non-domestic premises per 1,000 non-domestic premises.
BVPI 208 **Fire prevention**	The % of people in accidental dwelling fires who escape unharmed without FRA assistance at the fire.
BVPI 209 **Fire prevention**	The % of fires attended in dwellings where: i) a smoke alarm had activated; ii) a smoke alarm was fitted but did not activate; iii) no smoke alarm was fitted.

* BVPI 150 is measuring quantity rather than quality, therefore should not be used as a quality crosscheck (see para 13).

BVPIs 143, 144, and if appropriate, **146** and **149** may be used as quality crosschecks to demonstrate that operational performance has been maintained where a Fire and Rescue Authority has made an efficiency gain in provision of operational response measures, e.g. revised shift systems/crewing arrangements (IRMP).

BVPIs 142, 206, 207, 208 and **209** may be used as a quality crosscheck to demonstrate that performance on fire safety has been maintained where a Fire and Rescue Authority has made an efficiency saving on its community fire safety work, e.g. action taken to generate efficiency within community fire safety recorded under the Other IRMP savings category.

Where the FRA has made an efficiency gain by redeploying resources from operational work to community fire safety work, **BVPIs 143,144** should be used to prove that performance has not declined as a result of the changes made.

The examples below illustrate appropriate use of BVPIs as quality crosschecks.

For example, if a risk-based assessment resulted in one station's operational hours being reduced to day crewing only from 24 hours, this might generate an efficiency gain of £300k per year in fire-fighting costs. This gain is then redeployed to support fire prevention activities.

Appropriate quality crosschecks include **BVPIs 143** and **144** because they indicate that there has been no change in the level of fire-fighting service provided as a result of the efficiency. **BVPIs 142, 206, 207, 208** and **209** are not relevant as although resource has been deployed into community safety, the quality crosscheck must show that the fire-fighting service has not declined as a result of this change.

FRA converts a uniformed post into a non-uniformed post to undertake community safety saving £15k – the difference in the uniformed post's salary and the non-uniformed post's salary.

Appropriate quality measures include **BVPIs 142, 206 207, 208** and **209**, because they indicate that there has been no change in the level of the community fire safety service provided as a result of the efficiency. BVPIs 143,144,146, and149 are not relevant as these measure the quality of operational response. The quality measure must show that the community fire safety service has not declined as a result of this change.

Quality crosschecks selected for corporate services should measure the quality of the service within which the efficieny has been generated.

Examples of alternative quality cross-checkss used by local authorities include:

Corporate Services
1. Investors in People accreditation achieved
2. No new qualifications on the financial accounts
3. No deterioration in CPA 'Use of Resources' score
4. National Health and Safety target

Corporate BVPIs cover some of the other corporate services in which efficiency actions may be taken:

Corporate Health BVPIs	
BVPI 2	i) The level of the Equality Standard for Local Government to which the authority conforms. ii) The duty to promote race equality.
BVPI 8	% of undisputed invoices which were paid in 30 days.
BVPI 11	i) The percentage of top 5% of earners that are women. ii) The percentage of top 5% of earners from black and minority ethnic communities. iii) The percentage of top 5% of earners that are disabled.
BVPI 12	i) Proportion of working days/shifts lost to sickness absence by whole time uniformed staff. ii) Proportion of working days/shifts lost to sickness absence by all staff.
BVPI 15	i) Wholetime firefighter ill-health retirements as a % of the total workforce. ii) Control and non-uniformed ill-health retirements as a % of the total workforce.
BVPI 16	The % of employees declaring that they meet the Disability Discrimination Act 1995 disability definition compared with the percentage of economically active disabled people in the authority area.
BVPI 17	% of ethnic minority uniformed staff of ethnic minority population of working age in brigade area.
BVPI 157	The number of types of interactions that are enabled for e-delivery as a % of the types of interactions that are legally permissible for e-delivery.
**BVPI 210*	The % of women fire-fighters.

* BVPI 11, 16, 17 and 210 can be used as a quality crosscheck for efficiencies declared in overall efficiency gains on recruitment and training.

For example, BVPI 210 could be used as a quality crosscheck if a FRA spends less money on a recruitment campaign for women fire-fighters because they have found an alternative and effective means of recruitment.

Procurement

When reporting procurement efficiency gains, please state on the AES which are Firebuy gains and which result from other procurement activities.

Examples of non-BVPI crosschecks used by local authorities include:

Procurement
1. Corporate procurement strategy in place and/or updated in the last year
2. Percentage of the value of contracts awarded that commence in the financial year in accordance with standing orders aligned with procurement best practice
3. Percentage of medium and high risk projects managed under a structure project management method
4. Achievement of National Health and Safety Targets

We recognise that providing BVPI quality crosschecks to evidence procurement gains can be difficult. In these instances, it is acceptable for FRAs to provide a footnote rather than a crosscheck as evidence of the gain. For example, for simple efficiency gains such as procuring stationary, it is adequate to simply state that the products were bought to the same specification but for less money. For more complex procurement gains, FRAs should explain what the situation was pre and post the efficiency action, and what the efficiency action itself is.

ANNEX B

Category against which to report efficiency gains	Examples of gains to use within category
Revised shift systems/Crewing arrangements (IRMP)	Shift patterns change Structural change Crewing arrangements Dual crewing arrangements Rank to role changes relating to revised crewing arrangements
Other IRMP gains	Effective response Immediate response management plan Mobilising risk based cover Risk management and prevention Arson reduction Community safety initiatives Inspections and enforcement AFA policy change Rank to role changes outside of specific crewing arrangements revision
Collaboration	Regional collaboration Partnerships
Reduced ill-health retirements	Ill-health retirements Medical intervention scheme
Sickness reduction	Sickness reduction Medical intervention scheme
HR Other	Vacancy management Rank to role Workshop staffing Training and development Civilianisation
Better procurement	Maintenance agreements IT and communication systems
Corporate services	Accommodation Finance and public relations Support costs
Other	Please include any efficiency gains you feel are not covered in the above headline categories and give a brief explanation in your narrative.

ANNEX C

ANNUAL EFFICIENCY STATEMENT PROCESS CHECKLIST

C.1 This self-audit checklist has been compiled by understanding good practice for assessing efficiencies and producing the backward look statements across a sample of local authorities. It is provided as an aide for FRAs to help them assess and improve their current performance, and is not an additional set of requirements to meet. It has been reviewed by local authorities, DCLG, other government departments, OGC and the Audit Commission for comment.

C.2 This checklist is intended to balance the need to identify true efficiencies with the burden of scrutiny by encouraging the implementation of processes that will help to provide more confidence in the value of gains being reported. The checklist demonstrates that the process for completing the backward look AES should fall out of existing processes rather than be a separate stream of work.

C.3 For each checklist item, there are bullets setting out the characteristics of those FRAs that are "Gershon Compliant" (i.e. have processes in place to meet their efficiency targets) and those that are going “Beyond Gershon” to embed efficiency in all its activities. Authorities should use the examples to see where they currently stand in relation to these broad categories, and where there may be opportunity for improvement in the future.

C.4 The contents of the checklist are still at a reasonably early stage and further development in the light of experience is likely. We would welcome feedback from FRAs about the checklist to assist in that improvement work.

Item	Beyond Gershon	Gershon Compliant
***Leadership* – Efficiency agenda is led by elected members and managed by the Corporate Management Team (CMT)**		
• Role and importance of efficiency agenda	• Elected members lead the agenda, which is managed robustly by CMT. CMT critically challenges service areas to ensure that resources are used effectively. Service area managers understand the agenda.	• All stakeholders understand the agenda. Finance department leads the agenda. CMT, service areas and members are aware of the agenda, but have only a limited role.
• Drivers behind finding efficiencies	• Pressure to lower costs or improve service quality is not solely driven by the Gershon agenda. • Finding efficiencies is part of wider value for money activity, e.g. a strategic priority may be to provide high quality service and keep FRAs tax low. • Internal Audit activity is directed to areas of greatest risk through a formal risk assessment of the efficiency agenda.	• Finding efficiencies is focused on meeting the FRS efficiency target.
• Strategy to find efficiencies	• Service area targets for gains are based on FRAs' strategic priorities, unit costs, assessment reports from the external assessment (i.e. CPA, Audit, etc.) to determine what level of gains are achievable on a service area by service area basis. • Requirements for when to develop a detailed business case articulated (business case includes stating risks and factoring them into the forecast of financial and qualitative benefits).	• The FRS efficiency target is applied consistently across the entire authority. • A high level business case that does not require measurable outcomes to be forecast is used on an ad hoc basis.
• The level and clarity of accountability for meeting the efficiency agenda	• Accountability for meeting the agenda clearly articulated, including responsibility for who is delivering which elements of the efficiency agenda. • CMT periodically reviews progress towards meeting efficiency target, and reports regularly to members. Elected members understand progress of high efficiency value projects; particularly those that affect service quality.	• Accountability for completing the AES sits with Finance. • The Service is aware of gains related to their projects but not necessarily assigned responsibility for delivering them. • CMT and members monitor progress of the efficiency agenda.

Item	Beyond Gershon	Gershon Compliant
***Process* – Processes for identifying and calculating gains are robust**		
• Consistency of methodology used to identify and calculate gains	• Calculations are based on a consistent methodology across FRAs. • Gains are based on existing data or assumptions.	• Numbers are reported consistently centrally but different methodologies have been used to reach the numbers in different service areas.
• Transparency of calculations	• Sources for all data and assumptions that go into the calculations are clearly defined. • Assumptions are refined as projects progress and better data becomes available. • Benchmarking is used to calculate gains. • A full audit trail is in place to back up calculations.	• Basis for calculations is reported although the source of the data/ assumptions is not recorded. • Assumptions not consistently refined. • Data is capable of being audited.
• Impact of identified gains on outcomes	• All cashable and non-cashable gains are linked clearly to outcomes. • CMT and service managers are aware of the decision they can make to turn non-cashable gains into cashable gains. • Cashable gains are linked to processes, i.e. budget or service planning process.	• Overall outcome measures are tracked but not linked to individual projects. • Non-cashable gains measure expected output (i.e. freed time), but may not be translated into better outcomes (i.e. greater productivity).
• Maintenance of service quality assured	• Selection of quality crosschecks (QCCs) has an objective basis, properly reflecting the overall performance of the sector or clearly relating to a large proportion of the gains. • The QCC input into the statements is a proper record of the performance indicators chosen. • There is a clear storyline to show service quality has been maintained.	• Quality crosscheck identified as a secondary process to enable completion of AES as is required; but are not seen as key to the internal efficiency programme. • Appropriate arrangements in place to secure adequate data quality.
• Level of understanding of DCLG guidance	• Clear understanding of guidance demonstrated by relevant stakeholders in relevant service areas. • Guidance used effectively across the organisation.	• Good understanding of guidance at corporate centre. • Awareness of guidance in service areas.

Item	Beyond Gershon	Gershon Compliant
Process* – Processes for identifying and calculating gains are robust *(continued)		
• Handling of complex issue areas including: 1) Sharing of partnership/Regional Management Board costs and gains 2) Reporting of net versus gross benefits 3) Understanding of quality cross checks 4) Understanding of distinctions around efficiencies from asset sales	• Potentially complex issues are understood at the corporate centre and are flagged up across the organisation. • Guidance properly understood and applied. For example, only net gains are reported, partnership/Regional Management Board gains are shared according to an appropriate model, land sales handled in accordance with guidance.	• Guidance understood and applied at the corporate centre. • Awareness of guidance and key principles in service areas.
• Levels of engagement with key stakeholders	• All key stakeholders believe the gains identified and plan to deliver them. • All key stakeholders have delivered all identified gains and/or have translated into outcomes.	• All stakeholders are aware of the gains that have been identified.
***Realisation* – Gains realisation established as key part of efficiency drive**		
• Consideration of the likelihood (or risk) of realising a gain	• Projects of high value and low likelihood of realisation are scrutinised more heavily. • Likelihood of delivery revised as project progresses.	• Awareness of level of risk associated with a project but this is not always factored into forecasts.
• Awareness of when gains are realised	• Gains are tied to outcomes and seen in budget or in performance quality.	• Cashable gains are tied to budget and non-cashable gains are tied to outputs.
• Sustainability of gains assured	• Processes in place to ensure that those efficiency gains from earlier years reported as ongoing through to 2007-08 have indeed been sustained. • Efficiency calculations form part of performance management processes to ensure gains are sustained.	• Ad hoc review of statement to check value of gains sustained from previous years.