

## Local Government Response on Efficiency & Collaboration

February 2010

### 1. Introduction

The purpose of this paper is to outline local government's response to the efficiency challenge set by Minister Poots to deliver in the order of £438m efficiency savings. The model proposed is in line with best practice across the wider local government sector and presents a workable and flexible solution.

It should be noted that there is significant doubt across the sector concerning the accuracy of the figures presented in the PwC report. Therefore this paper is presented for illustrative purposes as a basis to negotiate efficiency targets with each council, which are significantly in excess of option 4 and which will mirror the order of savings presented in option 5.

Furthermore while there has been significant engagement across the sector and there is broad agreement with the principles, due to time constraints the paper has not been endorsed by individual councils.

### 2. £438m Efficiency Target - what it means for councils

Local government recognises that delivering value for money to the ratepayer is one of its key objectives. While local government has already stated its concerns with the regards to the PWC financial projections, it recognises the importance of delivering the £438m efficiency target over 25 years, as identified in the PWC economic appraisal under option 5. Underlying the £438m savings are two types of ongoing annual savings – i.e. transition and transformation savings (Appendix 1).

#### (a) Transition Savings

The transition savings of £10.7m are derived mainly from reductions in the senior management teams and councillors in the new councils and apply in options 2 to 5. These are fully accepted by local government and a target will need to be given to each local authority by the DOE to achieve their element of the overall £10.7m target, based on the extent of mergers within each new cluster.

#### (b) Transformation Savings

The ongoing transformation savings under option 5 amount to some £52.9m. Local government is committed to meeting this £52.9m target through increased efficiency and collaboration. This £52.9m target was profiled by PWC based on 20% being achieved in 2012/13, a further 40% in 2013/14 and the final 40% in 2014/15. It is proposed that an annual efficiency target should be set for each council by DOE. Based on an average split across the

11 councils, indicative targets are set out in the table below. In reality, a more sophisticated approach to agreeing the exact efficiency target for each council will need to be developed.

<b>Year</b>	<b>Annual Efficiency Target per council</b>	<b>Cumulative Target per council</b>	<b>Cumulative Target per sector</b>
	£m	£m	£m
2012/13	0.96	0.96	10.58
2013/14	1.92	2.88	31.74
2014/15	1.92	4.80	52.90

### **3. Key Principles (Local Government)**

The following are the key principles for local government under which the reform programme would be delivered:

- ? Decisions about how efficiency savings should be delivered need to be made by the people who are responsible for delivering them.
- ? Each local authority will agree its annual contribution to the overall sector efficiency target with DOE.
- ? An assurance on the delivery of each council's efficiency savings against its target will be provided by the NIAO as part of the final accounts process
- ? Efficiency savings will be initially used to repay any pump-priming loan finance provided by central government unless otherwise agreed.
- ? Each local authority will then decide on how best to use the efficiency savings following repayment of central government finance.
- ? Where feasible, existing delivery mechanisms at regional and sub-regional levels should be used in order to avoid burdening the sector with additional overheads.

### **4. Key principles (Central Government)**

The following are the key principles for central government under which the reform programme would be delivered:

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- ? The reform of local government needs to be rates neutral to the ratepayer at the point of transfer and therefore central government should provide financing mechanisms to meet upfront implementation costs and any upfront costs of rates equalisation.
  - ? Where efficiency savings targets are not achieved, central government may wish to consider appropriate sanctions e.g. penalty interest payments, withdrawal of loans or the introduction of a statutory BSO.
  - ? There will be no impact on the ratepayer for the transfer of central government services to local government so needs to be fully funded at the point of transfer
  - ? Central government will implement an improvement plan to maximise collectable rate income to ensure NI collection rates compare more favourably with collection rates across the rest of the UK.
  - ? Urgent confirmation of final boundary changes so that the reform process of reducing 26 councils to 11 can be delivered by May 2011 assuming that is still a feasible target.

## **5. Delivery Framework**

Figure 1 below proposes a framework which will give the best possible chance for the savings to be delivered and at the same time provide assurance to the Minister that the savings are actually being delivered and captured.

**Figure 1: Efficiency Delivery Framework**

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## Efficiency Framework



In summary, the framework proposes that the key role for central government is to set efficiency targets and to provide pump-prime financing. Local government will take on responsibility for achieving the efficiency targets and decide on how they can best be achieved. The Minister will have audit assurance that the savings have actually been delivered and grant/ loan sanctions against individual councils can be applied if they are not delivered.

### 6. Approach to Efficiency

It is proposed that councils can secure the efficiency targets set out within this paper on three levels as illustrated below. These are:

**(a) Convergence** - in the first instance local authorities will need to concentrate on the convergence from 26 to 11 councils. The key areas for efficiencies in this process will be around reduced staff costs and asset rationalisation. The early phase of transition will also start to allow councils to build the foundations which will be required to deliver further efficiencies. It should be noted that the £52.9m transformation savings target excludes the basic savings from transition of senior management teams.

**(b) Post Convergence Efficiencies** - will be delivered through:

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- Converged local authorities transforming how they do business. This will require organisations to deliver efficiencies in areas such as:

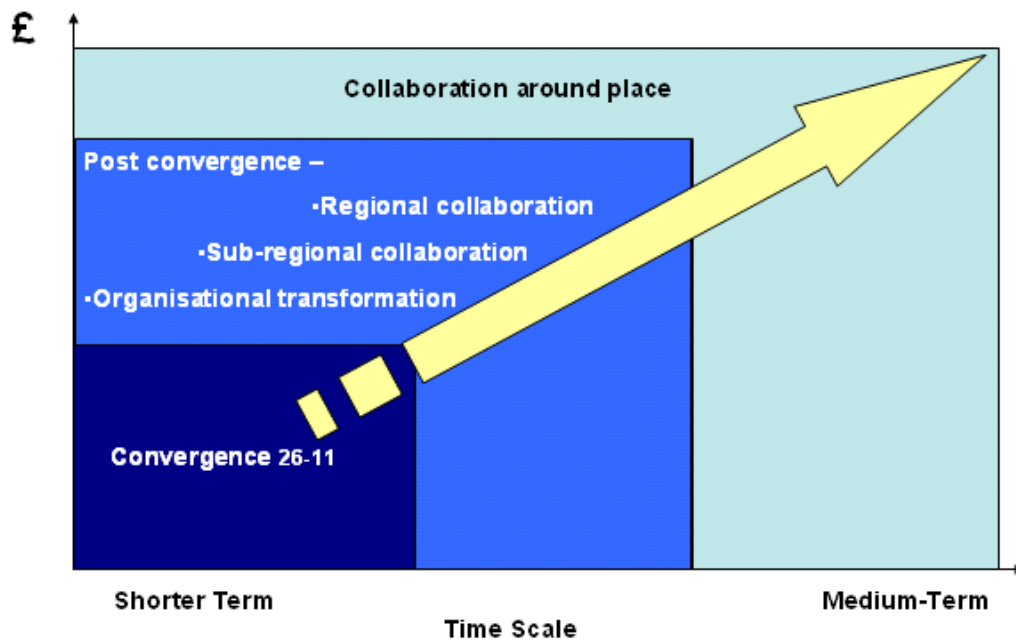
- Back office functions
- Procurement
- Asset Management
- ICT

HM Treasury has recently published their operational efficiency programme which also identifies these same areas as the strategic drivers for efficiency. The advice provided in this report will be used by local authorities in NI.

- As part of the drive to deliver on the efficiency targets, local authorities will need to collaborate at regional and sub-regional levels. This has been the experience of local authorities in the rest of the UK where the work done to meet the government efficiency targets has shown that there is a limit to which local authorities can deliver efficiencies on their own. For this reason Regional Improvement and Efficiency Partnerships have been established to identify collaborative efficiency opportunities. In NI a number of sub-regional delivery vehicles already exist. (e.g. waste disposal bodies).

- (c) **Total Place** - in the longer term, collaboration around place has the greatest potential to maximise the effective use of all public resources and assets. This area will be closely linked to community planning and consideration could be given to funding pilots to explore the potential of this form of collaboration in more detail.

## **Approach to Efficiency**



Local government recognises that progress on these three levels of efficiency can proceed in tandem or consecutively, depending on the circumstances within each council. Chief Executives are committed to assigning officers to develop workstreams for each efficiency area for Members consideration and approval. Work has already been on-going on the processes and mechanisms to support this and can be provided to the Minister once the principles of the approach are agreed.

## 7. Next Steps

Local government is keen to work with the department and the Minister to progress the implementation of the proposed efficiency framework and delivery of the efficiency savings in the context of the overall local government reform process.

## Appendix 1

### Excerpt from PWC Financial Appraisal

5.52 Table 5.19 below sets out a summary of the costs and benefits associated with each of the five options shortlisted.

Table 5.23 – Summary of Financial Analysis

<i>Annual Operating Costs (Steady State)</i>	Option 1 £'m	Option 2 £'m	Option 3 £'m	Option 4 £'m	Option 5 £'m
Local Government Costs	£623.2	£763.4	£763.4	£763.4	£763.4
Central Government Costs	£138.5	£5.1	£5.1	£5.1	£5.1
Regional organisations	£1.2	£3.5	£3.5	£3.5	£3.5
Transition Costs	-	£8.8	£8.8	£8.8	£8.8
Additional ICT Costs	-	£2.6	£2.4	£6.1	£4.0
Transition Benefits	-	(£10.7)	(£10.7)	(£10.7)	(£10.7)
Transformation Benefits	-	-	(£17.6)	(£35.1)	(£53.0)
<b>Total Annual Costs</b>	<b>£762.9</b>	<b>£772.6</b>	<b>£754.8</b>	<b>£741.0</b>	<b>£721.0</b>
<i>Implementation Costs (One-off)</i>	Option 1 £'m	Option 2 £'m	Option 3 £'m	Option 4 £'m	Option 5 £'m
Transition Costs	-	£39.0	£36.1	£36.1	£36.1
Additional ICT Costs	-	£14.3	£21.3	£42.7	£30.8
Transformation Costs	-	-	£21.1	£49.2	£59.7
<b>Total One-off Costs</b>	<b>£0</b>	<b>£53.2</b>	<b>£78.4</b>	<b>£127.9</b>	<b>£126.6</b>

Note:

- i. Differences are due to rounding;
- ii. Costs are shown as positives with benefits shown as negatives;
- iii. Figures are rounded, and there may be slight differences in column totals;
- iv. Figures are not stated in NPC terms;
- v. Implementation (one-off) costs will be incurred over period of transition and transformation within reform programme;
- vi. Additional ICT Costs relate to the costs over and above those already incurred in 'Do Nothing' steady state delivery;
- vii. On-going Additional ICT Costs exclude cost of hardware refresh (which is built into NPC model at periods of 5 or 7 years as appropriate); and
- viii. Regional bodies include NIAO, LGSC, NILGA (LGA) and NIO.