

The Transitional Costs, Benefits and Risks of Local Government Reorganisation

**Final Report
20 November 2014**



Overview

This presentation will:

- Introduce our work
- Outline our approach
- Outline our view of the change issues
- Identify the cost of changes
- Outline the savings from changes
- Review transition and risk issues
- Identify a roadmap for change
- Identify key themes
- Consider a range of “Policy Issues”

Introduction

The Background

- The Williams Report – the key recommendations
- Deloitte's work

Our Purpose

- To contribute to a realistic and evidenced based understanding of the costs and benefits of a possible re-organisation

Future Developments

- We have not been able to make assumptions about the delivery of services in the future or about the effects of national policy decisions. The White Paper, due in 2015, may have a significant bearing on any costs and savings identified in this report

Introduction

What we have done

- Obtained costing and staffing information from Welsh Councils
- Analysed material received
- Produced estimates of transition costs and ongoing savings

What we have not done

- Considered boundary changes and changes in electoral representation
- Engaged formally with any council
- Anticipated the implications of any merger with other Public Sector bodies
- Anticipated the political consequences of any changes, although we have looked at potential “policy issues”
- Considered the community perspective of a sense of 'place' or association

Our Approach to this work - 1

- Focused on figures for 2014/15 (current financial year) as there are too many “unknowns” to make forward projections reliable
- Reviewed financial and staffing data
- Focused on the opportunities for savings resulting from merged and rationalised corporate and support services (‘back offices’), ‘middle office’ services and ‘front line’ management
- Identified the reduced requirement for democratic management of the council with political representation boundaries remaining as at present
- Left ‘front line’ service delivery costs and structures untouched
- Considered that there could be significant distractions from “business as usual” in the lead up to vesting day. This could lead to decisions that are not in the best interests of the new authority or, conversely, it could lead to “planning blight” as key decisions are postponed

Our Approach to this work - 2

- Not addressed efficiency savings although politicians may be keen to demonstrate savings in the run up to elections for the new authorities
- Not addressed differences in performance and working practices
- Not addressed the impact on other public sector bodies or tiers of local government. We recognise that these will change over time and also as a result of the mergers. There will also be an impact from policy decisions that will lead to changes in service delivery models

Our Background data

- The Williams Report
- Deloitte's Report for the Welsh Local Government Association 'Research: Local Government Re-organisation in Wales': September 2013
- Financial and structural data submitted by Welsh Local Authorities
- Evidence from previous sharing of services/joining of councils in Wales and England in which CIPFA has had an involvement
- Assessment of costs and benefits of the 9 mergers proposed in the White Paper
- Use of a 'reference' group of senior officers from councils across Wales during October/November
- The experience and knowledge of officers of the Welsh Local Government Association and CIPFA

Welsh Authorities – profiled

Merger	Population	Gross Revenue Spend 2014/15	Spend Per Head 2014/15
	'000	£'000	£
Flintshire/Wrexham	287.7	617,381	2,146
Ceredigion/Pembrokeshire	197.9	459,457	2,322
Caerphilly/ Blaenau Gwent/Torfaen	339.8	847,609	2,495
Rhondda/Merthyr Tydfil	293.2	750,620	2,560
Cardiff/Vale of Glamorgan	472.1	1,105,527	2,342
Gwynedd/Anglesey	191.4	448,788	2,344
Conwy/Denbighshire	209.2	510,085	2,438
Monmouthshire/Newport	237.3	526,147	2,217
Neath Port Talbot/Bridgend	279.3	694,404	2,486
Powys	133.1	307,652	2,311
Carmarthenshire	184.0	427,340	2,323
Swansea	238.7	562,529	2,357
Total	3,063.8	7,256,849	2,369

Change Issues

We have assumed our 'new' councils will:

- Have no boundary changes
- Make no changes to political structures
- Review requirements for administrative buildings with a view to disposing of surplus accommodation or re-modelling retained accommodation. Local offices will be retained for service delivery
- Have a single management team
- Rationalise front line service management
- Create a single management for 'back office' services

We have specifically excluded changes in service delivery

Cost of the Changes

There are likely to be 4 main areas of cost:

- **People** – including the cost of redundancy
- **Property Assets** – comprised of the costs of disposal of surplus accommodation or re-modelling retained accommodation
- **Systems/ICT** – these are the costs of systems integration and moving staff onto a common platform
- **Programme Costs** – these relate to the change management project team that will be required to integrate 2 or 3 organisations

People Change Costs - 1

Evaluated:

- Post TUPE harmonisation of grading structures or salary protection including job evaluation
- Additional travel costs
- Redundancy/early retirement payments
- Recruitment costs
- Backfilling of posts for any staff seconded to transition programme – see Programme costs on later slides
- Contingencies required to cover the above where accurate estimates can not be made

People Change Costs - 2

Assumptions:

- Estimate of job evaluation costs and the harmonisation of grading structures/salary protection
- This cost is split between the cost of carrying out the exercise and the ongoing costs
- The former is estimated at £2.5m
- The latter is based on harmonisation at the average salary and protection for a period of one to three years. The cost would therefore range from £27.0m for one year to £81.0m for three years
- The actual level of harmonisation and the period of protection will be set by the Staff Commission so could be subject to major change
- Additional travel costs – range of cost from £15.5m for one year to £46.5m for three years

People Change Costs - 3

Assumptions:

- The level of compensation is likely to be determined by the Staff Commission
- Redundancy – we have assumed a de-layering of management posts and the elimination of apparently duplicated posts.
- We have worked on the basis that there will be a need for only one senior post in a merged authority. For example, one chief executive or one chief accountant
- We have also assumed that duplicated posts will also be eliminated. For example, one monitoring officer, one set of committee clerks etc.
- We have not included any posts which might be lost due to efficiencies in service provision.

People Change Costs - 4

Assumptions:

- We have used figures provided by authorities for the average length of service by department and salary band. We have also used enhanced payment multipliers where appropriate
- Recruitment costs – we have assumed no additional recruitment costs due to the fact that the number of available posts will be reduced
- Early retirement payments – see People Change Costs – 5 and 6

People Change Costs - 5

Early retirement assumptions:

- Redundancy costs estimated at £27.5m
- We have reviewed the redundancy/early retirement policies for all those authorities that supplied them
- Most authorities allow access to pension benefits for all those aged over 55 years
- Most authorities have a scheme for enhanced redundancy or compensation payments in excess of the statutory minimum redundancy payment e.g. 1.5 or 1.7 x the statutory amount
- These compensation or enhanced payments can be used by individuals to buy added years in the LGPS

People Change Costs - 6

Early retirement assumptions:

- Authorities do not grant added years in terms of pension benefits
- Enhanced payment multiplier used in calculating redundancy
- Potential cost of “pension strain” for staff over 55 years accessing retirement benefits due to lack of actuarial reduction in benefits
- Only 20.4% of local government staff are aged over 55 and the age for accessing pension benefits is set to rise to 57 in 2015
- Assumed that the cost of “pension strain” is unlikely to be significant
- Issue included in terms of reference for Staff Commission

Property Change Costs - 1

Evaluated:

- Options to reduce property portfolio
- Costs of disposal of surplus property
- Costs of remodelling retained properties
- Potential rental income
- Potential for capital receipts from property disposal

Not Evaluated:

- Contract termination/novation costs
- Branding and marketing costs

Property Change Costs - 2

Assumptions:

- Authorities generally have multiple offices, many of which are very small
- Given the relatively small number of staff being made redundant we have only identified a few offices that could be closed
- In those cases there would be costs associated with disposal or letting
- We have also assumed a small amount of expenditure to re-model retained accommodation
- Where rented properties could be re-let we have assumed that savings would be made
- The overall costs of re-letting or re-modelling have been estimated at £2.2m

Systems/ICT Change Costs - 1

Evaluated:

- Systems integration costs – external costs
- Systems costs – cost of backfilling posts for internal team
- New hardware, software; networks, cabling etc.
- New software licences
- Transfer from legacy systems
- Contingency sums to cover the above

Not Evaluated:

- Contract termination/novation costs

Systems/ICT Change Costs - 2

Assumptions:

- We requested details of the main systems used e.g. GL, CT, CRM etc. and we reviewed contract/licence termination dates
- In all cases contracts/licences are held on a rolling renewal basis or end well before 2020/21. Therefore, we have assumed no cost for contract termination
- We have also assumed a neutral position on software and hardware costs as the cost of technology changes constantly
- Most costs will be incurred on systems harmonisation and migration carried out mainly in-house with external assistance from suppliers
- For the latter we have estimated costs at £1.6m

Systems/ICT Change Costs - 3

Assumptions:

- The bulk of the cost will be incurred on backfilling posts to create an internal programme team
- Assumed that this will take 2 years using 7 staff for a 2 authority merger and 10 staff for a 3 authority merger
- Using “typical” salaries and on-costs we have estimated these costs at £7.2m giving a total cost of £8.8
- To set this in context the estimated cost of setting up a shared service centre in SE Wales was in the region of £16.0m
- Potential range of costs from £8.8m to £32.0m

Programme Change Costs - 1

Evaluated:

- Programme management costs
- Transition management
- Organisational development and business process re-engineering
- Workforce remodelling costs
- External support costs
- Contingencies

Not Evaluated:

- Prescribed legislative consultation and stakeholder engagement costs associated with establishing the new organisation
- 'Close Down' costs
- 'Shadow' authority costs including 'extra' elections

Programme Change Costs - 2

Assumptions:

- Backfilling of posts for any staff seconded to the transition/change programme – we have assumed that a Programme Team will be required for a period of 2 years. Staff would be released and their posts backfilled leading to additional staff costs.
- We have assumed that 20 staff will be required for a 2 authority merger and 30 for a 3 authority merger. Using “typical” salaries and on-costs the costs would be £16.8m
- We have also assumed that a small amount of external consultancy support would be required amounting to £2.5m

All Wales Summary of Transition Costs

COST AREA	LOWER ESTIMATE £m	UPPER ESTIMATE £m
REDUNDANCY	27.5	27.5
JOB EVALUATION PROCESS	2.5	2.5
PAY & GRADE HARMONISATION	27.0	81.0
ADDITIONAL TRAVEL	15.5	46.5
CHANGE PROGRAMME TEAMS	16.8	16.8
CHANGE MANAGEMENT CONSULTANCY SUPPORT	2.5	2.5
PROPERTY	2.2	2.2
SYSTEMS MIGRATION CONSULTANCY SUPPORT	1.6	0
SYSTEMS MIGRATION PROGRAMME TEAMS	7.2	32.0
COUNCIL TAX HARMONISATION	56.9	56.9
Total	159.7	267.9

Savings areas

In calculating savings figures we have adopted the following common assumptions:

- Single Management Team
- Creation of single corporate and support services 'back office' functions
- Staff and operational savings from merged and rationalised management of front line services such as Education, Social Services, Waste and Leisure services
- Staff and operational savings from merged and rationalised 'middle office' services such as Planning, Building Control, Environmental Health, Revenue and Benefits and Registration
- Possible savings in ICT estates
- Possible savings in administrative accommodation
- Savings in members' allowances based on SRAs and savings on election costs spread over the electoral cycle

Savings – Key Considerations

- The savings represent a snapshot in time
- It will probably take two to three years (or longer) to implement all the savings
- The opportunity to realise savings will diminish over time as authorities introduce new service delivery models
- Future forecasts on settlements mean that authorities' ability to make savings will be eroded as they respond to budget pressures
- Some authorities may be early adopters of mergers and savings may be achieved earlier. Central government may grant favourable terms to these authorities

All Wales Summary of Full Year Savings

SAVINGS AREA	TOTAL ANNUAL SAVINGS £m
BACK OFFICE/SUPPORT SERVICES	35.0
MERGED & RATIONALISED MANAGEMENT IN "MIDDLE OFFICE" & "FRONT LINE" SERVICES	27.0
MEMBERS' SRAs & ELECTIONS	2.3
ADMINISTRATIVE ACCOMMODATION	0.4
TOTAL	64.7

A Roadmap to Change?

Month/Year	Activity
Jul to Oct 2014	White Paper published for consultation
Oct 2014	Consultation on establishment of a staff commission
November 2014	Expressions of interest from authorities wishing to merge voluntarily
Jan 2015	Bill to be introduced to provide powers including those for voluntary merger
Autumn 2015	Second bill published for consultation and to be introduced in 2016
1 April 2018	Vesting Day for voluntary mergers
May 2019	Elections to shadow authorities
1 April 2020	Vesting Day for new authorities

Transition and Risk Issues 1

- Uncertainty over the enabling legislation – timing and content
- The need to respond to the Williams exhortation to reduce the number of public sector bodies
- Impacts from required Public Consultation
- Political management and impacts on politicians and the electoral cycle
- The impact of uncertainty and the process of transition on all those involved creating ‘paralysis’ in day to day activity
- The community dimension – the impacts on everyone in the existing separate communities
- Maintenance (and improvement) of service delivery in a time of change, uncertainty and declining resources

Transition and Risk Issues 2

- Issues of merging organisational cultures
- The need for timely, effective and honest communication with trades unions and staff at all levels
- Clarity and detail over the level of investment that will be required, the benefits likely to be realised and the potential payback period
- Harmonisation of working practices
- Approach to redundancy and standardised arrangements set by the Staff Commission
- Harmonising local terms and conditions and results of Job Evaluation to be incorporated

Transition and Risk Issues 3

- Alignment of statutory and local policies
- Consideration of the effects on corporate costs, e.g. accommodation, of the potential relocation of many services
- Existing partnerships with other public sector bodies will need to be examined, their future decided and all parties informed accordingly
- Issues around the location of different services
- Officers with new joint responsibilities will have to work hard to win and retain the trust of both of their clients. In effect they have to prove that an officer does not have to be on site to be working effectively for the Authority

Overall Themes

- Timing
- The purpose and shape of Local Government for the future and the impact on Local Democracy
- The remainder of the public sector
- Different approaches to delivering services at a national and regional level e.g. Education, Social Services, Community Health
- Declining Resources and the need for future savings through efficiencies
- The reaction and level of interest of the public
- Improvement of public services in a time of uncertainty
- Staff morale and retention

Policy Issues - 1

Reorganisation of local government will raise many policy issues that will need to be resolved over a period of time. The proposed mergers will need to take account of differences in the levels of service provision which is a political choice. Because these will require policy decisions we have not been able to quantify their impact in every case. We have researched published data and used that to predict transitional costs where we think they might arise. We have assumed a steady state and we do not take account of the inevitable changes that will arise during the merger process. In the following slides, we have set out some of the key questions to consider under the following headings:

- Council Tax Harmonisation
- Sixth Form Education
- Waste Recycling Arrangements
- Social Services Provision
- Housing Provision
- Planning Policies
- Differentials in Spending Priorities
- Levels of Required Improvement

Policy Issues – 2 Council Tax Harmonisation

Harmonisation of Council tax may occur under a number of scenarios i.e. they may level down to the lowest, they may equalise around the weighted average or they may level up to the highest. In terms of ensuring local financial stability the third option is the most prudent. However, even under this scenario there is a significant amount of income foregone. Our research shows the following:

- For two of the mergers rates harmonise in year 1
- For another merger it takes 6 years
- For a third merger harmonisation does not occur until after year 6
- Income foregone could be around £57m over 5 years based on holding higher rates constant while the lower rates catch up. This assumes lower rates grow at the maximum allowable of 5%
- We have received some views that Council Tax collection rates may fall in the lead up to merger. However, we can find no evidence of this in previous mergers and, in some cases, collection rates could be increased by stronger action in the new area

Policy Issues – 3 Sixth Form Education

- Merged councils will need to draw up plans for a new outline of provision, probably based on fewer, but larger sixth forms
- This will require the creation of plans and proposals that will be subject to consultation with the local communities affected.
- The Estyn Report of 2006 on collaboration between Sixth Forms and F E Colleges said that more efficiency can be gained by re-organising the learning provision in an area
- Requires rationalising sixth form and FE provision which could overcome transitional issues over the medium term
- Although there will be an immediate cost for consultation, in the medium term the transitional costs can be balanced by a proactive approach to provision

Policy Issues – 4 Education – LMS Formula

- On the basis of the research that we have carried out to date we foresee a potential major issue with the education service, that being the distribution of resources under the LMS formula
- Currently there are significant differences in spending between the merger authorities
- Under a merged authority there would be a potential need for a major redistribution of resources with money flowing from one authority to the other
- Inevitably there would be winners and losers and lower levels of funding in some areas could lead to some schools being no longer viable and consequently a need to review service delivery models and school provision
- This could be overcome by increasing total resources either through increased central funding or through savings generated elsewhere.

Policy Issues – 5 Waste Recycling Arrangements

- Public interest and hence political interest in any changes to waste collection, disposal and recycling should not be under-estimated
- However, the current arrangements across Wales at the household level are broadly similar
- The significant differences appear in the cost to councils particularly for disposal
- Mergers may also impact on arrangements for land fill tax
- This will be an issue requiring a focus on producing efficiencies and increased effectiveness assisted by the plans already in place through partnership arrangements such as the South Wales Prosiect Gwyrdd partnership and the North Wales Residual Waste Treatment Project (NWRWTP)

Policy Issues – 6 Social Services Provision

- There is a clear trend to collaborative working between councils in Wales
- This has been implemented for a variety of reasons and for the achievement of differing aims
- The agenda being set by the Social Services & Well-Being (Wales) Bill will focus attention on the provision of services in new structures that go beyond the boundaries of merged councils
- This is likely to be the driver for change rather than the merger proposals. In our view it is unlikely that there will be significant transitional costs

Policy Issues – 7 Housing Provision

- We have not anticipated additional costs for Strategic Housing Market Assessments as they should already be in place and being renewed on an appropriate timescale
- The mergers offer up opportunities for the merged councils to look afresh at their housing provision particularly where there is a social housing provider in a merged council area
- This is not a transitional issue as much as one for the medium term when synergies and efficiencies can be explored
- The main potential transitional cost is the need to consult local people on a new joint housing allocation system

Policy Issues – 8 Planning Policies

- Given that half of the authorities have already adopted a LDP and that the remainder will have done so by the time of the proposed mergers the issue seems to be one of revisiting and updating existing plans
- This will require consultation with local communities that will be carried out, in the main, by in-house planning officers
- It is likely that any transitional costs will be relatively small

Policy Issues – 9 Differentials in Spending Priorities

- The mergers offer up opportunities for the merged councils to look afresh at their service provision in terms of expenditure per head and methods of delivery
- It is likely that the Welsh Government will require this to be done within the overall envelope of the resources available
- However, there are some areas where, in the short term, the differential in spend is so significant that reaching an accommodation within the council might require some assistance such as a relaxation of ring fencing requirements
- The process of harmonising expenditure levels across a merged authority could lead to a significant redistribution of resources (see schools example above)
- Some examples of the range in spend per head are set out in the following table

Policy Issues – 10 Differentials in Spending Priorities

SERVICE AREA	HIGHEST SPEND PER HEAD 2014/15 £	LOWEST SPEND PER HEAD 2015/15 £	DIFFERENCE £
EDUCATION	981.56	742.50	239.06
SOCIAL SERVICES	689.30	428.32	260.98
HOUSING	503.50	259.34	244.16
LOCAL ENVIRONMENTAL SERVICES	178.29	89.94	81.82
ROADS & TRANSPORT	144.14	67.92	71.00
LIBRARIES, CULTURE ETC.	104.25	57.83	46.42
PLANNING & ECONOMIC DEVELOPMENT	76.07	7.97	68.10

Policy Issues – 11 Levels of Required Improvement

Reference to the reports of external auditors suggests that there are differences in the level of performance between authorities:

- There is a mismatch in the approach to improvement in three pairs of authorities involved in the mergers
- In another pair there appears to be a number of issues that may be resolved in 2014/15
- The Auditors' assessment suggests that there are also some significant issues in one of the other merger areas

There would need to be a detailed evaluation to establish whether these issues could be overcome by the merged councils. Arrangements for the governance and management of authorities would need to be reviewed and changed where appropriate

Policy Issues – 12 Conclusion - 1

We have identified a number of areas where the harmonisation of service provision will necessarily lead to local debate and decision. Until these decisions have been taken and the precise changes agreed it is not possible to assess the financial implications for transitional costs with any degree of precision at this time. This is due to a range of factors including:

- The political dimension caused by future elections which may change the composition of councils and may lead to changes in the direction of service delivery
- The growing agenda for cross public sector working, for example, between social services and the health sector

Policy Issues – 12 Conclusion - 2

- The change in the public's demand for services over the period between now and the creation of the merged authorities
- The style and organisation of the merged councils which will probably be very different in role and appearance from the current organisations

Our overall view is that councils will respond to the growing pressure on spending and will change service levels and models of delivery accordingly. It is therefore extremely difficult to separate out those costs caused specifically by mergers from those occasioned by the response to the wider economic and political issues over the next six years.