FRONT LINE TO BOTTOM LINE:
EFFICIENCY SAVINGS FOR ENVIRONMENTAL SERVICES IN LONDON

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Executive Summary

This Outline Business Case (OBC) sets out a mechanism for delivery of efficiency savings for the environmental service sector within London over the next two years. This high profile sector costs London approximately £373 million[1] each year and provides important front-line services to the capital's people every day.

The requirement set out in the Gershon Review equates to two-year cumulative savings of £18.7 million in street cleansing, waste collection and waste disposal services across the city. As the designated "change agent" Defra has stated that these must be 50% cashable, but acknowledges that any cashable savings are likely to be reinvested or reallocated across the services.

The key goals of this OBC - developed on behalf of the Association of London Government (ALG) - are to:

- Identify opportunities for both cashable and non-cashable efficiency gains to meet the Gershon Review targets;
- Develop an approach that not only delivers these gains, but provides a meaningful audit trail for both Defra and the London Centre of Excellence (LCE);
- Appraise this approach against potential alternative options; and
- Demonstrate that the preferred option offers sufficient net-benefit for the LCE to consider investment in a support programme.

The basis of research for this OBC is a pilot study undertaken by SLR Consulting Limited (and Grant Thornton LLP[2]) during January 2006 which involved visits to four London Local Authorities[3] (LAs).

Following the pilot study, a series of nine common opportunities for efficiency gains - or "initiatives" - were identified as part of a seven stage delivery approach. In recognition that LAs can only implement good practice quickly if given relevant support mechanisms, dedicated project management, facilitation experts and a simple knowledge transfer system has been included as part of the programme.

As the National Audit Office (NAO) has recently reported[4], LAs are not currently measuring or recording efficiency gains in Annual Efficiency Statement (AES) reports with any accuracy or consistency. The pilot study showed that Defra's DESE[5] Toolkit is not being widely used within street cleansing, waste collection and waste disposal

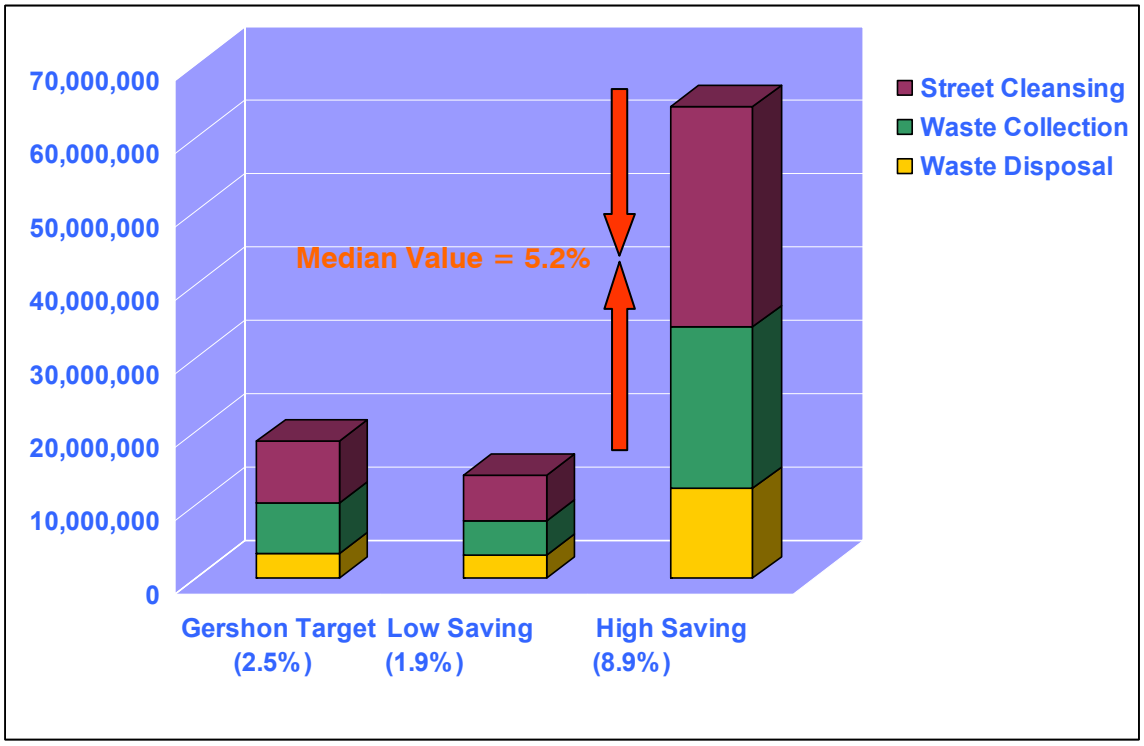
[1] This excludes spending by Joint Waste Disposal Authorities, for reasons discussed in the main report (see Section 4.1)
[2] Financial advisors for the project
[3] Boroughs of Islington, Kingston, Lambeth and Merton
[4] Progress in improving government efficiency, National Audit Office, 17th February 2006
[5] DESE = Defra Environmental Services Efficiency Toolkit

services, and thus an "integrated" efficiency measurement system has been included within the wider approach to provide a credible audit trail for efficiency gains.

This approach that has emerged from the pilot study is called the "full roll-out" approach and is considered alongside two alternatives as part of an options appraisal. The options appraisal undertaken includes a control or "do nothing" option, along with the possibility of applying the proposed measurement system in isolation - termed the "standalone measurement" approach.

Modelling of forecast savings for the "full roll-out" approach is based upon a robust analysis of potential take-up and implementation of the nine initiatives and results in two-year cumulative efficiency gains across the three services (street cleansing, waste collection and waste disposal[6]) of between £14 million (1.9%) and £64 million (8.6%), as is shown in Figure 1. The **median value from this analysis of £39 million stands 5.2% (over £20 million) above the required 2.5% Gershon target**.

Figure 1: Potential 2-year Cumulative Efficiency Gains across London



Note: This specific analysis excludes LAs which are part of Joint Waste Disposal Authorities (JWDAs)

[6] Including recycling

The level of these savings that are likely to be cashable has been modelled according to a distinct set of assumptions, resulting in mean cashable savings of 73%, although it is acknowledged that it would be likely that these would be reinvested to raise the quality of existing services.

Following review and analysis of existing AES reports submitted to ODPM by London Boroughs, the "do nothing" option is ruled out on the basis that, as a result of an opaque and complex system of accounting with no standard audit procedure, there is currently no real centralised knowledge of the delivery of efficiencies. **It appears that LA finance departments are effectively being encouraged to simply "tick the boxes" for ODPM and to shuffle savings around to satisfy the requirements of each internal department**. **From the LA's interviewed as part of this study there is clear evidence that efficiency savings are being made, although due to the lack of any clear audit trail many of these savings are unlikely to be satisfactorily captured.**

The role of Office of Government Commerce (OGC) Efficiency Team is to challenge departments on their audit trail and thus appraisal of the third option, the "standalone measurement" approach, merits consideration. Modelling of the potential efficiency gains that might be delivered as a result of this approach is based upon estimates of the savings to be delivered over the next two years by the four pilot LAs and resulted in between 0.6 and 1.1% of efficiency savings, a figure well below the 2.5% Gershon target. Although this is some way below the sums resulting from the "full roll-out" approach, investment in this approach - based upon four consultant days[7] per authority over the two-year period - amounts to £132,000.

As the key goal of this OBC[8] is to identify and demonstrate an approach that will result in London LAs meeting the annual Gershon savings requirement of 2.5%, the "full roll-out" approach should be the chosen option.

Analysis of potential net benefit in Figure 2 also shows that the "full roll-out" approach offers significant return on investment. It therefore represents a key opportunity for London to cost-effectively meet and exceed its Gershon targets for street cleansing, waste collection and waste disposal services.

[7] At an average rate of £1000
[8] As detailed in Section 2

Figure 2: Potential Net Benefit of "Full Roll-out" and "Standalone" Approaches

Approach / Option	Efficiency Gain (£000s)		Support Cost (£000s)		Net Benefit (£M)	
	Low	High	Low	High	Low	High
"Full Roll-out"	14,011	64,229	772	1,164	12.8	63.1
"Standalone Measurement"	4,477	8,207	132		4.3	8.1

The proposed "full-roll out" approach is fully flexible and a verification phase would facilitate the amendment, addition or removal of initiatives from the delivery programme. **The delivery programme will not only maximise available resources by utilising existing expertise within London[9], but it will empower LAs through skills development and provide them with a means of demonstrating and therefore gaining credit for the good practice and value for money services that many are developing.**

To coincide with the annual Spending Reviews and the end of Gershon Review timescale in June 2008, it is proposed that the delivery programme should be rolled-out from April 2006 to ensure that all baseline analysis can be completed by the beginning of the first measurement period in June.

[9] In synergy with the ALG's "Capital Ambition" programme, which enables LAs to provide each other with support and advice to improve performance and services under Comprehensive Performance Assessment (CPA)

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1. Strategic Context

1.1. The Gershon Agenda - Current Position

As part of the 2004 Spending Review (SR04), Defra agreed with the Treasury to make £610 million in efficiency gains prior to 2007/8. As the appointed **"Change Agent"**, Defra tasked Local Authorities (LAs) with delivering £299 million[10] of these savings[11] in street cleansing, waste collection and waste disposal services in England, as is outlined in Figure 3.

Figure 3: Cumulative Savings Required in Waste and Street Cleansing in England

Actual Efficiencies (2004/5) and latest Forecast Efficiencies (2005/6) onwards			
2004/5	**2005/6**	**2006/7**	**2007/8**
52	135	217	299

Source: adapted from Defra's Efficiency Technical Note (ETN)[1]

In January 2006 Defra reported that LAs had successfully delivered the £52 million savings required during 2004/5, which left a further £247 million of efficiency gains to be made by 2007/8.

There has been **no specific target determined for the savings that must be delivered by the 33 London Boroughs**, but in his 2004 Budget, the Chancellor announced general targets of 2.5% per annum over the Spending Review period. The development of this Outline Business Case (OBC) is therefore based upon an **assumption that a further 2.5% in savings** must be delivered in London over a two year period to April 2008. Based upon current BVPI and population data[12], this equates to a **two year cumulative savings requirement of £18.7 million** assuming a 2004/5 baseline of £373 million[13] total spending on street cleansing, waste collection and waste disposal services.

1.2. Cashable Vs Non-cashable Savings

Defra's Efficiency Technical Note[14] (ETN) states that at least **50% of efficiency gains must be cashable**, but not result in a fall in quality of service. The ETN acknowledges,

[10] The remaining £311M is to be made centrally, by Defra itself
[11] The terms "efficiency gains" and "savings" are used interchangeably throughout this report
[12] See Appendix B
[13] This excludes spending by Joint Waste Disposal Authorities, for reasons discussed in Section 4.1
[14] Efficiency Technical Note, Defra, November 2005

however, that **"gains will be assessed in terms of their effectiveness at restricting the size of the inevitable cost increases"** - and therefore any cashable savings achieved are likely to be reinvested or reallocated across the service.

These "inevitable" rises in cost are the result of a number of external factors, primarily, the requirement of waste disposal authorities' (WDAs) to deliver upon **Landfill Allowance Trading Scheme (LATS) targets**[15], which will require the development of new and usually very costly waste treatment infrastructure. Waste collection and street cleansing departments in London are also under pressure - from both Defra and local council members - to improve upon **Best Value Performance Indicator (BVPI)** scores for recycling (BV82a), composting (BV82b) and street cleanliness (BV199).

In its role as "Change Agent" Defra is **effectively asking councils to make savings on far larger funds** provided by central Government and over which it has no control. As a result, directly cashable savings - rather than reinvestment in the service - are very unlikely.

In an attempt to provide transparency and a clear audit trail for the Treasury, Defra has set up an **Environmental Services Efficiency (DESE) Toolkit** to enable LAs to measure both cashable and non-cashable gains and feed them into their broader Annual Efficiency Statements (AES) for submission to ODPM. As will be discussed later evidence gained as part of this study suggested this toolkit is rarely, if ever, used by LAs in London and is considered by many as not fit-for-purpose.

1.3. The Efficiency Message

Since July 2004, and the publication of the Gershon Review[16], **a raft of documentation** relating to efficiencies in street cleansing, waste collection and waste disposal services has been published. This comes not only from a host of Government departments and agencies, including Defra, The Office of Government Commerce (OGC), ODPM, Treasury and the National Audit Office (NAO), but also from organisations such as ENCAMS and the Local Government Association.

With specific regard to London and the delivery of savings in street cleansing, waste collection and waste disposal services, both the Greater London Authority and Government Office for London have recently commissioned consultancy reports assessing the viability of a single waste authority (SWA). Capital Ambition, meanwhile, is a programme which enables LAs to provide each other with support and advice to

[15] To meet the UK's responsibilities under the EU Landfill Directive
[16] Releasing Resources to the Frontline: Independent Review of Public Sector Efficiency, Sir Peter Gershon, CBE, July 2004

improve performance and services under the Comprehensive Performance Assessment (CPA) regime. Capital Standards also provides ongoing support to LAs in the form of best practice guidance for street cleansing.

There have also been a **range of toolkits and modelling packages** aimed at providing practical assistance to help deliver efficiencies within LAs. These include not only the DESE Toolkit for directly reporting efficiencies to ODPM, but also LAWRRD, Pergamentum[17] and M-BEAM. Each is available for use by LAs in England, and have been met with varying degrees of take-up and success.

The **Kelly Market Review of the waste management sector** is another Government initiative that has focused on the demand side activity of the municipal waste market, and will identify further gaps in support that Defra's Waste Implementation Programme (WIP) can take forward in provision of specific waste procurement support. It should be acknowledged, however, that this OBC has been developed without the benefit of the Kelly Team's work, which was due for publication in January 2006, but has been delayed as a result of conflicts with Defra's timetable of publication of its interim waste strategy.

The table in **Appendix F provides a review of a total of 42 documents and toolkits** with regard to their relevance to the delivery of efficiencies in environmental services in London.

[17] Only available for use by LAs in London

2. Scope and Objectives

In the context of the above discussion, the main focus of this OBC is on the **identification of opportunities for the delivery of both cashable and non-cashable efficiency gains**[18] within London LAs to meet the 2.5% annual Gershon savings requirement. Based upon experience from a pilot study undertaken in January 2006 with four London Local Authorities[19], these gains have been quantified within the Gershon timescale to 2008, whilst opportunities for longer term savings, although being highlighted, are not considered quantifiable at this stage.

To achieve efficiency gains, whether cashable or non-cashable will require support for LAs, and therefore a key objective of this project has been to **develop a methodology and defined support programme** for delivering these gains, which can be appraised against potential alternative options. In quantifying both the savings and the costs of delivering these support options, the ultimate goal of this study is to **demonstrate that there is sufficient net-benefit** for the LCE to consider investment in the chosen programme.

Following contact with two joint waste disposal authorities (JWDAs)[20] as part of this study, and previous communications with the other two, it is clear that these organisations are - to a large degree - already delivering efficiency gains across many of the proposed initiatives, especially with regard to joint contract procurement and purchasing. The financial analysis undertaken below therefore **excludes the disposal function of Boroughs which are part of JWDAs**, although it is anticipated that they would take part in any wider programme of delivering efficiency gains.

Defra states that the Waste Implementation Programme (WIP)[21] will continue to deliver major efficiency gains over the next two years. Irrespective of the validity of this claim, **doubts over whether these savings are being accurately measured** have been cast by both the Environment, Food and Rural Affairs (EFRA) Committee[22] and indirectly in a recent report published by the National Audit Office[23], which states that, across all sectors, LAs are failing to accurately measure and record efficiency gains in their AES reports. Another key objective of the support programme, therefore, is to develop an approach to measuring and recording efficiency gains that provides **a meaningful audit trail for both Defra and the LCE** so that efficiencies can be demonstrated to both the Treasury and the OGC Efficiency Team.

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[18] Although it is acknowledged that the former are likely to be reinvested back into each service
[19] See Section 3.1
[20] North London Waste Authority (NWLA) and Western Riverside Waste Authority (WRWA)
[21] Initiated in 2003
[22] "MPs raise doubts over waste services efficiency gains", Letsrecycle.com, 3rd January 2006
[23] Progress in Improving Government Efficiency, report by the Controller and Auditor General, National Audit Office, 17 February 2006

The Government are currently undertaking a review of the Mayor's powers, which includes options on waste management and planning. Depending on the outcome of this review there may be implications for environmental services. This has led to some uncertainty in the sector with regard to decision-making relating to key infrastructure development, although a decision on the current ODPM consultation is expected swiftly in Spring 2006. Consideration of partnership working forms a key element of this study, but **assessment of the merits of different options for change, including that of a Single Waste Authority (SWA) is outside the scope** of analysis.

3. Project Approach

3.1. Pilot Study and Resulting Efficiency Initiatives

As mentioned above, the basis for our findings is a **pilot study** undertaken by SLR Consulting Limited (and Grant Thornton LLP[24]) during January 2006 which involved visits to four London LAs[25] to engage with key personnel from within the Environmental Services Department; from Heads of Service to operational staff on the frontline. Case studies for each LA are provided in Appendix A.

This pilot facilitated an **iterative approach** to the identification of potential efficiency gains as initial methods could be tested on the selected LAs and refined after each visit. The overall approach was based around the use of a "Best Practice Efficiency (BPE) Framework"[26], a standardised set of questions and answers used not only to ensure that all areas of potential efficiency gains were fully explored, but developed so that the outcomes from each LA could be easily aggregated to determine **relevant roll-out "initiatives"** to deliver the gains.

Following the pilot study, a series of **common opportunities for efficiency gains** - or "initiatives" - were identified:

1. Review of Existing Operational Service
2. Pre-tender Analysis
3. Joint Contract Procurement
4. Shared Purchasing
5. Inter-departmental Working
6. Sharing of Inter-council Expert Resources
7. Sharing of "Peripheral" Services
8. Integration with the Planning Function
9. Shared Communications and Training

It should be noted that whilst **these initiatives may change subject to further discussion** with the LA's during full roll-out of the approach, we believe they represent a robust initial template upon which to develop this OBC. There may be **barriers to the successful implementation** of each of the initiatives, and it should be acknowledged that initially, it is the LAs that are already performing well which are most likely to be enthusiastic to take up the opportunity. Although potentially later, the benefits accrued by lower-performing LAs are likely to be much larger and thus a two-year programme is essential. Wherever possible, the approach described in Section 3.2 has been designed to overcome or circumvent any such barriers.

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[24] Project sub-contractor
[25] Boroughs of Islington, Kingston, Lambeth and Merton
[26] See Appendix G for a full version

3.1.1 Review of Existing Operational Service

Current Situation and Practice
In some cases, senior management within LA waste services departments are ill-informed as to what service elements are performing efficiently, and thus can have only a limited impact on performance improvement. This can be for a number of reasons including resource constraints, imposed (often historical) operational systems, or simply from a lack of objectivity of internal assessment methods.
Goals and Potential Benefits Resulting from Implementation of the Initiative
Reviewing operational service is a diagnostic exercise whereby departments are helped to undertake a rigorous assessment of current operations, with the goal of identifying areas of services that are not performing efficiently and implementing measures for improvement. The initiative would also facilitate the elimination of activities which are no longer effective in raising performance levels. An added benefit would be to work with management to enhance capability and drive capacity building from within. This is likely to result in both cashable and non-cashable savings as a result of the implementation of such activities as route optimization, real time data capture and management systems, and cross-border working, e.g. shared usage of civic amenity sites.

3.1.2 Pre-tender Analysis

Current Situation and Practice
Prior to tendering a street cleansing, waste collection or waste disposal contract LAs do not usually undertake any specific preparation. As a result, compared with external legal, technical and financial teams – for which tender preparation is an everyday task - they can often arrive at meetings ill-prepared in what they want to achieve. This is a state which may continue into the interview room with prospective contractors and can therefore have a significant direct cost in both advisory fees and potentially in terms of the agreed contract price.
Goals and Potential Benefits Resulting from Implementation of the Initiative
Focused preparation is required to ensure that LAs are sufficiently prepared and that all bases are covered prior to the tender process. Making sure they ask themselves the right questions and know the answers will save a large amount of time and effort, and in some cases, the whole tender process itself, which in some cases can become irreversibly stuck as a result of issues not being dealt with upfront. This is likely to result in non-cashable savings and was raised by two of the pilot LAs as an activity that could have saved them significant time and effort over the last year.

3.1.3 Joint Contract Procurement

Current Situation and Practice
There are currently 33 LAs in London operating 33 separate waste collection or street cleansing contracts, including 12 with Direct Service Organisations. There are also 16 separate disposal contracts, of which 12 are with individual unitary authorities. Tendering a contract usually results in significant procurement costs and thus across London, large sums are being paid for often very similar arrangements.
Goals and Potential Benefits Resulting from Implementation of the Initiative
Provided contracts can be aligned, joint LA contract procurement may generate formal agreements involving two adjoining councils or extend to up to eight authorities, as is the case with the current North London Waste Disposal Authority (NLWA). The tendering of each contract incurs its own procurement costs, which could be reduced as a result of sharing, but a joint approach would also be likely to result in economies of scale with regard to ongoing fees for the duration of the contract, which in the case of disposal can be up to 25 years. This is likely to result in cashable savings and is already being explored by two of the pilot LAs which would directly benefit from the support provided by the initiative. The other two pilot LAs are already part of joint waste disposal authorities.

3.1.4 Shared Purchasing

Current Situation and Practice
There are many items that are required by every London Borough, from bulk items such as bags and bins to expensive, capital purchases such as collection and street cleansing vehicles. Major contractors already leverage their own national presence in purchasing agreements, but there remains a significant opportunity for Direct Service Organisations (DSOs) to share purchases, which would not be constrained by geography.
Goals and Potential Benefits Resulting from Implementation of the Initiative
Agreements might use a range of mechanisms, from straightforward partnerships to "umbrella", group agreements. In the latter, one council would take the lead, paying the "going" rate per item, but then over time, others in the group would be able to buy at a "preferential" rate, with a percentage of the difference passed back to the lead council. Under both arrangements, economies of scale are likely to result in lower unit costs for LAs and therefore delivery of cashable savings. This approach might be applied not only to every day items such as bags, but also to irregularly purchased capital items such as bins and even vehicles. Kent has recently put in place a shared vehicle purchasing supplier agreement, which has been use by some London LAs, whilst Yorkshire has instigated e-auctions for bins.

3.1.5 Sharing of "Peripheral" Services

Current Situation and Practice
There are many capital items and services that are currently purchased or operated by LAs to perform tasks that are either seasonal, or very sporadic. Payback on equipment or staff training can therefore have a very extended lifetime. Neither equipment nor staff are currently being shared even across neighbouring LAs, although for smaller items and services, the potential extends across London.
Goals and Potential Benefits Resulting from Implementation of the Initiative
Setting up mechanisms to facilitate sharing of equipment will result in cashable savings being delivered as less equipment and staff are required by each LA. Agreements might be in the form of straightforward partnerships whereby equipment is purchased on a joint basis, or be a consortia approach, whereby one authority raises finance for the equipment and operating staff on the back of formal contracts to pay for the service from other LAs. The services raised by the LAs in the pilot study included gully-cleansing, weed-killing, bin-washing and winter maintenance, for which sharing would deliver cashable savings. Richmond council, for example, has expressed interest in sharing "gum-busting" equipment with other councils across London to drive efficiency savings.

3.1.6 Inter-departmental Working

Current Situation and Practice
Many other departments within LAs, housing and healthcare for example, require and use various types of street cleansing, waste collection and waste disposal services, although these are not necessarily those that are operated or procured by the environmental services department. Many of these services could be easily brought either in-house or into a central contract as usually, the locations requiring the service are on existing routes of operation.
Goals and Potential Benefits Resulting from Implementation of the Initiative
For LAs in contracts, bringing in additional services would result in economies of scale to drive lower gate fees, whilst for LAs operating DSOs, the requirement for additional services would bring in greater revenues. Both would result in cashable savings for street cleansing, waste collection and waste disposal services. Examples provided by the LAs in the pilot study include the provision of clinical waste services to local hospitals which currently use alternative contractors, and the provision of street cleansing services to the many housing associations in a particular borough.

3.1.7 Sharing of Inter-council Expert Resources

Current Situation and Practice
In the course of the development of street cleansing, waste collection and waste disposal services, officers and managers build up skills in certain areas, which are never used again, for example, moving a council from black bag to wheelie bins takes significant know-how of the relevant issues, but will only happen once within a given borough. Although best practice may be shared informally, there is currently rarely any sharing of expertise between LAs in London.
Goals and Potential Benefits Resulting from Implementation of the Initiative
There is a clear opportunity to second staff to other LAs, which would pay for the use of their skilled services, for example, an employee might be seconded on a six month contract for two days per week, which would offer cashable savings to the seconding LA. Alternatively, the approach could work on a more informal level in terms of swapping staff for certain time periods, which would deliver non-cashable efficiency gains. The boroughs in the pilot study cited expertise in contract procurement as particularly valuable, along with knowledge of waste treatment technologies. There is potential for this initiative to work in synergy with both ALG's "Capital Ambition" programme and Defra / Government Office of London's "Twinning and Mentoring" programme.

3.1.8 Integration with the Planning Function

Current Situation and Practice
In most LAs there is little integration with the planning department, and contact is only made in a reactive sense when either a collection or disposal facility is required or there is a design issue that is restricting efficient street cleansing. There can often be significant conflict between the goals of waste and street cleansing officers and those of planners themselves which require resolution.
Goals and Potential Benefits Resulting from Implementation of the Initiative
The aims of this initiative are to drive continuous dialogue between environmental services and planning departments. This would result in viable sites for key waste collection and disposal infrastructure being identified, and the goals of street cleansing teams being considered at a pre-planning stage. Such an approach would ensure that planners are engaged and take ownership of the process at an early stage so that both cashable and non-cashable savings are delivered. Three boroughs in the pilot study were particularly concerned by the impact that street furniture and paving has on the efficiency of mechanized street cleansing.

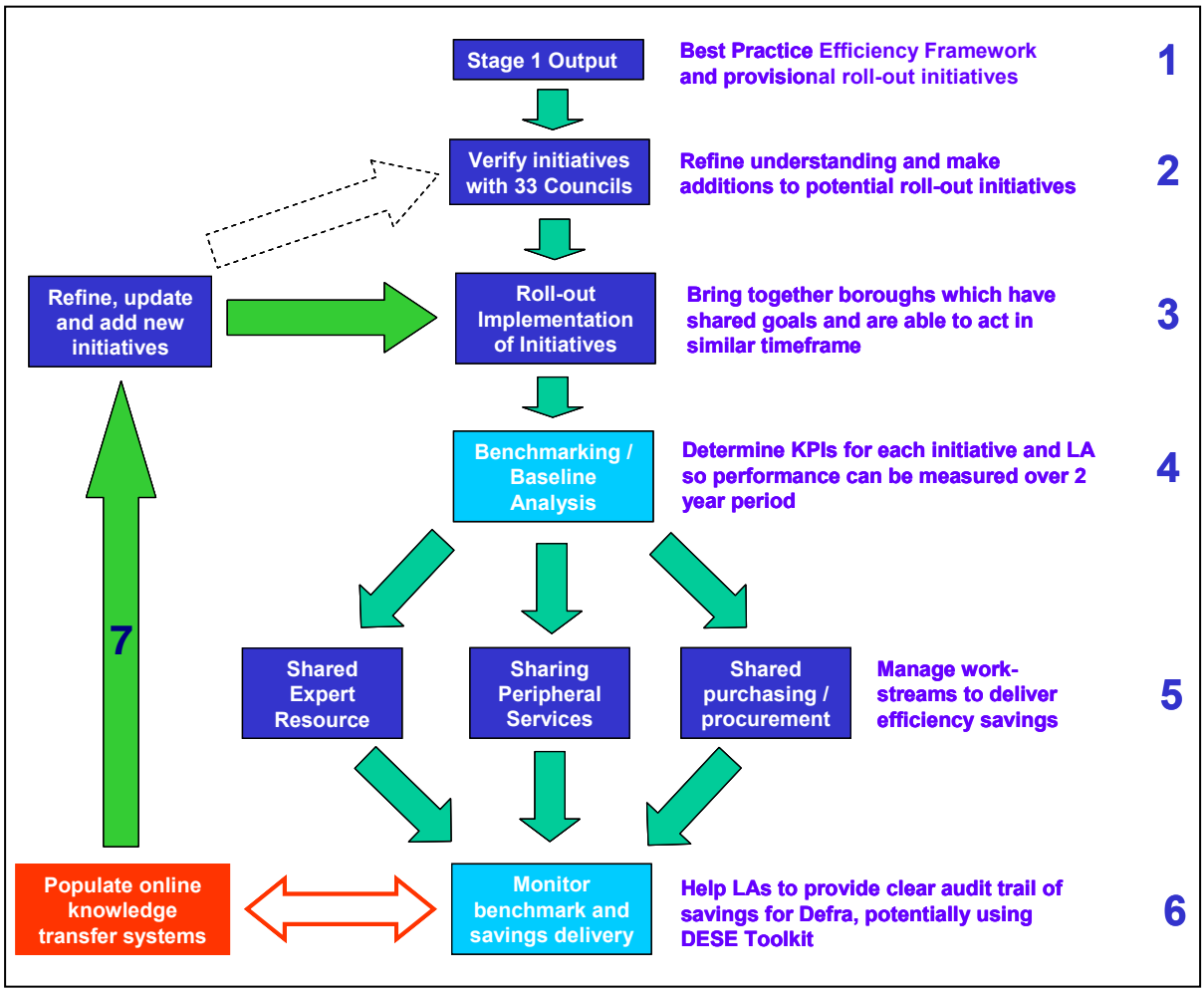
3.1.9 Shared Communications and Training

Current Situation and Practice
Most LAs operate their own publicity campaigns for recycling programmes and general waste awareness issues, although the national Letsrecycle campaign is driving limited efficiencies in some areas. This is also the case for training schemes, which are often run on an independent basis for areas such as health & safety and use of new collection round technologies.
Goals and Potential Benefits Resulting from Implementation of the Initiative
Although there are a range of differences between authorities, there are enough similarities in practice that would result in opportunities for shared communications and training. Joint approaches would result in cashable savings for both activities and current examples cited by the pilot LAs include shared door-knocking teams to communicate recycling messages and shared training in the use of GPS equipment. The Recycle for London programme – shared across the 33 boroughs is already delivering significant savings in communications. Furthermore, Capital Standard's own targeted communications campaigns for street cleansing, and their shared "Enforcement Academy" training, have reduced costs for LAs in London.

3.2. Roll-out of Efficiency Initiatives

Following agreement of funding for the roll-out programme, **a seven stage approach** is proposed to roll-out a series of initiatives to deliver efficiency savings, as detailed in Figure 4. The initiatives are developed around identification of common areas of need and would **maximise available resources by utilising existing expertise within London, whilst also empowering LA's through skills development** and sharing best practice. The approach also has the potential to drive efficiencies into the medium and longer term.

Figure 4: Overview of the proposed Roll-out Programme for London



During the brief **verification phase** (Step 2), the Best Practice Efficiency (BPE) Framework[27] (from Step 1) will be used to both establish the potential for further initiatives and to refine those which emerged from the pilot study. This verification process will also be used to **determine the LAs to which each initiatives is applicable**, as not all LAs will benefit from all initiatives.

For those initiatives which focus on **sharing or joint working**, LAs can then be brought together (Step 3) either according to geographical proximity, for example with regard to sharing infrastructure, or as a result of other synergies, such as shared contractor goals. The benefit of this approach will be to develop areas of existing need within each LA into areas where an **internal momentum** may be easier to generate.

As explored in detail in Section 3.6, **baselines and "integrated" KPIs** (Step 4) will be **established to provide of** auditable system to measure the efficiencies resulting from each initiative (Step 6). The rolled-out initiatives will be managed and facilitated - as discussed in Sections 3.3 and 3.4 - as individual workstreams to deliver efficiencies across multiple boroughs (Step 5).

The development and use of an **online knowledge transfer system** (Step 7) will provide a means of sharing information on best practice as discussed in Section 3.5. This tool will also offer LAs the chance to feedback on the delivery of initiatives so that the roll-out process can be further refined, or new initiatives developed in response to common need.

3.3. Project Management and Facilitation

Successful delivery of the project will require will involve **communication at Head of Service level**, and thus the programme requires a senior **Programme Director** who should be sufficiently experienced in the street cleansing, waste collection and waste disposal sectors in London to able to lead the development of the initiatives. Furthermore, successful roll-out will depend upon innovative approaches to partnerships and the Programme Director should thus have knowledge of any finance and contract mechanisms that would be effective.

Each initiative would also need to be driven by a **dedicated Project Manager (PM)** who might be employed on a contract basis by the LCE. Two PMs would be responsible for several initiatives across the three service areas and thus should be skilled in managing the development of simultaneous projects.

[27] See Appendix E

PMs would be responsible for bringing together LAs with shared goals and which are able to act in the same timeframe to develop joint initiatives. Historic experience of this area indicates that LA working groups often lack direction and thus a **dedicated resource is essential to keeping dialogue alive**.

3.4. "Expert" Advisors

Whilst only PMs with a high level of experience will be employed to manage project development, these individuals are unlikely to possess the **high level of legal, financial and technical skills** that will often be required to successfully advise on complex approaches to street cleansing, waste collection and waste disposal service delivery.

Where possible, this expert resource should come from within the 33 LAs themselves, which can second staff to other LAs or implementation working groups for a fixed daily rate. For example, should an officer have developed the contract specification and procurement of an innovative 'partnership' street cleansing contract, they would be able to use this knowledge to deliver a similar change at another LA. This approach would not only reduce the support costs of the proposed roll-out programme, but also both generate efficiency savings within the seconding LA and strengthen public sector knowledge and capacity going forward. It is essential for the Public Sector within London to maintain and wherever possible strengthen skills and expertise of street cleansing, waste collection and waste disposal issues.

In instances resulting in particular skills gaps or resource shortages within LAs, however, it may be necessary to employ **external consultants on an ad-hoc basis** to aid project delivery. This would be for both partnership initiatives, for example, contract procurement, and for those involving individual councils, such as the "pre-tender analysis" initiative.

The approach should involve the employment of three types of expert advice (legal, financial, technical) as part of a **London-specific implementation team**. This will ensure the most efficient use of consultant time, so that only those who are "skilled-up" - with a **detailed working knowledge of the issues pertaining to the capital** - are involved. As a result of potential capacity issues, the contracted organisations should be of sufficient size to be able to bring in the required resource within short timescales.

3.5. Knowledge Transfer

As indicated in Figure 4, drawing as much as possible out of the investment in the roll-out programme will require the introduction of a full-functioning knowledge transfer system. This would enable the ability not only to **share project outcomes and best practice**, but also for LAs to offer **continuous feedback** on the potential for new initiatives that may deliver wider benefit or for the amendment of existing initiatives as a

result of their experience of project delivery. The result will be to create a **formal and accessible knowledge transfer network**.

The approach would be likely to involve the use of the internet but would **focus on "piggy-backing" existing websites**[28] used by LAs, which would reduce both site development costs and marketing costs. The site would be designed to require minimum maintenance by a third party, but be fully interactive to facilitate LAs in uploading and downloading project documentation[29].

3.6. "Integrated" Efficiency Measurement

Arguably the most important part of rolling-out initiatives to drive efficiencies in specific service areas is the **measurement of potential savings**, as without any effective monitoring system, efficiency gains will not be recorded or will be measured inaccurately and thus be brought into question during audit. The proposed measurement system would develop clear **benchmarking and baseline analysis** with the use of key performance indicators (KPIs) specific to each LA and each initiative. The key to developing KPI's for each LA is to ensure they are designed to be **meaningful and readily quantifiable**, the mechanism for which is described later in this section.

As discussed in Section 1.3, a recent report by the National Audit Office cited accurate measurement and auditing as **the most important requirement for delivering efficiency gains** across the range of central government departments, including Defra. The DESE toolkit was developed by Defra to facilitate LAs in measuring and reporting their efficiency gains - both cashable and non-cashable - in street cleansing, waste collection and waste disposal services. **None of the four LAs which took part in the pilot study, however, are currently using DESE**, nor do they intend to in the near future as a result of it being:

- Unintuitive to complete;
- Inflexible in terms of the types of efficiency gain that can be reported;
- Unrelated to existing internal measures of efficiency.

As a result, most LAs are **unable to provide an accurate baseline using DESE**, and thus any further assessment of efficiencies using the toolkit is currently very problematic. DESE was designed so LAs could feed the results into broader **Annual Efficiency Statements (AES)** for submission to ODPM, but anecdotal evidence suggests the vast majority of LAs in London are not using the tool.

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[28] E.g. www.capitalwastefacts.com , www.londonremade.com , www.capitalstandards.com
[29] This facility would be password protected

AES were designed to avoid local authorities diverting significant resources from providing services to meeting additional reporting burdens, but although ODPM requires a council's AES to be seen and approved by senior management, entry of **data pertaining to waste - or environmental services - is either sparsely populated or non-existent**[30]. From assessment of the AES published by ODPM, the four pilot LAs did not appear to have reported any of the changes described in the interview programme and seemed to believe that AES entry was **within the remit of central finance personnel** and not frontline management staff.

Authorities have full flexibility as to how they secure their savings and are able to allocate them either across different sectors (e.g. housing, transport and environmental services) or to cross-cutting areas (e.g. corporate services, procurement, productive time and transactions). Defra therefore has no credible audit trail to demonstrate that LAs are delivering any real efficiency gains, and will soon be under pressure from the Office of Government Commerce (OGC) Efficiency Team, the role of which is to challenge departments on their progress. Reporting efficiency gains will only be fully credible if an LA can clearly demonstrate that:

- Baselines are in place that represent the situation before efficiency-related reforms began;
- Methodologies capture all elements of efficiency: inputs (including any additional costs incurred as a result of a project) and outputs (including quality of service before and after an initiative); and
- data assurance is based on clear audit trails and independent validation

The development of "integrated" efficiency measurement is therefore essential to the roll out of efficiency initiatives. The term "integrated" refers to the intended **use of existing LA measurements** that are already integrated into current systems of practice and might be **adapted into auditable KPIs** that do not place further onerous reporting requirements onto councils. These would include both financial measures, for example, cost per collection mile or cost per household[31], and quality cross-check measures, for example, hours per operative-round or missed collections per crew. **Two of the pilot study LAs** already had a range of alternative recording systems in place, which would require only marginal development to be effective as auditable mechanisms for measuring efficiency gains.

This approach to efficiency measurement is far more engaging than the current BVPI quality measurement system - which was challenged by all four pilot LAs - and will **permeate** through street cleansing, waste collection and waste disposal services departments so that:

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[30] http://www.odpm.gov.uk/index.asp?id=1134484

[31] There is no reason why financial measures cannot be based upon the current BVPIs, but given far greater clarification in terms of the costs which should be included

- LA front line teams are likely to become more motivated if they believe progress is being measured accurately;
- Senior management are able to take earlier corrective action to ensure delivery of targeted gains.

As a result, delivery of efficiency gains **becomes part of the culture of the LA**, with staff at all levels working to reduce costs and raise quality of service as a matter of course.

The DESE toolkit is currently being updated[32], and thus following the forthcoming release, there **may be an opportunity to use "integrated" efficiency measurement systems to populate DESE** before data is fed into AES reports.

3.7. Synergies with Existing Programmes

It must be acknowledged that the initiatives emerging from the pilot study - which would be refined during the roll-out programme - have overlaps with activities currently being undertaken by Defra under the **Waste Implementation Programme (WIP)**. The WIP was initiated by Defra in 2003 in response to the package of strategic measures recommended by the Strategy Unit (SU)[33]. The aim of the WIP is to help the UK to meet the targets under Article Five of the EU Landfill Directive as cost-effectively as possible.

Support under WIP is provided in the form several core work streams including the **Local Authority Support Unit (LASU),** which provides direct consultancy support that from April 2006 will be extended to include legal and financial resources in addition to technical expertise. Following criticism over potential duplication of a large range of studies across England during the first year of LASU support, Defra has stated that **applications for consultancy support received from consortia of LAs will be given priority** over those from single sources.

As per the synergy between the development of "integrated" efficiency measurement systems, discussed above, and the goals of the Defra in developing an audit trail via the DESE Toolkit, the aim of the roll-out programme proposed in this OBC, is to work in synergy with WIP to deliver the required efficiency gains within London. The focus of the roll-out initiatives is thus **not on producing guidance or toolkits, but on assisting implementation of efficiencies** - if possible using the tools developed through the WIP.

[32] Personal Communication, Defra, December 2005
[33] In the report "Waste Not Want Not", Strategy Unit, November 2002

Furthermore, the pilot LAs reported that although much **of Defra's guidance is good in theory**, they can only gain marginal benefit from standardised contract templates and financial tools, as these **usually require adaption to be fit for purpose**, which requires input from consultants. Thus, the goal of the initiatives is to only develop new tools where required, and to potentially act as a facilitation mechanism to help LAs use what has already been provided by Defra, which will **build skilled capacity within LA teams.**

As mentioned above, there are also a number of **London specific programmes** with which the initiatives are likely to deliver synergies, which include:

- "Capital Ambition" (ALG);
- "Twinning and Mentoring" (Defra / GOL);
- "Enforcement Academy" (Capital Standards).

This OBC has also benefited from **consultation with other Regional Centres of Excellence (RCEs)**[34], and it is intended that these links would be continued to share best practice across England.

Figure 5 lists the proposed roll-out initiatives described in Section 3.1 and both highlights potential overlaps with WIP and other programmes - for example, the activities of the Waste and Resources Action Programme (WRAP) - and provides an assessment of opportunities for further synergies.

[34] The East of England and South East of England RCEs, which are both leading development of efficiency savings delivery in street cleansing, waste collection and waste disposal services

Figure 5: Synergies of Initiatives with Existing Support Programmes

Potential Initiative	Overlaps with existing Support Initiatives	Opportunity for Synergies
Review of Existing Operations	WRAP "Rotate" (kerbside recycling programme)	✓
Pre-tender Analysis	WIP (LASU) provides consultancy funding on a national basis	✓
	WIP - Waste Procurement Toolkit	
	Defra Guidance on MSW Strategies	
Joint Contract Procurement	WIP - Waste Procurement Toolkit	✓
	WRAP – Model Contracts	
Shared Purchasing	WRAP – Vehicle Procurement Checklist	✓
Sharing of "Peripheral" services	WIP - Bulky Waste Collection Guide	✓
Inter-departmental Working	None specific	x
Inter-council Resource Sharing	"Twinning and Mentoring" Programme (GOL)	✓
	"Capital Ambition" Programme (ALG)	
Integration with Planning	Policy "package" to support PPS10 (prepared by Defra in cooperation with ODPM)	✓
Shared Communications and Training	National "Recycle Now" Publicity Campaign (WRAP)	✓
	WRAP – Comms Effectiveness Monitoring Tool	
	"Recycle for London" campaign	
	"Enforcement Academy" Training (Capital Standards)	
	Capital Standards' targeted communications campaigns	

3.8. Project Approach Summary

The Sections above explore the initiatives that have emerged from the pilot study and how these can be developed and ultimately implemented in a manner that focuses on existing areas of need. It is clear that to apply this approach with any degree of rigour across all London Boroughs there will be a role for both additional facilitation and for support to fill in any perceived 'gaps' in expertise. In doing so we are convinced the proposed "full roll-out" methodology avoids a one-size-fits-all approach.

The "full-roll out" approach will therefore deliver significant efficiency savings in street cleansing, waste collection and waste disposal across London LAs. Quantification of these savings, along with the net benefits provided by applying the "full roll-out" programme are summarised within the sections below.

4. Options Appraisal

To determine the viability of the **proposed "full roll-out" approach** described above, a comparison with **alternative options** is required, the first of which must be a "control" or **"do nothing" scenario**, which will be assessed with regard to the efficiencies that might be delivered by LAs independent of any support by the LCE. It has also been suggested during the development of this OBC that LAs are delivering significant efficiencies, but for whatever reason, are simply not measuring either cashable or non-cashable savings. The third option appraised as part of this study is therefore solely a **"measurement-only" approach**, as described in Section 3.6 if considered in isolation. In summary the **three options** are as follows:

- "Full Roll-out" approach;
- "Do Nothing";
- "Standalone Measurement" approach.

These are considered in detail in Sections 4.1 to 4.3, whilst Section 5 summarises the chosen approach and gives further consideration as to how this might be delivered.

4.1. Full Roll-out Approach

A key point to emphasise following the pilot study is the **extremely diverse nature of LAs** in London with regard to;

- Size (population and spatial);
- Demographics;
- Political pressures;
- Culture;
- Budget;
- Existing infrastructure.

As a result, each LA is very different in terms of the types of initiatives from which they will benefit at any given time and hence **this approach has been designed to avoid a one size fits all prescription**. The initiatives described in Section 3.1, therefore, do not apply to all 33 boroughs, rather their impact in terms of delivering efficiency gains has initially been assessed with regard to **potential take-up by LAs**.

4.1.1 Potential Take-up and Implementation by Local Authorities

During the **verification stage** of the roll-out programme[35], it may be determined that some of the initiatives that emerged from the pilot study are not applicable on a wide enough scale as to be fully rolled-out; but equally, there may be additional initiatives that emerge which are worthy of moving forward. For the purpose of analysis within this OBC, therefore, we have assumed that all nine initiatives are part of the wider roll-out programme.

Take-up and implementation of each initiative will depend upon the vast range of criteria as outlined above, and whilst the verification stage of the roll-out programme would facilitate this full assessment, at this stage, our analysis has been restricted to using data pertaining to **two equally weighted criteria**:

- **Structure** - is the LA in a contract or operating a DSO, which might negate major benefit from the initiative?
- **Timing** - is the LA at a stage during a contract which might negate major benefit from the initiative?

For each initiative, these criteria have been applied to all 33 LAs to eliminate those that would be unlikely to draw benefit. To account for the **risk** that the remaining LAs would not take up and actually go on to implement the potential efficiency savings, **a range of 30% to 70% has been applied to give an indicative figure for take-up and implementation of each initiative**.

It must be emphasised here that whilst the roll-out of initiatives will provide every chance for the delivery of efficiency savings, these **must be implemented by the LA itself**. Therefore, to ensure effective use of public funds, only those LAs which can demonstrate **buy-in from Senior Management** during the verification phase of the roll-out programme will be eligible for support.

As both contract structure and timing differ across street cleansing, waste collection and waste disposal services, separate analysis has been provided for each of the three services, as shown in Figure 6 to Figure 8. It should be noted here, as outlined in Section 2, that **the analysis undertaken below excludes the disposal function of Boroughs which are part of JWDAs**, although it is anticipated that they would take part in any wider programme of delivering efficiency gains..

[35] See Section 3.2

Figure 6: Waste Collection - Likely Take-up and Implementation

Potential Initiative	Outset	Structure	Timing	Take-up[1]
Review of existing operations	33	22	22	7 - 15
Sharing of "peripheral" services	33	22	22	7 - 15
Pre-tender analysis	33	33	18	5 - 13
Sharing of council expert resource	33	33	33	10 - 23
Shared purchasing	33	10	10	3 - 7
Joint contract procurement	33	33	18	5 - 13
Cross-departmental working	33	33	33	10 - 23
Shared training and communications	33	33	33	10 - 23
Planning integration	33	22	22	7 - 15

Notes:
1. Based upon 30-70% of those LAs not ruled out by Structure or Timing constraints

Figure 7: Street Cleansing - Likely Take-up and Implementation

Potential Initiative	Outset	Structure	Timing	Take-up[1]
Review of existing operations	33	24	24	7 - 17
Sharing of "peripheral" services	33	24	24	7 - 17
Pre-tender analysis	33	33	21	6 - 15
Sharing of council expert resource	33	33	33	10 - 23
Shared purchasing	33	14	14	4 - 10
Joint contract procurement	33	33	21	6 - 15
Cross-departmental working	33	33	33	10 - 23
Shared training and communications	33	33	33	10 - 23
Planning integration	33	24	24	7 - 17

Notes:
1. Based upon 30-70% of those LAs not ruled out by Structure or Timing constraints

Figure 8: Waste Disposal - Likely Take-up and Implementation

Potential Initiative	Outset[1]	Structure	Timing	Take-up[2]
Review of existing operations	12	6	0[3]	0
Sharing of "peripheral" services	12	6	0[4]	0
Pre-tender analysis	12	12	5	2 - 4
Sharing of council expert resource	12	12	12	4 - 8
Shared purchasing	12	0[5]	0	0
Joint contract procurement	12	12	5	2 - 4
Cross-departmental working	12	12	12	4 - 8
Shared training and communications	12	12	12	4 - 8
Planning integration	12	12	12	4 - 8

Notes:

1. This specific analysis excludes LAs which are part of JWDAs
2. Based upon 30-70% of those LAs not ruled out by Structure or Timing constraints
3. All boroughs are in contracts , the scope of which are currently changing significantly in response to LATS and thus a review of existing operations would not currently be a valid exercise
4. As per Note 1, but with specific regard to sharing peripheral services
5. Contractors are unlikely to be willing to take part in shared purchasing initiatives

Experience of the four pilot case study LAs36 indicates that there would be **few additional barriers to take-up,** but it must be acknowledged that there is likely to be an **element of "recruitment" to the roll-out process,** in that LAs would have to be convinced to take part in the initiatives. The benefits of participation - i.e. gaining credit for the gains they are already achieving and for further gains that would result from the process - is a key "hook" that would be employed. In addition to support from project managers and "expert" resources, it is anticipated that there would be at least one event to bring together both senior managers within LAs and front line delivery staff to share best practice and broaden knowledge of the programme.

As discussed in Section 3.1, it is the LAs that are already performing well which are most likely to be enthusiastic to take up the initiatives. The benefits accrued by lower-performing LAs, however, are likely to be much larger and thus the proposed two-year programme is essential. **The "full roll-out" programme, therefore, represents a clear opportunity to engage with LAs in London to deliver the Gershon Review targets**.

[36] See Appendix A

4.1.2 Forecast Savings Analysis

As mentioned above, there is a huge variance in authority type in terms of size, demographics, political pressures, culture, budget and existing infrastructure. As a result, **a "league table" or "relative scale" approach to quantification of efficiency gains is not appropriate**. Furthermore, our analysis of existing data has shown that:

- There is a lack of correlation between cost and quality of service, which can be demonstrated by modelling BVPI data (see Appendix C);
- LA cost data sets - for example, Revenue Outturn Data and AES reports - are often either unclear or inconsistent, with significant cross-subsidisation.

The potential for efficiency gains has therefore been quantified through the **development of a model** that takes the range of LAs that are likely implement each initiative, as demonstrated above, and multiplying this by an informed estimate[37] of the percentage saving (of total expenditure of the three services areas) that this is likely to achieve. Again, to provide an element of **sensitivity analysis** to the approach, a "high" and "low" percentage saving has been used for each initiative, as detailed in Appendix D. This analysis shows that although the **key areas for savings are to be found in joint contract procurement and shared purchasing**, the other seven areas also offer the potential for significant efficiency gains.

In Figure 9 to Figure 11 the potential savings for each initiative have been **aggregated for the three service areas**, which demonstrates that under a scenario of "low" take-up / implementation combined with a "low" estimate of resulting efficiency gains, the overall efficiency gains for waste collection (1.7%), street cleansing (1.9%) and disposal (2.3%) are marginally below the two-year cumulative (2.5%) Gershon target. Under the "high" scenario, however, the results far exceed the Gershon target, resulting in a 8.1% gain for waste collection, 8.9% for street cleansing and 9.1% for waste disposal. As a result, the model indicates that **the "full roll-out" approach appears to be attractive when analysed in isolation of the other two options**.

[37] Based upon outline discussions with the four pilot LAs and other anecdotal evidence

Figure 9: Potential 2-year Cumulative Efficiency Gains in Waste Collection

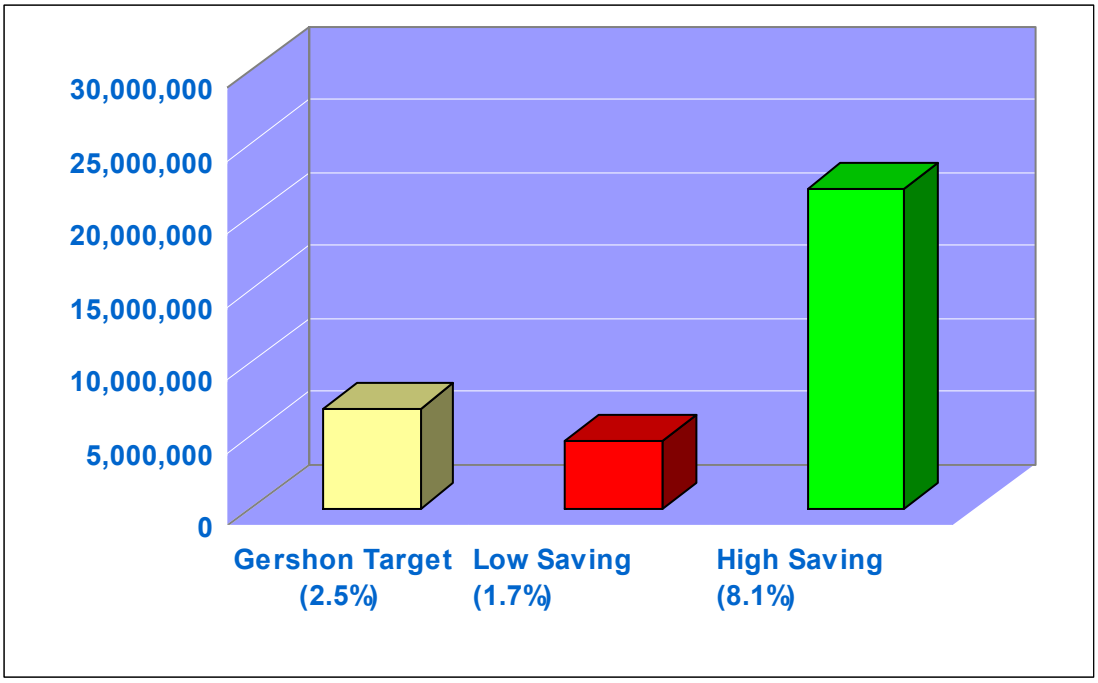


Figure 10: Potential 2-year Cumulative Efficiency Gains in Street Cleansing

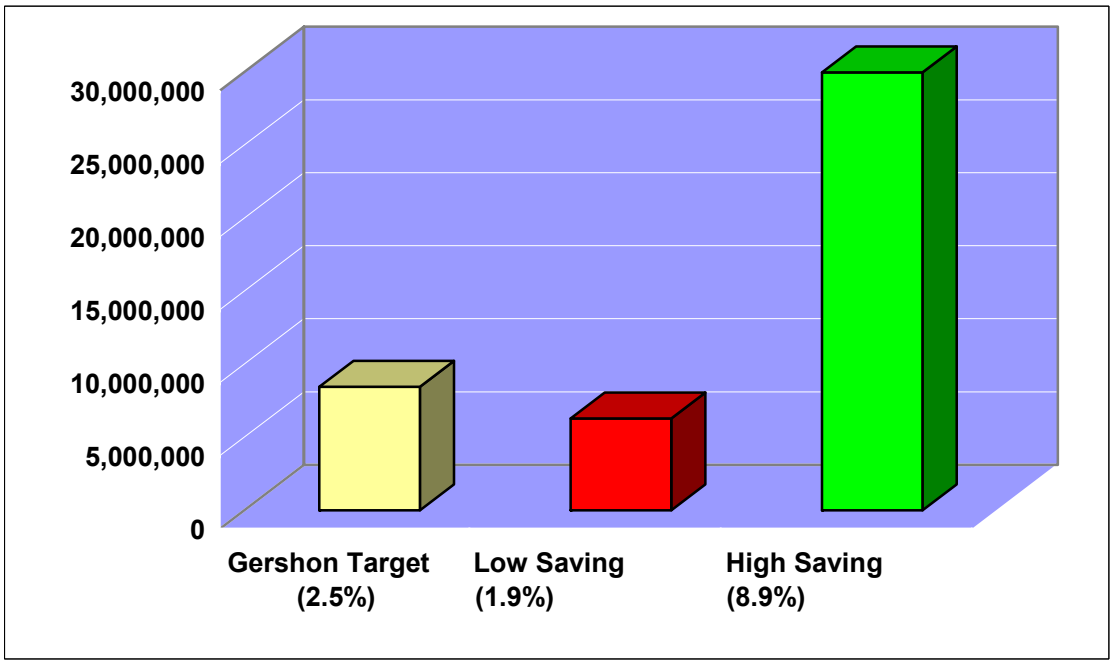
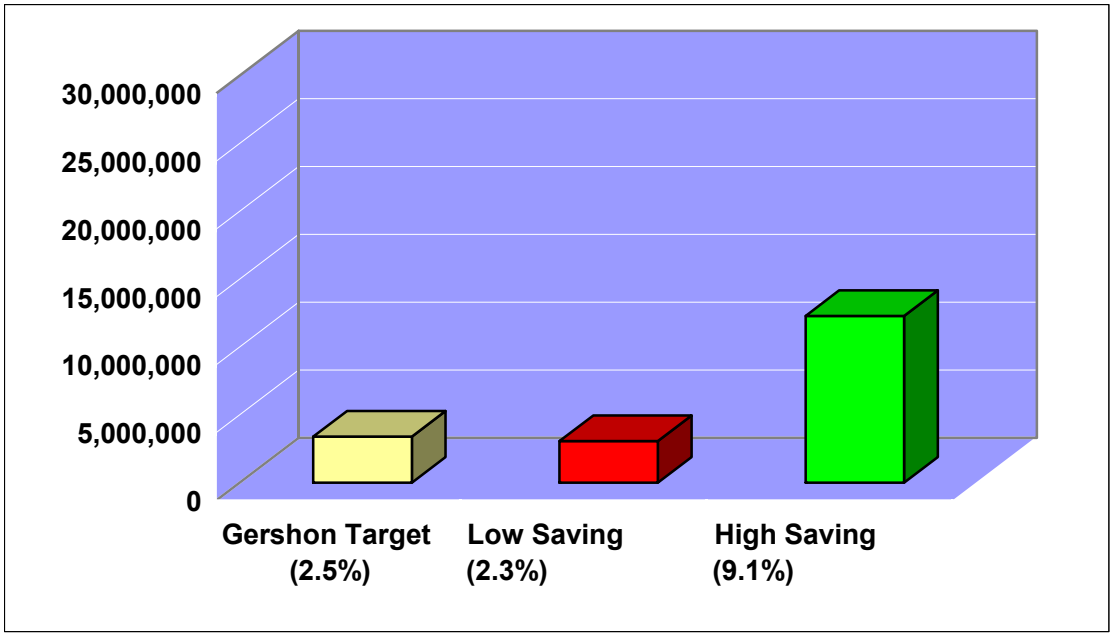


Figure 11: Potential 2-year Cumulative Efficiency Gains in Waste Disposal

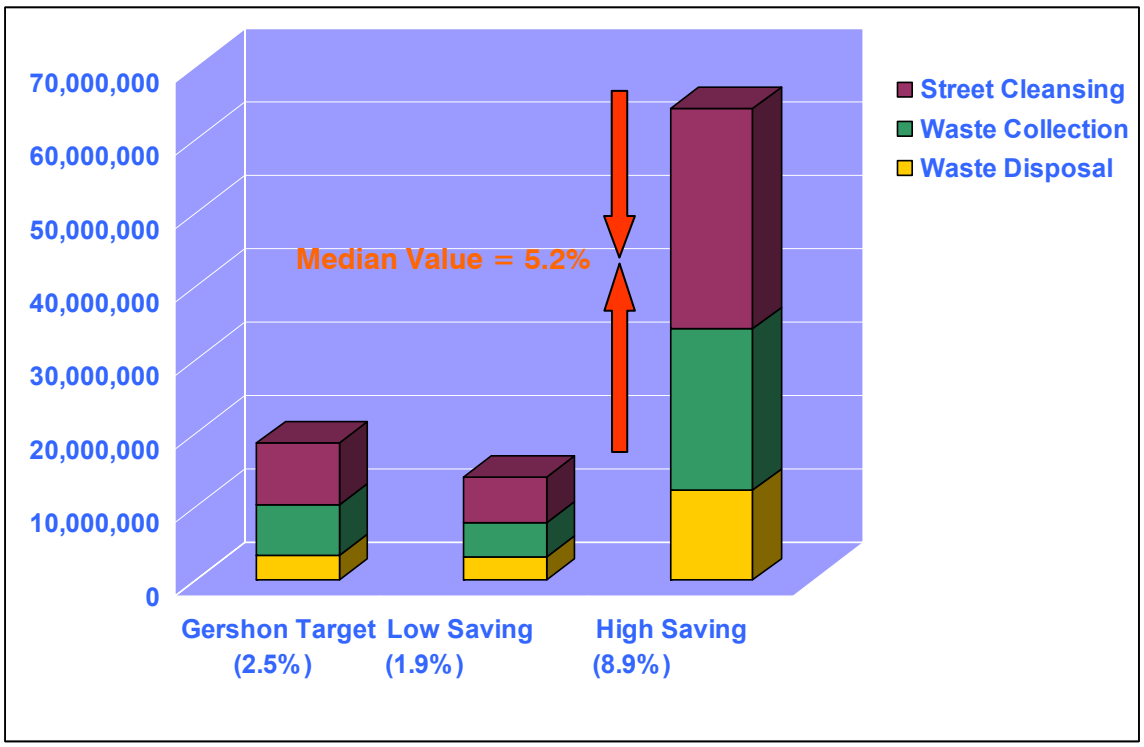


Note: Analysis of savings in waste disposal excludes LAs which are part of joint waste disposal authorities

Figure 12 below shows that based upon total two-year cumulative spending of £746 million[38] on the three service areas[39] across the 33 London Boroughs, the "low" forecast for delivery of efficiency gains is £14 million - only 0.6% below the overall Gershon target of £18.7 million. Modelling of the "high" forecast, however, results in gains of £64.2 million or 6.1% greater than the Gershon target. In reality, **we would expect the level of efficiency savings resulting from the roll-out programme to fall somewhere between the two forecasts, thus exceeding the requirements set out in the Gershon Review**.

[38] Calculated using 2004/5 baseline figures
[39] As mentioned above, the analysis in this OBC excludes the cost of disposal for Boroughs which are part of JWDAs

Figure 12: Potential 2-year Cumulative Efficiency Gains across 3 Service Areas



Note: This specific analysis excludes LAs which are part of Joint Waste Disposal Authorities (JWDAs)

For each of the three service areas, the **level of these savings that are likely to be cashable** has been modelled using the assumptions detailed in Appendix E regarding the split with non-cashable savings, resulting in far larger percentages being cashable, as is outlined in Figure 13. It should be noted, however, that **although these savings are technically "cashable", it is assumed they would be reinvested into the three services** to raise the quality of existing services to meet ever more challenging waste management requirements, as outlined in Section 1.2.

Figure 13: Split between Cashable and Non-cashable Savings

Service Area	Cashable (%)	Non-Cashable (%)
Waste Collection	76	24
Street Cleansing	75	25
Waste Disposal	65	35

4.1.3 Medium to Long-term Gains

The above graphs and tables present potential savings that will be accrued during the Gershon Review period, but in the case of several initiatives, for example, joint contract procurement, efficiency gains would extend well beyond 2008. Quantification of these

gains is outside the scope of this study, but in a recent report, the **NAO concludes that the potential for public sector reform goes well beyond** the Gershon targets set in 2004 and that more effort must now be invested in looking beyond a two or three year timescale.

The "full roll-out" approach, as detailed in Figure 4 on Page 11, therefore suggests that there be mechanisms for further development and renewal of the programme of initiatives, such that it delivery of efficiency gains becomes a **continuous cycle of improvement that progressively results in value for money in street cleansing, waste collection and waste disposal services.**

The long-term goal of this approach is to leave a **legacy of skills development** within LAs, so that the level and depth of expertise in London builds beyond the length of this two-year programme to meet the challenges of the future.

4.1.4 Forecast Roll-out Costs

A reliance on existing budgets makes it more likely local bodies will be truly committed to the efficiency projects they introduce, but it should be recognised that **LAs can often only implement good practice quickly if projects are supported by additional funding**. The cost of each initiative varies according to both the number of LAs which take up the opportunity and the amount of external resource that is required to help implement the efficiency gains.

As detailed in Sections 3.3 and 3.4, the roll-out of each initiative will require both **centralised, dedicated leadership, project management and expert facilitation resources** in the form of either technical, legal or financial consultants, or ideally - to enhance the skills capacity within LAs - internal or seconded council officers who have particular experience of a specific area.

Assuming the same level of take-up of initiatives modelled above with regard to Forecast Savings, the resulting potential range of resource requirement will be between 151 and 347 initiative "units" (i.e. LAs will take-up more than one initiative)[40] across the three service areas. To provide sufficient support for the roll-out stages detailed in Figure 4 on Page 11, we have assumed that in addition to the Programme Director, two project managers[41] would be required, along with an average of two "expert" days[42] per "unit" to both facilitate and set up relevant KPIs, as is shown in Figure 14.

[40] From a possible total of 792
[41] On an annual salary of £60K
[42] At an average rate of £1000/day

As discussed in Section 3.5, there would also be requirement for a website-based **knowledge transfer element** so that initiatives can be continually refined and best practice easily shared with other London Boroughs. To keep costs down, this development would not be a standalone entity, rather a micro-site linked to via an existing website that is already frequently used by LA street cleansing, waste collection and waste disposal managers in London. As a result, we envisage the costs incurred being **no more than £10,000 per service area over the 2-year period**.

The total cumulative 2-year costs of the roll-out programme therefore amount to between £0.77 and £1.16 million, which equates to **a potential annual support cost of £386,000 to £582,000**.

Figure 14: Potential 2-year Cumulative Costs of Initiative Support Teams

Service Area	Dedicated Resource[1] (£000s)	Expert Resource (£000s)		Knowledge Transfer (£000s)	TOTAL (£000s)	
		Low	High		Low	High
Collection	147	128	294	10	284	451
Street Cleansing	147	134	320	10	291	477
Disposal	147	40	80	10	197	237
TOTAL	440	302	694	30	772	1,164

Notes:
1. Assumes total cost of Programme Director is £100K and total cost of two project managers is £120K

4.2. Is "Doing Nothing" an Option?

As part of their AES obligations, **LAs must report to ODPM their "Forward Look" for efficiency gains** for the forthcoming financial year, along with a mid year update. For the period 2005/6, the former was submitted in June 2005, with the latter provided in December 2005. Based upon the "Forward Look" submissions from London LAs, a total of £17.1 million of efficiency gains were forecast for "environmental services" of which £14.5 million (85%) was predicted to be cashable.

Provisional Revenue Outturn Data for 2004/5 indicates that total spending on Environmental Services by London LAs is in the order of £558 million, of which spending on street cleansing, waste collection and waste disposal services accounts for around 80%[43]. Consequently, **it would appear that LAs must already be making**

[43] Based upon data included in Appendix B

significant savings in street cleansing, waste collection and waste disposal services, but on closer viewing of AES reports, its is clear that this is not the case.

A **review conducted by SLR Consulting of the AES reports from all 33 London Borough's**[44] reveals that data backing-up savings claimed in environmental services either:

- Is non-existent;
- Attributes savings to elements of the service such as biodiversity, parking or street lighting but not directly to street cleansing, waste collection and waste disposal services; or
- Is vague and generalised, with no figures attributed to individual elements of street cleansing, waste collection and waste disposal.

As street cleansing, waste collection and waste disposal services represent such a significant part of total LA budgets for environmental services, **it would therefore seem illogical that in most cases, savings in these areas are not being referenced** in AES reporting. LAs are, however, fulfilling their obligations to ODPM simply by providing AES data that shows they are making efficiency gains across the range of departments, from education and housing to highways and social services, and this is **the key to the apparent discrepancy**. In simple terms, no robust audit trail currently exists for AES reporting.

As mentioned in Section 1.2, in its role as "Change Agent" Defra is effectively asking councils to make savings on far larger funds provided by central Government. It has **no power, however, to enforce these savings** in street cleansing, waste collection and waste disposal services, and our pilot study indicates that **centralised LA finance departments are being encouraged to "tick the boxes" for ODPM and shuffle savings around** to satisfy the requirements of each internal department.

As discussed in Section 3.6, Defra's provision of the **DESE Toolkit** to help LAs accurately measure and report savings in street cleansing, waste collection and waste disposal services so they can be fed into AES reports, has been **unsuccessful**. None of the four pilot LA front line management teams are currently using the tool and further anecdotal evidence suggests, with limited exceptions, that this is the situation across all 33 LAs.

"Doing Nothing" would allow this situation to continue; an apparent delivery of significant savings in environmental services, but in reality, **a total lack of centralised knowledge of any efficiencies being delivered** in street cleansing, waste collection and waste disposal services. This OBC does not therefore give any

[44] Published by ODPM at www.odpm.gov.uk

further consideration to this as a potential option for the LCE to identify and measure efficiency savings within London.

4.3. "Standalone Measurement" Approach

The findings from the pilot study undertaken for this report indicate that LAs in London are delivering some efficiency savings, but as discussed above for the "Do Nothing" scenario, these are either not being measured or recorded accurately, or just not being measured or recorded at all. This was also highlighted in **a recent report by the NAO[45], which identified lack of credible measurement systems as the most important failure** in the delivery of Gershon efficiency gains across a number of departments including Defra.

Section 3.6 describes in detail an **"integrated" approach to measuring and quantifying efficiency gains** using bespoke KPIs developed for each LA. Considered in isolation of any roll-out of initiatives, this approach could both provide a **credible audit trail for the LCE** to demonstrate that LAs in London are delivering efficiency savings, and **help individual LAs** demonstrate - and thus gain appreciation for - the savings they are currently making, without allocating significant additional resource to any measurement and reporting exercise.

4.3.1 Forecast Savings Analysis

Quantification of the potential savings delivered as a result of rolling-out this standalone approach can be **derived from estimates of the savings to be delivered over the next two years by the four pilot LAs**, the mean value of which can be aggregated across the other London boroughs, as shown in Figure 15. This approach results in potential efficiency savings of 0.6% to 1.1% across the 33 LAs, and in reality, we would expect the real level to fall somewhere between the two forecasts, **thus falling well short of the 2.5% requirement set out in the Gershon Review.**

As discussed in Section 4.1, LAs in London are very diverse and cannot be compared on a relative scale, and thus it should be acknowledged here that Figure 15 is **not a league table by which to compare performance**.

[45] Progress in improving government efficiency, National Audit Office, 17th February 2006

Figure 15: Estimates of Cumulative 2-year Efficiency Gains by Pilot LAs under the "Standalone Measurement" Approach

Local Authority	Areas Potentially Delivering Efficiency Gains	Estimated Efficiency Gain (%)	
		Low	High
Islington	• Renegotiation of current contract so that some efficiencies are shared with the council • Inclusion of recycling into the central collection contract • Introduction of area based managers to drive local accountability	0.8	1.5
Kingston	• Utilisation of central corporate call centre • Partnership contract with Cleanaway • Joint development of a waste treatment facility with Sutton, Kingston and Croydon	0.8	1.5
Lambeth	• Successful integration of agency staff to cover busy periods • Reduction in monitoring teams through identification of internal synergies • Informal partnership with Cleanaway, to share efficiencies	0.4	0.8
Merton	• Management of collections on a 'patch' system to provide ownership and accountability • Extensive roll-out of home composting • Joint development of a waste treatment facility with Sutton, Kingston and Croydon	0.4	0.8
Mean		0.6	1.1
Gershon Target		2.5	

All of the above efficiency gains fall within the **street cleansing and waste collection service areas**, and thus based upon the split between cashable and non-cashable savings for each service area calculated for the "full roll-out" approach[46], **the level of these gains that are likely to be cashable is 75%**.

[46] See Section Figure 13 on Page 26

4.3.2 Medium to Long-term Gains

There are further, **longer term savings**, for example, Merton and Kingston are considering formal partnership with Croydon and Sutton Borough Councils to develop waste disposal infrastructure to meet LATS requirements, but this will not take place until beyond 2008. Such a move will undoubtedly raise the cost of disposal for each borough, but at the same time, economies of scale will deliver efficiency gains both in terms of the procurement process itself, and in the resulting gate fees under a PFI or PPP contract structure. As for the "full roll-out" approach, however, **quantification of these longer term gains is outside the scope of this OBC**.

4.3.3 Forecast Roll-out Costs

The support required to roll out the "standalone measurement" approach would be required at **three key stages of measurement during the two year period**:

- Project inception - define KPIs, determine baselines and set up auditable measurement and reporting mechanisms;
- One year audit and calculation of efficiency gains;
- Two year audit and calculation of efficiency gains.

The support requirement is not continuous, and thus would be **better resourced by external consultants rather than dedicated staff** employed by the LCE. If two consultant days[47] per authority are assumed for the inception stage, followed by one day per authority for each annual audit and calculation of gains, the total cost of rolling out the initiative would be £132,000[48] as shown in Figure 16.

Figure 16: Potential 2-year Cumulative Support Costs

Measurement Stage	Cost (£000s)
Project Inception	66
Year 1 Audit	33
Year 2 Audit	33
Total	**132**

[47] At a rate of £1000/day as with the full roll-out approach
[48] This assumes that all LAs accept the offer of measurement support

4.4. Net Cost-Benefit Comparison

To compare the attractiveness of both the "full roll-out" approach, and the "measurement" approach, Figure 17 considers the forecast efficiency gains alongside the associated support costs for both approaches. The **net benefit expressed is that which is additional to the "do nothing approach",** which is considered to be delivering no real benefit to Defra, the Treasury or the London LAs themselves.

As the **key goal of this OBC**[49] is to identify and demonstrate an approach that will result in London LAs meeting the annual Gershon savings requirement of 2.5%, as demonstrated in Sections 4.1 and 4.3, **the "full roll-out" approach should be the chosen option**.

Analysis of potential net benefit in Figure 2 also shows that the "full roll-out" approach offers **significant return on investment**. It therefore represents a key opportunity for London to cost-effectively meet and exceed its Gershon targets for street cleansing, waste collection and waste disposal services.

Figure 17: Potential Net Benefit of "Full Roll-out" and "Standalone" Approaches

Approach / Option	Efficiency Gain (£000s)		Support Cost (£000s)		Net Benefit (£M)	
	Low	High	Low	High	Low	High
"Full Roll-out"	14,011	64,229	772	1,164	12.8	63.1
"Standalone Measurement"	4,477	8,207	132		4.3	8.1

4.5. Outline Project Delivery Arrangements

The proposed "full-roll out" approach is **fully flexible** and the verification phase would facilitate the amendment, addition or removal of initiatives from the delivery programme. The delivery programme will not only maximise available resources by utilising existing expertise within London, but it will **empower LAs through skills development** and provide them with a means of demonstrating and therefore **gaining credit for the good practice and value for money services** that many are developing.

To coincide with the annual Spending Reviews and the end of Gershon Review timescale in June 2008, it is proposed that the delivery programme **should be rolled-out from April 2006** to ensure that all baseline analysis can be completed by the beginning of the first measurement period in June.

[49] As detailed in Section 2

5. Outline Business Case Summary

The **key goals** of this OBC were to:

- Identify opportunities for both cashable and non-cashable efficiency gains to meet the Gershon Review targets;
- Develop an approach that not only delivers these gains, but provides a meaningful audit trail for both Defra and the LCE;
- Appraise this approach against potential alternative options;
- Demonstrate that the preferred option offers sufficient net-benefit for the LCE to consider investment in a support programme.

The "full roll-out" approach that emerged from the pilot study has been considered in the **options appraisal** alongside the "do nothing" option and a "standalone measurement" approach.

Modelling of forecast savings for the **"full roll-out" approach** is based upon a robust analysis of potential take-up and implementation of the nine initiatives and results in two-year **cumulative efficiency gains across the three services of between £14 million (1.9%) and £64 million (8.6%)**, **with the median value of £39 million standing 5.2% (over £20 million) above the required 2.5% Gershon target**.

The level of these savings that are likely to be **cashable** has been modelled according to a distinct set of assumptions, resulting in mean cashable savings of **73%,** although it is acknowledged that it is likely that these would be reinvested to raise the quality of existing services.

The level of support required to deliver this savings has been modelled according to potential take-up and implementation of the nine initiatives and results in total **cumulative 2-year costs of £0.77 and £1.16 million**.

Following review and analysis of existing AES reports submitted to ODPM by London Boroughs, the **"do nothing" option** can be ruled out on the basis that, as a result of an opaque and complex system of accounting with no standard audit procedure, there is **currently no real centralised knowledge of the delivery of efficiencies**. LA finance departments are simply being encouraged to "tick the boxes" for ODPM and are shuffling savings around to satisfy the requirements of each internal department.

Modelling of the potential efficiency gains that might be delivered as a result of the **"standalone measurement" approach** are based upon estimates of the savings to be delivered over the next two years by the four pilot LAs and result in **between 0.6**

and 1.1% of efficiency savings. This is some way below the sums resulting from the "full roll-out" approach, although investment in this approach - based upon four consultant days[50] per authority over the two-year period - amounts to £132,000.

The key goal of this OBC[51] is to identify and demonstrate an approach that will result in London LAs meeting the annual Gershon savings requirement of 2.5%, and the above analysis of both "full roll-out" and "standalone measurement" shows that the "**full roll-out" approach should be the chosen option**.

[50] At an average rate of £1000
[51] As detailed in Section 2