

Briefing Paper

Efficiency in Social Housing in Scotland

May 2008

Introduction

The share of the United Kingdom budget that is allocated to the Scottish Government is determined according to a formula known as the 'Barnett Formula'. In practice this provides Scotland with a larger budget in relation to its population than England or Wales, reflecting the lower density of population and greater incidence of multiple deprivations in Scotland. However, as part of the 2007 Comprehensive Spending Review it was decided by the United Kingdom Government to increase the Scottish budget by a smaller proportion than the total United Kingdom budget.

Between 2006 and 2008 the Scottish Government has invested £3.5billion in housing. However, there has been no increase in government financial support to local authorities that retain their stock, despite the increases in total government spending brought about by the comprehensive spending reviews.

The former Scottish Government was mindful of the increased resources that it had allocated to housing. In particular:

- £1.2billion investment in affordable homes from 2006 to 2008
- £1.0billion write-off of debt in the Glasgow housing stock transfer
- Introduction of prudential borrowing and abolition of the set-aside of capital receipts allowing local authorities to fund more investment
- £1.2billion for 'Supporting People' from 2006 to 2008
- £0.3billion for the 'Community Regeneration Fund' from 2006 to 2008

In common with the UK Treasury, the former Scottish Government wished to demonstrate that value for money is being achieved through these programmes. 'Homes for Scotland's People' states that:

"It is vital that we make the best possible use of all the funding we have made available to deliver good quality, affordable housing. For example, effective and efficient housing procurement and service delivery is central to achieving our vision for everyone to have the opportunity of a home which meets the Scottish Housing Quality Standard in a sustainable community at a price they can afford."

The former Scottish Government has developed an 'Efficient Government Plan' that is being developed further by the current Scottish Government. The main areas in which they have identified specific targets for efficiency are:

- Improving the procurement efficiency of the Affordable Housing Investment Programme.
- Improving the strategic management of the investment programme
- Improvements in the management and delivery of the Supporting People programme

Local authorities are expected to carry out service reviews that are designed to identify efficiency gains.

The budget for affordable housing is reduced in 2008/09 to £373.9million compared with a budget of £387.2million in 2007/08, but the budget then increases to £446.7million in 2009/10 and £472.1million in 2010/11. Over the three years the total housing budget is increased by £131million to £1.47billion. An additional £33million has been allocated to regeneration projects. The Scottish Government consider that this represents a good allocation to housing in the light of the 'tight' settlement imposed on the Scottish Government as part of the United Kingdom 2007 Comprehensive Spending Review.

The combination of a 'tight' settlement for Scotland as part of the 2007 Comprehensive Spending Review and the wish of the new Scottish Government to find savings to resource its priorities has therefore led to an increased emphasis on efficiency.

Efficient Government Plan

Efficiency improvements in Government are made by improving the ratio of inputs to outputs. This can be achieved by delivering the same services with fewer resources or by delivering more services with the same resources.

The Scottish Government considers that by having the right staff with the right skills in the right numbers working in the right way efficiency improvements can be made. Continually seeking more efficient ways of working should be a key strand of work for all public sector organisations. This will be particularly important in the next few years.

The Efficient Government Plan was published in November 2004 and outlines the Scottish Government's strategy for improving the efficiency of the Scottish public sector. It has been regularly updated, most recently in April 2008. It contained measures to deliver at least £745million of annually recurring cash-releasing efficiency gains and at least £300million of recurring time-releasing efficiency gains by 2007/08. It also outlines five work streams where more work has been done to explore the potential for these areas to deliver efficiency gains.

Technical Notes

Efficiency Technical Notes have been published for the different initiatives delivering efficiency gains for investing in public services. These provide general information on each of the efficiency gains and explain what the efficiency improvement is, the amount of efficiency gain it is expected to deliver, the action needed in order to deliver the efficiency improvement, and how the efficiency gains will be measured, monitored and delivered.

The efficiency gains in the Communities portfolio include:

Reducing unit costs in Communities Scotland Development Programme

Programme/Activity: To fund more housing from a set level of funding by a reduction in the average grant per housing unit provided through the Affordable Housing Investment Programme.

Current target:	£m	2005-06	2006-07	2007-08
Cash		0	5.0	9.0
Time		0	0	0

The Affordable Housing Investment Programme is concerned with funding housing for rent and low cost home ownership and social and environmental improvements principally through registered social landlords and private developers. Savings were made by reducing the average amount of grant per unit towards the total new and improved unit approvals on an annual basis. The effect of this was an increase in the level of output from a set amount of funding. The 2007 Housing Green Paper increased the emphasis on making efficiency gains in this area and proposed the introduction of a competitive system as a means of reducing grant rates.

The average grant per housing unit is the input that is measured. More new or improved houses for the same level of public expenditure are the output that will be measured. The baseline for measuring inputs and outputs is 2004/05.

The calculation of efficiency gains in grant is as follows:

Average grant per unit (2004/05 as at 31st January 2005) minus Average grant per unit (per year for the period 2005/06 to 2007/08) multiplied by Number of Unit Approvals (per year for the period 2005/06 to 2007/08). This calculation is to be undertaken every year in order to calculate annual savings, and will be adjusted to current year prices.

Communities Scotland has promoted and incentivised larger scale and longer term construction contracts through collaboration among Registered Social Landlords. They have reviewed targets, streamlined practices and amended the financial appraisal assumptions published in their procedure notes.

The Scottish Government collates and monitors information on space standards as measured by total floor area, compliance with Housing for Varying Needs standards and energy efficiency for all housing projects which they grant aid to ensure that the quality of housing is maintained or improved.

The role of Communities Scotland has now been transferred to the new Scottish Housing Regulator.

This efficiency saving was assumed as part of the allocation made by the former Scottish Government to Communities Scotland. This freed up resources for Ministers to allocate to their priorities. Further efficiency gains are intended to allow the Scottish Government to fund a larger number of new homes from existing budgets.

Efficiencies in Supporting People programme

Supporting People is a coherent policy and funding framework to support vulnerable people in different types of accommodation and tenure. It came into effect on 1st April 2003 when responsibility for the planning and funding of housing support services transferred to Local Authorities. The project is helping the Scottish Government to deliver its priorities on homelessness, anti social behaviour, poverty and learning disability. However, the funding is being merged into mainline local government funding in 2009.

Efficiency		2005-06	2006-07	2007-08
Current target:	£m			
Cash		19.0	27.0	25.0
Time		0	0	0

Savings have been delivered by local authorities through local reviews of some 1,200 housing support services currently delivered by upwards of a hundred individual providers. The main actions that were needed to secure the delivery of this efficiency improvement were:

Internal

- Guidance on service reviews was agreed with external stakeholders and issued on 31st March 2005
- Effective tracking and monitoring of impact of service review process

External

- Local authority senior management with responsibility for housing support services to undertake service review.

The amount of funding allocated is the input that is measured. The number of clients assisted per year is the output that is measured. The baseline for inputs and outputs is 2004/05. Examining service quality is part of the local service review process and local authorities report on the extent to which service reviews have helped improve overall quality.

Monitoring returns were received from local authorities in October 2005, August 2006 and March 2007. The Scottish Government is monitoring the extent to which efficiencies have been delivered without impacting adversely on service capacity, and the extent to which efficiencies have been delivered through a fair and transparent process that does not impact unfairly on external providers.

Efficiency gains are dependent on local authorities to carry out the review process in an effective manner that delivers maximum efficiency improvements without cutting relevant front line services.

Because efficiencies were imposed in parallel with redistributing resources more fairly across Scotland, the impact is partially to fund service growth in other local authority areas but all councils are being asked to review the scope to minimise overheads and maximise funding for front line services.

Central Heating Programme

This is a new programme included for the first time in 2008. It principally covers four elements associated with the Central Heating Programme.

- Improving the approach to the provision of energy advice.
- Energy saving measures within contract.
- Public sector Warm Deal.
- Benefit Entitlement Check

Efficiency

Current target:	£m	2005-06	2006-07	2007-08
Cash		0	0.0	1.15
Time		0	0	0

The efficiency improvements sought include:

- Reduction in the provision of energy advice to occupants from twice to one occasion following installation of central heating system.
- New management contract to provide energy saving lamps at no additional cost and managing agent to secure provision through energy providers' Energy Efficiency Commitment programmes.
- Rearrangement of management and administration of public sector Warm Deal installations (insulation and draught-proofing), avoiding the charge of a management fee.
- Free provision of a Benefit Entitlement Check by Scottish Public Pensions Agency to 70% of applicants receiving a new heating installation, avoiding charge by managing agent previously incurred.

The main actions that are needed to secure the delivery of this efficiency improvement are:

- Adhering to provision of installations as per contract; 12,711 in 2006/07 and 11,835 in 2007/08.
- Adhering to provision of installations as per contract; 6,711 in 2006/07 and 11,835 in 2007/08.
- Local authorities and Registered Social Landlords must carry out the agreed number of 7,812 installations each year.
- Liaison with Scottish Public Pensions Agency to ensure target is achieved.

The inputs that will be measured are:

- Number of energy advice consultations.
- Level of provision of energy saving lamps.
- Number of public sector Warm Deal installations.
- Number of Benefit Entitlement Checks delivered.

The outputs that will be measured are:

- Reduced cost of providing energy advice.
- Cost saving for provision of energy saving lamps.
- Reduction in cost of management fees.
- Saving made by not having to pay for Benefit Entitlement Checks.

The baseline is 2004/05.

The quality indicators that are being used to ensure that the quality of service is maintained or improved are:

- 5% check of installations including confirmation that energy saving advice has been given.
- 5% contract compliance check of installations is carried out under the Monitoring and Inspection contract. Monthly compliance meetings take place with the Managing Agent.
- Local Authorities and Registered Social Landlords provide statistical data to confirm delivery of targets. If the target is not likely to be met, a system is in place to ensure delivery.
- A Service Level Agreement has been agreed between the Scottish Public Pensions Agency and Communities Scotland.

The arrangements for monitoring the delivery of efficiencies are:

- Confirmation by Managing Agent, along with quality check.
- Monthly reporting by Managing Agent, including statistical data on target installations achieved.
- Quarterly reporting by Local Authorities and Registered Social Landlords, including statistical data on target installations achieved.
- Quarterly reporting by and meetings with the Scottish Public Pensions Agency.

The arrangements for reporting the delivery of efficiencies are:

- Reporting arrangements as per contract with Managing Agent, and quality checks.
- Progress monitoring by Communities Scotland that will be published in the warm deal annual report and also through the Business Improvement Plan reporting arrangements.
- As (ii).
- Contract reporting arrangements and, as above.

The efficiencies released from improvement activity are being used to improve front-line services:

- All savings are reinvested in the Central Heating Programme.
- As (i).
- This has allowed the delivery of an additional 1,110 Warm Deal installations in both 2006/07 and 2007/08.
- Increase in quality of service to applicants. All savings are reinvested in the Central Heating Programme.

Other Schemes

The following schemes are now considered to be efficiency gains that will achieve gains of less than £0.5million:

- Telephony upgrades,
- IT maintenance costs,
- Closure of redundant human resources systems and termination of maintenance and support
- Review of the property portfolio
- Improving the targeting, effectiveness and efficiency of housing investment
- Reducing the regulatory burden, particularly on RSLs
- Modernising Building Standards

Workstreams

There are five specific work streams arising from the Efficient Government Plan that are considered to be important in creating a more efficient public sector. These are: managing absence; asset management; procurement; shared support services; and streamlining bureaucracy. Many of the efficiency savings identified in the Efficient Government Plan come from these types of activity and these themes are being explored in more detail in order to create a more efficient public sector.

Absence Management

The Scottish Government's Efficient Government Programme recognises that all public sector organisations need to have effective strategies for managing sickness absence. These strategies should be enforced through robust policies and procedures that address any work-related causes of ill-health and support staff experiencing illness to assist their return to work. It is important that all organisations monitor and report employee sickness absence and take action to prevent abuse. Part of this work involves the collation of published sickness absence data across the public sector.

Asset Management

Good asset management is a vital part of being an efficient and effective organisation. Good asset management should include a strategy for dealing with acquisitions, disposals, lease negotiation and asset maintenance. This should be based on business and customer service delivery needs, as the right assets in the right place can make the difference between good and poor service delivery. The Scottish Government's Efficiency programme cites the better management of assets by all parts of government as a key element in the drive for efficiency gains. There is no specific target of the level of efficiencies to be generated by improved asset management, however many individual projects contain gains derived activities to bring about the more effective and efficient use of our estate.

Asset Management Review

John Swinney, Cabinet Secretary for Finance and Sustainable Growth, has commissioned a Review of the management of central government's land and buildings. It was a 'short, sharp Review' to establish the facts and identify the anomalies, weaknesses and opportunities in the management of our own estate.

The purpose of the Review was to consider the current status and quality of the management of buildings and land, with two primary aims:

- To clarify precisely what the Scottish Government estate consists of, and who has control of and influence over estate management and accommodation decisions, estate management and financial accountability in relation to assets across the government estate.
- To recommend actions to achieve management improvements and inform future policy direction for the government estate.

The Review report was published on 28th January 2008 and can be viewed and downloaded from the Scottish Government website.

Procurement

Efficient Government recognises there are major gains to be made from promoting better procurement practice across the public sector in Scotland. In particular, the Efficient Government Plan identifies savings arising from the use of e-Procurement and public sector bodies joining together to maximise purchasing power through collaborative buying. Using e-Procurement generates immediate savings through more efficient processes; improves management information so that buying decisions are better targeted to meet cost and policy objectives; and supports coordinated purchasing between different organisations.

The Scottish Procurement Directorate is responsible for procurement policy and for promoting and advising on procurement issues. It provides the tools and support to public sector bodies to enable them to improve their procurement processes. One tool is the e-Procurement Scotland service. E-Procurement Scotland is a fully hosted and managed 24/7 e-Procurement service that supports the full purchase to pay cycle providing a range of services including e-sourcing (electronic tendering and auctions) and transactional purchase to pay solutions.

Shared Services

Shared Services is a key element of the efficiency agenda. The Scottish Government wishes to achieve good quality public services that are valued by their customers and ensure that efficiencies are applied consistently and proactively across the whole public sector, and across all corporate and common services. They expect that the majority of efficiency gains will be delivered by best business practice and business process improvement, better use of public assets, improved collaborative working and much wider application of Shared Services, ensuring that value is added in all end to end business processes. All public organisations are required to challenge themselves to collaborate, and engage in sharing services as an integral part of their on-going continuous improvement.

Organisations throughout the world constantly face operational and strategic challenges to improve customer service at lower cost and increased effectiveness. Lean theories from manufacturing state that most improvement opportunities come from eliminating non-value added activities. Shared Services enables organisations to gain economies of scales and skills. Cost reduction and high quality service delivery can be achieved from economies of scale, and access to specialised skill-sets and subject matter expertise. Public sector organisations also have the fundamental objective of delivering efficient and effective customer orientated services to citizens.

Shared Services is more than just centralisation or consolidation of similar activities in one location. It is the convergence and streamlining of similar functions within an organisation, or across organisations, to ensure that they are delivered as effectively and efficiently as possible. In a Shared Services model, these service activities will be run like a business, delivering services to internal and external customers at a cost, quality and timeliness that is competitive with alternatives.

Shared Services allows an organisation, or organisations to leverage the capabilities of resources across the entire enterprise, achieving and sustaining performance excellence. The underpinning is a concentration of common management practices in a business-oriented organisation focused entirely on delivering highest-value services at the lowest cost to customers. This stimulates greater accountability than having multiple points of responsibility and varied management practices.

The Scottish Government has published the 'Shared Services Guidance Framework' that provides information, guidance and case study examples to those considering Shared Services and to those already on the Shared Services journey. The Framework is a live document and will be revised as the development of Shared Services approach matures, building on good practice as it emerges and adding to the case studies as projects are implemented.

Streamlining Bureaucracy

Streamlining bureaucracy is intended to contribute to public sector reform by striking a new balance between the need for accountability and the need for efficiency. Accountability and scrutiny are important but do not have to be as bureaucratic as they are. A co-ordinated programme of activity is currently being developed that will achieve a measurable reduction in the bureaucratic burdens on the public sector.

Audit Scotland

Audit Scotland is a statutory, independent body that provides services to the Auditor General and the Accounts Commission. Together they help to ensure that organisations spending public money in Scotland use it properly, efficiently and effectively. Audit Scotland has welcomed the Efficient Government initiative's focus on continuous improvement and greater efficiency in the delivery of public services.

Audit Scotland published their report 'The Efficient Government Initiative - A Progress Report' on the first year of the programme on 19th December 2006. The report highlighted evidence to suggest the initiative is progressing and it is delivering efficiencies that would not otherwise have been achieved.

Government Funds for Efficiency

The £60million Efficient Government Fund was announced in June 2004 and launched in October 2004 as a challenge fund to stimulate a sustainably more efficient public sector and to demonstrate the reallocation of resources for better front line use. Its aim is to part fund multi partner projects which seek to deliver sustainable efficiency savings using a proven approach.

The Modernising Government Fund was first announced to Parliament in February 2000 as a means to support innovation in the public sector, to address policy priorities for modernisation and particularly to support and promote 'joined up' working.

The first Modernising Government Fund awards covered a range of common modernisation themes, and a £26million package was put in place to support 36 projects. The results and achievements of these projects were reported in the Modernising Government Fund Round 1 Final Report, published in 2003.

Following the success of the initial Modernising Government Fund initiative, a second round of project submissions was considered, resulting in awards for the second round of the Modernising Government Fund totalling £39.5million, a significant continuing investment in modernisation of public services.

Modernising Government Fund 3 built upon the work of Modernising Government Fund 2 and extended the consortium working across the Scottish public sector; it worked with the key service providers to develop a core infrastructure to support Scotland wide integrated public services; and worked with service providers to identify areas where national applications could usefully be developed to support local service delivery.

The Efficiency & Reform Fund aims to support the Scottish Government's programmes of Efficiency and Reform. The Fund, created on 1st April 2006, is a merger of the existing Efficient Government Fund and Modernising Government Fund and provides resources to accelerate significant strategic programmes of work to drive efficiencies, reform and productivity in the delivery of world class public services in Scotland. The Fund also continues to provide assistance to projects administered through the Efficient Government Fund competition and Modernising Government Fund programmes.

Efficiency Delivery Plans

The first edition of Efficiency Delivery Plans was published on 15th April 2008. Those for Local Authorities and Housing Associations are summarised below:

Local Authorities

Efficiency gains that are generated from areas whose funding is set out in the Concordat between the Scottish Government and local government will be reported by the Confederation of Scottish Local Authorities.

1. Portfolio/Number/Name: DG Economy / 19 / Local Government					
2. Programme/Activity: The Scottish Government's Concordat with Local Government sets out a new relationship between the Scottish Government and local government. Local government has an excellent record to date in its delivery of efficiency savings and recognises the need to continue to do so. For the period 2008-09 to 2010-11, the level of efficiency savings for local government will be 2% per annum as it is for the wider public sector. Under the concordat, local authorities will be allowed to retain all of these to redeploy against ongoing pressures and address local priorities.					
3. Efficiency	3.1 Current target; £m		2008-09	2009-10	2010-11
		Cash	174.7	349.4	524.1
	3.2 Efficiencies delivered; £m		2008-09	2009-10	2010-11
		Cash			
		Time			

7. Description of efficiency and actions to be taken	7.1 What is the efficiency improvement? How will the efficiencies be made? It will be for each local authority to decide which efficiencies will best meet its needs and how to deliver them
	7.2 What are the main actions that are needed to secure the delivery of this efficiency improvement? These will depend on the needs and circumstances of each individual authority.
9. Measurement	9.1 What are the inputs that will be measured? Under the concordat, local authorities are working towards single outcome agreements and the measurements will depend on the content of these agreements.
	9.2 What are the outputs that will be measured? These will depend on the individual single outcome agreements.
	9.3 What is the baseline for inputs and outputs? The baseline will be the 2007-08 financial and activity outturn figures.
10. Quality cross-check	10.1 What quality indicators are being used to ensure that quality of service is maintained or improved? These will depend on the individual single outcome agreements.
11. Monitoring	11.1 What are the arrangements for monitoring the delivery of efficiencies? These will be specific to individual authorities but reporting will be co-ordinated by COSLA.
12. Reporting	12.1 What are the arrangements for reporting the delivery of efficiencies? For 2005-08, COSLA developed a structure for monitoring and reporting efficiency savings made by local authorities which will form the basis for reporting for 2008-11.
13. Dependencies	13.1 Explain if your efficiencies are dependent on legislation or other structural changes being achieved. These will depend on the circumstances of a specific efficiency gain.
14. Use of efficiencies	14.1 How are the efficiencies released from improvement activity being used to improve front-line services? Local authorities have the flexibility to redeploy the resources freed through efficiency gains to the delivery of front-line services.

Housing Associations

1. Portfolio/Number/Name: DG Health / 12 / Affordable Housing Investment Programme*

2. Programme/Activity:

The Affordable Housing Investment Programme (AHIP) provides grant funding for affordable housing (both for rent and for sale), principally through registered social landlords (RSLs) and private developers. The grant provided through AHIP bridges the gap between the private borrowing secured by RSLs, developers, or home owners and the actual costs.

3. Efficiency	3.1 Current target; £m		2008-09	2009-10	2010-11
		Cash	9.5	21.0	32.5
	3.2 Efficiencies delivered; £m		2008-09	2009-10	2010-11
		Cash			
		Time			

7. Description of efficiency and actions to be taken

7.1 What is the efficiency improvement? How will the efficiencies be made?
 Savings will be made in AHIP by reducing the average amount of grant per approved unit of affordable housing. This will be achieved, in the first instance, by revising the allowances and assumptions that are used to calculate how much grant is payable to RSLs for affordable rented houses; and, thereafter, by promoting competition amongst housing providers seeking to secure grant.
 The calculation will be as follows: Average grant per unit for the year 2007/08 minus Average grant per unit (per year for the period 2008/09 to 2010/11) multiplied by the Number of Unit Approvals (per year for the period 2008/09 to 2010/11). This calculation will be undertaken every year in order to calculate annual savings.

7.2 What are the main actions that are needed to secure the delivery of this efficiency improvement?
 We are consulting on short-term adjustments to the way that we pay subsidy from AHIP. The adjustments will result in reduced subsidy levels with effect from 1 April 2008. They are the first step in delivering these efficiency improvements and will remain in force while we are developing longer-term proposals for awarding subsidy competitively. Competition for subsidy is a large project, which will be the subject of separate consultation before it is introduced some time after April 2009.

9. Measurement	9.1 What are the inputs that will be measured? The average grant provided through AHIP per approved affordable housing unit
	9.2 What are the outputs that will be measured? Number of new or improved affordable houses grant aided through AHIP
	9.3 What is the baseline for inputs and outputs? Average grant per unit for the year 2007/08.
10. Quality cross-check	10.1 What quality indicators are being used to ensure that quality of service is maintained or improved? To ensure that the quality of housing funded through AHIP is maintained or improved, information will be collated and monitored on space standards (as measured by total floor area) compliance with Housing for Varying Needs standards and energy efficiency Number of new or improved affordable houses grant aided through AHIP over the period 2008-11
11. Monitoring	11.1 What are the arrangements for monitoring the delivery of efficiencies? The data that will be used to measure progress will be sourced from files on the number of unit approvals that are made on an annual basis. Arrangements for monitoring efficiencies in the period April 2009 onwards will be developed as part of the competitive regime.
12. Reporting	12.1 What are the arrangements for reporting the delivery of efficiencies? Investment Delivery Division within Housing and Regeneration (HAR) will monitor progress towards the target on a quarterly basis and the data for each year will be published in an Annual Statistical Report.
13. Dependencies	13.1 Explain if your efficiencies are dependent on legislation or other structural changes being achieved. The proposed savings depend - in the first instance - on the registered social landlords (RSLs) that receive subsidy to develop new social housing being willing to develop with lower levels of subsidy. In the longer term, they depend on the RSL sector becoming more efficient in response to competition for subsidy.
14. Use of efficiencies	14.1 How are the efficiencies released from improvement activity being used to improve front-line services? This efficiency was assumed as part of the allocation made at the 2007 Spending Review. This freed up resources for Ministers to allocate to their priorities.

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May 2008.