



Local Government Association

**Whole Place Community Budgets: A Review of the
Potential for Aggregation**

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Ernst & Young LLP

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1. Executive summary

1.1 Headline findings

Community budgets have the potential to deliver better outcomes and to realise substantial financial benefits. As such they represent the most significant opportunity to achieve wide scale Public Service Reform. The pilot sites have made the case for change through their proposals. They have also consistently pointed out that to deliver change on the scale they envisage there has to be change not only at a local level but also in Whitehall. The pilot areas have therefore clearly articulated a number of pre-conditions that if delivered will set the building blocks for the successful delivery of community budgets. Ernst & Young's work on aggregation has demonstrated there is the potential to scale up the results of the whole place pilots, and there is a significant opportunity for net financial benefit for the taxpayer. The benefits are spread across the public sector. However it is estimated that local authorities would achieve a fifth of the total net benefits through implementation of community budgets across all thematic areas.

The potential 5 year net benefit¹ of community budgets is £9.4bn-£20.6bn. The net 1 year annual benefit is £4.2bn-£7.9bn of a 1 year annual addressable spend of £107.1bn.

Theme	Net Annual Benefit (£bn)	Annual Addressable Spend 2011-12 ² (£bn)	Addressable Spend (%)	5 Year Net Benefit (£bn)
Health and Social Care	2.8-5.0	56.7	5%-9%	5.8-12.0
Families with Complex Needs	0.4-1.2	9.0	4%-13%	0.5-2.7
Work and Skills	1.0-1.7	41.4	2%-4%	3.1-5.9
Total (rounded)	4.2-7.9	107.1	4%-8%	9.4-20.6

This is highly sensitive to the assumptions made about the ability of other places to apply the approaches taken by the pilots. It should also be noted that net financial benefits do not necessarily translate into budget savings and there is a lot of work to do before this potential can be realised on a national scale.

The assumed benefit realisation profile for each of the themes has been derived from the aggregated pilots' business cases. The benefits profile, scale of the proposed initiatives and the quantum of benefits are very different for each theme and in some cases indicate that it will take longer than 5 years to realise the full benefit of the scheme.

The potential departmental allocations assumed within the model for aggregation will again differ significantly by theme. The assumed benefit has been set out across partners based on data provided by the pilot sites. It also shows the proportion of the benefits in relation to the departmental Total Managed Expenditure (TME), Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) where this split is applicable or appropriate within the theme.

It will not be easy to realise savings to the extent and scale that has been demonstrated through the results of aggregation. Not all places will be capable of achieving and delivering savings by releasing money out of the system through community budgets. Later in the report we have set out local factors and national pre-conditions that will be required to implement the principles of community budgets. Some localities will be unable to deliver against the

¹ The net financial benefit includes ongoing and one off investment costs.

² The scope of the review was to conduct an aggregation exercise built up from basic details and not to identify the top-down addressable spend. The purpose for the inclusion of annual addressable spend is to illustrate the potential for aggregation as a proportion.

outcomes and any new delivery and investment models will need to account for regional variation.

The scale and ambition of the programme as well as the ability of central government to unblock the potential will determine the quantum of what could be achieved. If successful this should allow partners to focus collectively on the strategic priorities of long-term economic growth and prosperity for all. Success will also have a significantly positive impact on national growth and spending.

1.2 How better outcomes can be achieved

There are clear opportunities for better outcomes through the adoption of the principles of whole place community budgets. This had been demonstrated through the level and extent of the evidence provided by the pilot sites in the submission of their business cases. We believe a community budgets based approach has the potential to deliver improved outcomes but substantial and systemic reform to existing delivery models will be required to realise the potential level of benefits set out within our work on aggregation.

In our work and dialogue with pilot sites it was clear that the potential for delivery of better outcomes and financial benefits from community budgets is dependent on several key issues:

- ▶ Socio-economic conditions; the particular characteristics of an area or locality such as the level and extent of deprivation and dependency;
- ▶ Governance and leadership: the starting point for each area in terms of their history of partnership work and the level of maturity of cross boundary and sub regional governance structures;
- ▶ Local factors and national pre-conditions: the acceptance of wider public sector including national Government for change to deliver on the pre-conditions set out by pilot sites in their business cases.

The ambition is clearly to replicate and scale up the learning from pilot sites nationally. However there does need to be some caution here. The pace at which themes can be rolled out nationally will be determined by the conditions and history of each locality. There is a need to ensure we balance our enthusiasm for widespread implementation with the delivery challenges. A key catalyst for more effective delivery will be the appetite for reform in Whitehall to enable local areas to adopt the approaches identified by the pilot areas with some speed and effectiveness.

The business cases developed by pilots deal with existing fiscal pressures rather than provide a rationale for a further set of budget reductions. However, the evidence from the pilot sites has demonstrated that better outcomes at reduced cost can be achieved through a replicable and scalable approach to the implementation of community budgets.

This may require new forms of governance and collaborative leadership from organisations prepared to work across complex administrative boundaries, from across Government and other public sector organisations to exhibit the level of partnership working that will manage these local arrangements. This should enable the private and public sector to release the potential for innovation to improve the quality of services.

Change on a sufficient scale to achieve systemic reform will also require new delivery and investment models applied to local public services. These models will need to manage the upfront risks and assess these against the potential for downstream benefit. They could be applied by Government through a place based approach, contract or investment agreement between localities.

Some of the key challenges now for Government will be to decide how to incentivise better behaviours from organisations delivering local public services and how to manage change with such a significant local variation in behaviours.

Our work on aggregation should give Government a better understanding of the potential that could be achieved through community budgets and form the basis of a conversation on the best way to implement change to the delivery of local public services.

1.3 Local factors

There are a number of factors that need to be taken into account when aiming to replicate and scale up community budgets. These local factors need to be tested against the delivery of better outcomes and financial savings through new models of delivery.

The extent to which local factors for success apply will also be heavily dependent on what position the area or locality is starting from in implementing an approach based on the premise of community budgets. These pre-requisites can be categorised under the main headings of:

- ▶ Commitment and will;
 - ▶ Political coherence and ambition to work with other public sector organisations across administrative boundaries to design the solution to best meet local need;
 - ▶ Willingness at a local level to co-invest in new ways of delivering services;
 - ▶ Willingness at a local level to jointly budget, fund and commission services.
- ▶ Appetite for innovation and risk;
 - ▶ Openness of existing governance arrangements and political structures to consider new and innovative approaches to the delivery of local public services;
 - ▶ Accountability for the delivery of outcomes, sharing of risk and apportionment of savings.
- ▶ Leadership maturity;
 - ▶ Collaborative plan of leadership providing clear guidance and clarity of direction;
 - ▶ Historical track record of and the potential for cross-area and cross-partnership working;
 - ▶ Complexity and extent of partnership working, governance structures and range of agencies involved in the delivery of services;
- ▶ Operational maturity;
 - ▶ Local relationships across different public sector organisations and private sector providers;
 - ▶ Coherence of public service geographies and the extent to which these boundaries are co-terminus with each other;
- ▶ Workforce productivity;
 - ▶ Capability and capacity of existing public sector staff operating and working together;
- ▶ Data and information;
 - ▶ Willingness to share data and information across organisational boundaries;
- ▶ Financial context;

- ▶ Totality of spending cuts that have and are still to be applied now and in the future;

1.4 National pre-conditions

If community budgets are to be successful and be a significant part of genuine public service reform then the joined up approaches set out in the pilot site business cases will need buy-in from Whitehall departments.

The process of co-design with Government would need to continue as it appears that it has demonstrated that the recommendations for change can go further and more quickly with the support, expertise and experience of Whitehall. The pilot sites are essentially asking for Government departments to devolve responsibilities from Whitehall to local areas.

The ability to deliver the scale of the savings to the taxpayer set out in this report will only be achieved at a local and national level if Government signs up to the concept and is prepared to implement change in response to the national pre-conditions that have been set out by the pilot sites in their individual business cases.

The common national pre-conditions as determined by the pilot sites are pre-requisites for successful implementation at a local level. The key themes identified across all pilot sites business cases can be categorised into five main areas:

- ▶ Funding agreements that allow devolution to the lowest level to deliver at scale;
- ▶ A default to share information and data between local partners and Government;
- ▶ Clear accountability and a joined up approach on key cross-cutting issues that focus on complex cohorts;
- ▶ Integrated commissioning arrangements between public sector partners; and
- ▶ Development of investment agreements and social investment models.

These recommendations would accelerate public sector reform, help to deal with the major budget reductions and achieve better integration of local public services.

1.5 Next steps for Community Budgets

The pilot sites are now taking forward their local and Government conversations to address the national pre-conditions for implementation. They then intend to move to implement their operational plans. Their proposals do not appear to indicate the need for any major change in the legislative framework of Government and there may not be a need for the wholesale implementation of pooled budgets as has been considered in the past.

They are in the process of aligning their local partners and in most cases moving from the design of service models to planning the implementation of their proposals.

This planning will include a focus on their respective local budget setting processes. At a local level, these plans may require new governance structures that will need to drive, lead and manage more integrated public services at all levels from the strategic and operational integration through to local implementation.

There is an opportunity to brief sector leaders and to begin to test interest in replicating the approaches developed by the pilot areas.

2. Context and purpose

2.1 Why Local Public Service Reform?

In the July 2011 White Paper, *Open Public Services (OPS)*, HM Government recognised the urgent requirement for a new approach to the delivery of Public Services. This new approach needed to respond to the challenging economic climate where budgets are being cut across Public Services and the country needs to limit public spending to deal with the deficit.

The White Paper sets out five key principles for modernising public services:

- ▶ Choice to be increased wherever possible;
- ▶ Decentralisation of public services to the lowest appropriate level;
- ▶ Openness of public services to a range of providers;
- ▶ Fair access to public services; and
- ▶ Accountability of public services to users and to taxpayers.

The scale and extent required to achieve systemic reform requires new delivery and investment models applied to local public services. However there is no silver bullet to achieve large scale reform and budget reductions. There is no simple one size fits all approach to the oversight, management and implementation of wide ranging public service reform.

It was therefore necessary to consider a strategic and holistic approach to public service reform at the localised level. Naturally the type and nature of the most appropriate model for more wide reaching change will depend to a certain extent on the type and nature of place or area it is been applied to and therefore the community budgets programme was created to provide the overall framework to start to understand the potential for public service reform at the localised level.

2.2 The Pilots of the Community Budgets programme

The four selected pilot areas for whole place community budgets were announced in December 2011:

- ▶ Tri-borough partnership of Westminster, Hammersmith & Fulham and Kensington & Chelsea;
- ▶ Greater Manchester;
- ▶ Essex; and
- ▶ West Cheshire.

The pilot sites have been working over the past year to establish devolved budget proposals and decision making structures to:

- ▶ Improve policy decisions;
- ▶ Improve outcomes for the residents of the respective areas;
- ▶ Reduce duplication and waste; and
- ▶ Support Government in making significant public sector savings.

The community budgets programme was the vehicle to test the potential to deliver the necessary outcomes and transformation in local public service delivery that is required in the future.

The four successful areas have been working extensively with a team of civil servants from key Whitehall spending departments to co-design a blueprint for public service reform in their localities.

The pilot sites have been designing their proposals based on the three key requirements set out by Government at the outset of the whole place community budgets programme. Pilot sites were asked to make their proposals:

- ▶ Replicable and to create new models which can be implemented in other areas of the country;
- ▶ Scalable and to design new systems that will work across a larger area or be applied to a wider group of individuals; and
- ▶ Cashable and to promote new ways of working that will remove inefficiencies and yield genuine savings.

The four places are now talking to Government about how to put the business plans into operation that will aim to deliver the new delivery model for local public services in their respective areas. They are in the process of aligning their local partners and in most cases moving from the design of service models to planning the implementation of their proposals.

2.3 The Pilots Business Cases

The premise of community budgets is to give local public service partners the freedom to work together to redesign services around the needs of citizens. On this basis the business cases submitted by the pilot sites have demonstrated a strong evidence base to enable the delivery of a more effective and efficient local public services.

It is clear that the key and consistent premise across each of the proposals is to:

- ▶ Focus on better outcomes rather than existing organisational boundaries and geographical constraints;
- ▶ Provide more choice through improved services for local residents;
- ▶ Adopt early intervention and prevention as key elements of the new delivery models;
- ▶ Enable more collaborative leadership at a local level to implement change;
- ▶ Budget for the delivery of outcomes; and
- ▶ Design new delivery models and propose new investment based on evidence.

To enable these proposals to be achieved the pilot sites have set out fundamental principles that would need to be in place before the outcomes set out within their business cases could be achieved. These principles are that:

- ▶ Outcomes have been defined at a local level and will address local need;
- ▶ Improvement of outcomes in areas such as employment and skills will drive down demand for services funded by other Government Departments;
- ▶ Deliverability of business cases are based and dependent on local factors for success that will need to be in place for outcomes to be achieved;

- ▶ Timescales and phasing of benefits and the development of investment models will be essential to the achievement of savings; and
- ▶ Achievement of benefits will depend on action at a national as well as a local level.

There are a number of factors and inherent challenges that have had to be accounted for when reviewing pilot site business cases and their potential for aggregation on a wider scale. These have been set out in more detail in Section 3 that sets out the approach that has been adopted for aggregation and the results of this work which is detailed in Section 6 of the report.

2.4 Role of the Technical Advisory Group

The Technical Advisory Group (TAG) was established with pilot site representatives and analysts from nine government departments, to support and challenge the development of the Cost Benefit Analysis (CBA) modelling approach for community budgets.

TAG was convened on a regular basis to review and advance the CBA modelling work for the pilot sites. The membership of the group is as follows:

- ▶ Tri-borough pilot site leads and analysts (Tri-borough);
- ▶ Greater Manchester pilot site leads and analysts (GM);
- ▶ Essex pilot site leads and analysts (Essex);
- ▶ West Cheshire pilot site leads and analysts (WC);
- ▶ Local Government Association (LGA);
- ▶ Department of Communities and Local Government (DCLG);
- ▶ Department of Work and Pensions (DWP);
- ▶ Department for Business Innovation and Skills (BIS);
- ▶ Department of Health (DH);
- ▶ Department for Education (DfE);
- ▶ Ministry of Justice (MoJ);
- ▶ Home Office (HO);
- ▶ Cabinet Office (CO);
- ▶ HM Treasury (HMT).

TAG provided the opportunity for both the pilot sites and Government departments to challenge the modelling methodology, underpinning assumptions, to share leading practice and relevant data. The engagement of TAG in the development of the whole place community budgets CBA modelling will generate confidence in the pilot sites and wider local Government ability to commission interventions that are forecast or proven to be cost-effective, and their capacity and willingness to continue to monitor and evaluate projects once funding has been secured. It has therefore been used as a primary reference point by us to assist in informing the aggregation methodology and approach.

2.5 Purpose of this report

This report aims to provide an indication of the potential for a wider role out of the community budgets programme. The aggregation of the individual business cases aims to explore the potential financial benefits of undertaking a wider programme and also to provide assistance and insight to any other area that was seeking to explore this as a policy option.

Ernst & Young's focus has been on the potential for aggregation and not on providing a validation or an audit of the individual pilot business cases.

Whilst this report does not aim to set out a recommendation for a wider rollout, it does aim to assist informing the decision making process on the matter through:

- ▶ Outlining the 'observations and learning' that have been noted through a review of the pilot sites business cases for the purposes of aggregation (Section 4);
- ▶ Identify the 'support that would be required of Government' that has been identified in the writing of this report (Section 5);
- ▶ Provide an indicative range of the 'potential aggregated financial benefits' of a wider rollout of community budgets (Section 6); and
- ▶ Highlight 'what next' for community budgets, including factors that should be taken into account by other areas that are considering a community based approach to local public service reform (Section 7).

3. Approach to aggregation of Community Budgets

3.1 Overview of the aggregation approach and principles

The aggregation process has been developed through a consistent and clear methodology and key guiding principles. This report provides an overview of the approach undertaken for aggregation but does not seek to provide the full technical aspects of the financial modelling.

The aggregation was underpinned by a number of key principles. Some key areas of these principles included:

- ▶ Alignment with the TAG methodology where appropriate; significant work was undertaken by representatives at TAG during the development of each of the pilots business cases. The approach to the Ernst & Young methodology has aligned to the financial modelling principles of the TAG method where applicable and sensible;
- ▶ Aggregation to be characterised by a realistic and prudent approach; the aggregation process requires a number of assumptions to be made. The approach taken has been to derive the aggregation numbers on prudent and realistic assumptions. This is reflected by the use of two scenarios, the base and prudent scenarios;
- ▶ Utilise the information from the pilots business cases; the development of a common currency for aggregation purposes has utilised the outputs of the pilot site cases where appropriate and possible;
- ▶ Aggregation data is used from widely and best accepted data sources; where aggregated data e.g. population is required to scale the impacts of individual cases, these have been utilised from the most recent and appropriate published data source available.

3.2 Aggregation themes for Community Budgets

The four pilot sites identified their own projects as part of the development of community budgets. The themes identified and used for the purposes of aggregation case are the areas that Ernst & Young (EY), the Local Government Association (LGA) and the four pilot sites have agreed are suitable for analysis based on the principles of scale and replicability. These themes were common areas of focus across the four pilot sites.

These aggregation themes are:

- ▶ Health and social care;
- ▶ Families with complex needs; and
- ▶ Work and skills.

Analysis has also been conducted on crime and justice themes relating to domestic abuse and reducing re-offending and is detailed in the Annex of this report.

Detailed below in the table are a summary of the main themes for aggregation and the focus of work in these business cases.

Theme	Scope and objective of the proposals
Health and social care	Joint service provision and commissioning, predominately within the adult and older people cohort.
Families with complex needs	Joint service provision through multi-disciplinary teams that are predominately within the <i>Troubled Families Unit</i> but extended to a wider complex families cohort.
Work and skills	Improvements to drive local growth, by moving cohort facing multiple disadvantage on to a trajectory towards work, supporting the delivery of welfare reforms and Universal Credit with more local strategic direction of the skills budgets and a bigger job outcome payment element to providers.

There are other themes which pilot sites have developed as business cases and submitted these proposals to Government. For example business cases have been submitted on care proceedings and early years. It was agreed that these would not be included as aggregation themes as these were not common amongst all the pilot sites.

3.3 Design of the aggregation model

This report is supported by an aggregation model. The report and the model are complimentary and should be considered in conjunction with each other. The overall modelling approach has been to focus on understanding the ‘potential aggregated cashable benefits’ of community budgets in England.

The purpose of this section is to provide an understanding of the technical approaches proposed by the pilot sites which have been aggregated to a national basis. The model output details the potential for savings to Government agencies, resulting in reduced Government expenditure.

The design of the model architecture has involved an extensive process that focuses on three stages:

- ▶ **Stage 1 Common currency:** development of a ‘common currency’ that is recognised by Government on cost and assumptions across the pilot site cases (utilising reference to TAG and Green Book standards where applicable);
- ▶ **Stage 2 Informing Government:** sharing of the approach with key stakeholders and updates with LGA, DCLG and HM Treasury; and
- ▶ **Stage 3 Aggregation:** undertake the aggregation of inputs, indicators and measures, and outcomes.

This three stage approach was supported by a consistent methodology, assumptions and unit costs that provide a methodology for future similar initiatives.

The detailed process to develop the aggregation model has included:

- ▶ Engagement with pilot sites leads and financial analysts in the design of the model architecture;
- ▶ Alignment with the Cost Benefit Analysis used by pilot sites in TAG;
- ▶ Application of the principles of HM Treasury Green Book protocols;
- ▶ Attendance at meetings with LGA to brief DCLG and HM Treasury on Ernst & Young’s approach;
- ▶ Attendance at themed TAG group meetings with pilot sites, DCLG, the LGA and various Government representatives (as detailed above);

- ▶ Using pilot site data to populate the aggregation model;
- ▶ Factoring in the learning and challenges from the themed TAG groups;
- ▶ Attending regular fortnightly conference calls with pilot site leads, DCLG and the LGA;
- ▶ Sharing the latest aggregation model architecture with the LGA, DCLG and HM Treasury;
- ▶ Updating DCLG and HM Treasury on the progress with aggregation.

3.4 What the aggregation model will do

The aggregation model is a presentation of the potential national benefits identified through the four pilot whole place community budget business cases as submitted by the pilot sites on 31 October 2012. The four pilot sites business cases represent different political, social and geographic landscapes.

The benefits and costs modelled are based on the work of the pilot sites; no additional benefit areas have been added.

The model has been developed to ensure that it is guided by and aligned to HM Treasury Green Book proposals where appropriate and their input along with other pilots has been considered when developing the model and overall aggregation approach.

The model allows a:

- ▶ Comparative assessment of anticipated net benefits linked to each aggregation theme for each of the pilot business cases;
- ▶ Review of the expected details of the costs identified by the pilot sites to introduce the project, perform it, and support the changes resulting from it;
- ▶ View of a 'common currency' across all pilot sites to establish the expected impact, engagement and financial benefit by each specific aggregation theme.
- ▶ Ability to derive the aggregated net benefits for each aggregation theme;
- ▶ Scenario analysis based on the aggregation results to test the sensitivity of the outputs;

The key general assumptions within the aggregation model are as follows:

- ▶ Data from pilot sites is suitable for modelling purposes and has not been audited;
- ▶ Implementation and on-going costs are realistic across different localities;
- ▶ Costs and benefit values used by pilot sites are as at financial year 2012-13;
- ▶ There is no double counting across different thematic areas;
- ▶ Aggregation demand volumes are based on sourced assumptions;
- ▶ The benefits derived are an indication of potential benefit and not an absolute;
- ▶ Potential benefits are dependent on a number of local factors and national pre-conditions; and
- ▶ The benefits profile is over 5 years, with a discount factor of 3.5% being utilised to provide '5 Year Net Benefit' outputs.

3.5 What the aggregation model will not do

The model is an estimation of the aggregated net benefits for community budgets in England. The model has been developed on the principle of deriving a common currency across all pilot sites, to ensure that trends are identified, any nuances between approaches are investigated and that a single pilot approach cannot be replicated.

It is however, important to note the limitations or caveats on the aggregation model:

- ▶ We have not completed a full due diligence exercise on the pilot business cases and accompanying cost benefit analysis;
- ▶ Localities will not be able to simply add in their local data to ascertain the level of potential benefit locally, as outcomes and potential benefits need to be considered in the context of the suite of products being developed through whole place community budgets;
- ▶ The modelling approach and the aggregation model can be utilised to support other locally based decisions on community budgets with some amendment and targeted work;
- ▶ The financial projections do not constitute a budget forecast, but illustrate the indicative potential under a certain set of assumptions. The illustrative financial projections may be materially affected by changes in economic circumstances, or when the assumptions upon which they are based prove in event to have changed or been incorrect; and
- ▶ Ernst & Young's report has not been produced in accordance with generally accepted auditing, review, or other assurance standards and does not express any form of assurance. In developing the model for aggregation we have not audited or validated pilot site business cases or attributed individual or locality savings.

3.6 Key steps to aggregating net financial benefits

The approach taken for aggregation follows a consistent step by step approach within each thematic area. A high level outline of this approach is set out below:

1. **Develop common aggregated outcomes:** each pilot site developed cases on a defined set of outcomes. In order to aggregate on the most comparable basis these were aligned across pilot sites to create aggregated outcomes;
2. **Standardise information across each pilot site:** bring data and outcomes from pilot sites into a consistent format. This was undertaken without amending any of the pilot site data, but allows all information to be expressed in a consistent format;
3. **Establish a common currency for aggregation:** each aggregated outcome will have a common set of inputs that is developed from the information from each pilot site. This is developed through professional judgement and calculation of the trends within the data that was provided by each pilot site;
4. **Scaling up of aggregated benefits and costs:** scale up the potential for aggregation across the country and establish the most suitable arrangements to allocate savings across partner organisations. The information utilised for scaling the common currency was obtained from published and evidenced sources;
5. **Statement of the overall financial case:** summary headings and sensitivity analysis for the unit benefit (net of ongoing and one off investment costs). Statement of the financial output across a base and prudent scenario;
6. **Scenario analysis:** testing the sensitivity of the outputs of aggregation to understand the robustness of potential aggregated impacts of community budgets.

4. What can be learnt from Community Budgets?

4.1 Lessons learnt from the programme

The key learning points from pilot sites and Ernst & Young's involvement in community budgets relate to:

- ▶ Engagement with them through the development of their business cases to deliver against their own local need; and
- ▶ Insight into the national programme for community budgets from Ernst & Young's attendance at the TAG meetings facilitated by Government.

4.1.1 Lessons learnt from the pilot site business cases

The main lessons and observations from Ernst & Young's engagement with pilot sites through the development of their business cases have identified a number of key factors that are essential to enable the necessary change. These are:

- ▶ Common outcomes need to drive closer working on community budgets;
- ▶ Removal of barriers for better outcomes and reduced costs;
- ▶ Importance of local innovation and co-design is at the heart of community budgets;
- ▶ Local delivery and investment mechanisms that reflect the communities they serve;
- ▶ Consensus required on the need and opportunity to change;
- ▶ Commitment to the sharing of data and information;
- ▶ Sustainable change requires an outcome based approach between partners;
- ▶ New approach to joint commissioning and performance frameworks;
- ▶ Requirement of new financial reward mechanisms;
- ▶ Scale is important to the ability to deliver significant savings and outcomes.

Set out below is a brief summary of each lesson and why the change is required.

Common outcomes need to drive closer working on community budgets

Local public services are jointly accountable to their communities for the delivery of services across the key themes within pilot sites proposals. To achieve the sufficient scale from new delivery models may be possible by focusing on outcomes that could be achieved through a new approach to funding and investment models and not on the mechanisms for delivery.

Removal of barriers for better outcomes and reduced costs

The business cases have been able to demonstrate that integrated working across agencies achieves better outcomes for people and places, and is more effective and efficient. For this to happen more widely there would need to be better cooperation amongst local public services. Common difficulties such as existing organisational boundaries, workforce and professional regulations and funding mechanisms could be dealt with by forming a more collaborative and integrated way of working.

Importance of local innovation and co-design is at the heart of Community Budgets

There is a need for local innovation to redesign services based on the needs of local residents and communities the pilot sites currently serve. There appears to be a genuine commitment to co-design and delivery with a range of partners. These are critical factors in achieving better local outcomes for people and places.

Local delivery and investment mechanisms that reflect the communities they serve

Where budgets are devolved to local partners, the new delivery model, savings and investment mechanism should be made and delivered locally as no two areas are likely to need exactly the same deal from Government, in part due to the differences in the local provider structure but also due to the size and extent of the communities receiving support from the public sector providers within the locality.

Consensus required on the need and opportunity to change

Many of the potential savings would be reduce nationally held budgets of the Departments responsible for the delivery of services to the same people set out in the main themes of the proposals. These include the Department of Health (DH), Department for Work and Pensions (DWP), Ministry of Justice (MoJ) and the Home Office (HO).

Commitment to the sharing of data and information

The delivery of integrated services can only be achieved if local public services have access to and share data about service users. Progress has been made but ongoing commitment from Whitehall will be required if future reform is to be achieved.

Sustainable change requires an outcome based approach between partners

Pilots have demonstrated and Government will need to consider what can be achieved through adopting an outcome based funding mechanisms that could be supported by local partners and public sector providers.

New approach to joint commissioning and performance frameworks

Substantive change is required to existing governance and performance frameworks. This will require the creation of joint commissioning arrangements and single performance frameworks that span across public sector agencies.

Requirement for new financial reward mechanisms

Significant outcomes could be delivered locally but to unlock substantial savings delivery will be required on a wider scale. A recurring challenge for pilots has been has been the need to redistribute costs and benefits across agencies and deciding how to create investment vehicles when designing integrated and outcome focused delivery models.

Scale is important to the ability to deliver significant savings and outcomes

In many instances whilst significant qualitative outcomes and savings can be achieved locally, delivery at a different scale is required to realise substantial savings to the public sector.

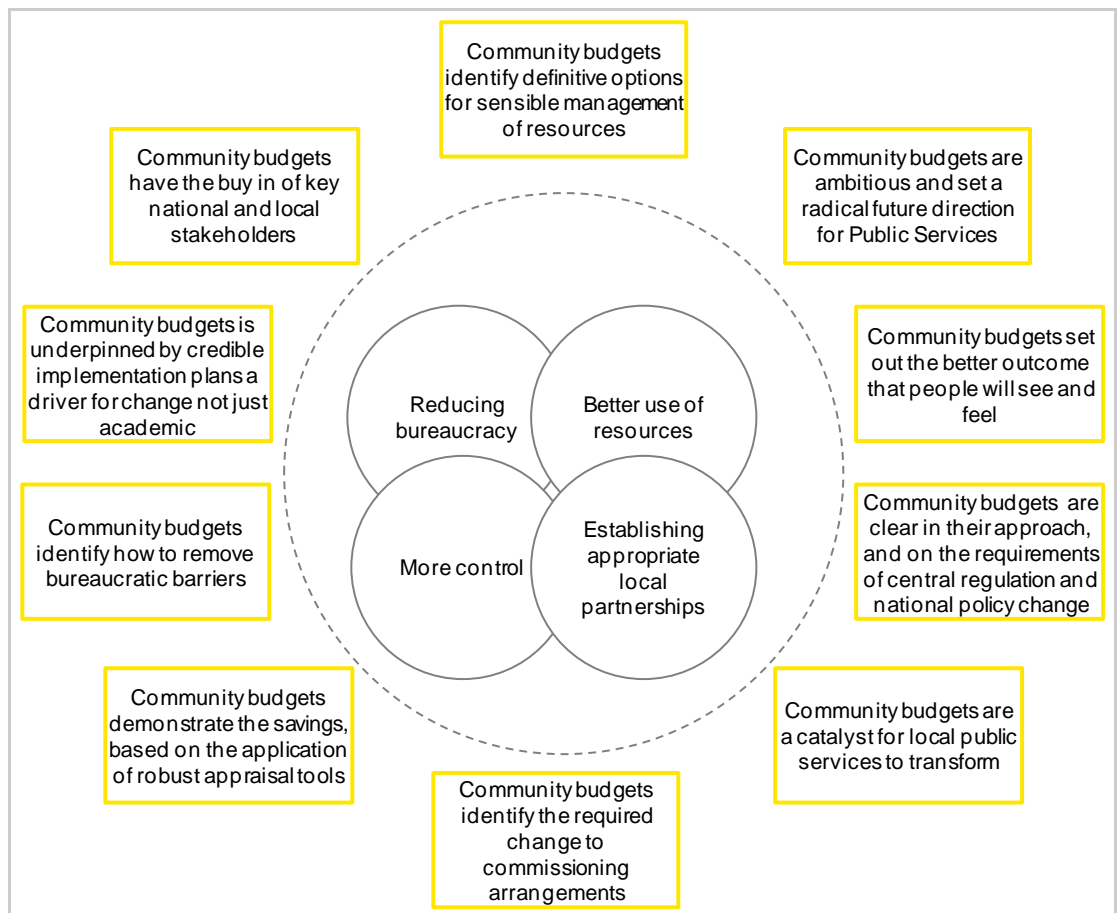
4.1.2 Observations from wider involvement

There are a few additional learning points that have been taken from Ernst & Young's involvement in the national programme and TAG sessions. These include:

- ▶ The approach adopted through TAG has been focused largely on the fiscal and economic elements of the business cases. There would appear to be further work to do and for Government to consider on the investment and implementation costs as the pilot sites move towards the local implementation of their initiatives.
- ▶ There does not appear to have been a forensic sense check of CBA's and financial models across the pilot sites to assess how much of the proposed savings from the business cases will be realised through the Quality, Innovation, Productivity and Prevention (QIPP) programme. This would be vitally important in any wider rollout of a Community Budgets programme.
- ▶ The cashability elements within each of the business cases appears to have been determined at a local level through discussions with partners and their finance directors to provide professional validation of the assumptions set out in local proposals.
- ▶ The drive for greater integration and community focus around outcomes at a localised level is not necessarily being mirrored or piloted in national government structures. It may be useful to attempt to test the ability for greater integration at both a national and localised level if the programme was to be more widely rolled out.

4.2 Local factors for successful implementation

Set out below is a diagram to demonstrate what success might look like for the pilot sites.



Greater scale should enable partners to focus collectively on the strategic priorities of greater long-term economic growth and prosperity for all. Success will also have a positive impact on national growth and spending. New forms of governance within localities have the potential to bring the collaborative leadership of communities and the private sector to release the potential for innovation and improved quality services.

However the implementation of any proposed model for systemic reform across local public services will mean that not all places are capable of achieving and delivering savings by releasing money out of the system through community budgets. Careful consideration would need to be given to understand the impact of a larger scale approach on those localities that would be unable to deliver against the premise and requirements expected from adopting a new delivery model based on the principles of community budgets.

4.3 Understanding the local characteristics of the Pilots

4.3.1 Tri-borough

There are three main elements that characterise the Tri-borough community budgets pilot and these can be summarised as:

- i Integrating services and operating at scale;
- ii Reducing dependency;
- iii Promoting economic opportunity for people and place.

Integrating services and operating at scale

The Tri-borough pilot site is comprised of the three boroughs of the City of Westminster, the London Borough of Hammersmith and Fulham, and the Royal Borough of Kensington and Chelsea. The ambition of the Tri-borough Community Budget pilot was to build on the existing approach to tackling complex cross-cutting issues at geographical scale and across organisational boundaries.

Many of the existing administrative boundaries align well with the structure of local health, police and welfare services.

Reducing dependency

The Tri-borough approach is based on targeted policies to reduce the dependency of high cost and higher risk cohorts on public services.

The proposals endeavor to bring together multiple agencies to work together within complex administrative boundaries to find new ways of delivering real outcomes through targeted service interventions in local areas. Effort has been focused on issues where state expenditure and costs are highest where better joined up working between agencies would deliver better outcomes for local people, deliver efficiencies, reduce duplication of interventions and expenditure, as well as demand across the public sector in the locality.

Promoting economic opportunity for people and place

One of the focal elements for this pilot has been to demonstrate how better services can be delivered by focusing on people rather than organisations. The proposals state that through cohesive delivery that focuses on individuals, families and communities the three authorities can more effectively deliver different Whitehall departments' policy objectives.

The Boroughs also recognise that better local services needs to be accompanied by opportunities for jobs, business and transport investment to support local economic growth.

4.3.2 Greater Manchester

Greater Manchester's approach to Community Budgets and Public Service Reform can be characterised as:

- i Aims to reduce dependency and support growth;
- ii Geographically distinct with unique governance arrangements;
- iii Testing then scaling up of new delivery and investment models.

Aims to reduce dependency and support growth

The key aims of the Greater Manchester Strategy are to support economic growth and reduce dependency. GM is the fastest growing city in the UK and contributes £48 billion (5%) of national Gross Value Added. Total public spending in GM is estimated at £21 billion and has not reduced since 2009, with cuts to local authorities and others offset by increases in the benefits bill and to a lesser extent, the increasing costs of acute care. Significant challenges for GM are to connect people to jobs and make inroads into the labour productivity gap between GM and the UK overall, through tackling:

- ▶ High levels of worklessness, with more than 270,000 people out of work and claiming benefit each year. This costs £1.4bn per year, with a further £1.5bn per year bid in tax credits to GM residents in low paid employment;
- ▶ Low skills, with 15.3% of residents having no qualifications compared to the UK average of 12.7%;
- ▶ Pressures of an ageing population, with significant implications for local authority and health budgets;
- ▶ Poor early years performance, with 40% of children born each year not school ready (16,000) by the end of reception year.

The GM Community Budget aims to reduce current levels of dependency and intervene early to turn off the tap of future dependency. GM looked at how many public services are currently fragmented and uncoordinated, and address the symptoms, but not the underlying causes, of dependency. GM believes it is spending too much on the costs of failure and that new approaches are needed.

Geographically distinct with unique governance arrangements

GM sees their unique governance arrangements and political leadership as standing behind their progress to date and future ambitions. Greater Manchester has the only statutory Combined Authority in the UK, which builds upon a track record of 25 years of joint working across the 10 AGMA (Association of Greater Manchester) local authorities. The Combined Authority provided the platform for GM's City Deal with Government including an earn back mechanism for sharing in the proceeds of growth, and powers to co-ordinate investment from across the conurbation to support economic growth.

These governance arrangements enable GM to take decisions across the 10 local authorities and key public service partners including Health, Police and Fire & Rescue. Public service geographies are generally co-terminus with health, transport, probation, police, and cover two Work Programme and JobCentre Plus areas.

Testing then scaling up of new delivery and investment models

GM's Community Budget proposals seek to reform public services to make a transformational reduction in dependency. GM's approach is to design, model, then test in practice, new delivery models for reforming public services. Partner organisations that benefit from these

new delivery models invest on the basis of evaluation evidence and cost-benefit analysis. Key stages of this approach are:

- ▶ **New Delivery Models:** integration, coordination and effective sequencing of public services to re-wire delivery at the neighbourhood level, to change individuals' and families' behaviours. This requires shifts in organisational behaviour, reforms to deploy and develop public service workforces across organisations, new commissioning models, and greater sharing of information and intelligence;
- ▶ **New Investment Models:** organisations investing in public service reform across boundaries to achieve a return on their investment as cashable savings are made, underpinned by investment agreements. These approaches overcome the situations where one partner invests but many others benefit, and the time lags that discourage investment in early intervention and prevention; and
- ▶ **Evaluation and evidence:** GM developed the national Technical Advisory Group with Treasury and other Government departments to review cost-benefit analysis and evaluation evidence. GM's approach is to use evaluation evidence from proof of concept testing of new delivery models to negotiate investment from partners.

4.3.3 Essex

There are four characteristics that most accurately highlight the challenges for the Essex community budgets pilot and these are:

Four main elements characterise the Essex community budget pilot:

- i Meeting diverse needs in a large two tier area;
- ii Level and extent of integration;
- iii New investment models;
- iv Extending city deals to county areas.

Meeting diverse needs in a large two tier area

With a wide range of partners serving a large area and diverse population, it's vital to recognise the importance of local solutions and achieve the right balance in terms of organisational sovereignty and outcome focused responses to needs.

The Whole Essex Community Budget programme builds on a strong record of partnership working across Greater Essex and it is the only one of the four pilots operating a two tier system of local government. The partnership includes 1 County Council, 2 Unitary Authorities and 12 District Councils. It also incorporates 7 CCG's (formerly 5 PCT's) as well as Police, Fire and Rescue, and Probation and a Jobcentre Plus district plus many more.

The delivery of the WECB programme is led by an Executive Board drawn from across local public, private and voluntary sector bodies, supported by a wider range of local agencies represented on the WECB Sounding Board. It is important to note that partners have retained control over their own budgets and decision-making throughout.

In such a complex governance structure it's important to respect the need for sovereign partners to take their own decisions in accordance with their own governance arrangements. Throughout the pilot, however, increased collaboration has demonstrated the value of closer working and partners are developing new forms of governance to enable such collaboration to become business as usual in addressing 'whole system' issues.

Level and extent of integration

Essex partners are exploring how to jointly budget, fund, and commission services and how to share risks and apportion savings. This will include the long-term costs, savings and benefits of the approach, as well as innovative funding mechanisms to support the proposals. Whilst strategic integration and buy-in appears to have happened the challenge is now to address the need for greater integration at the operational level and at the frontline.

A key principle of the proposals is greater integration through formalised commissioning arrangements or deeper collaboration amongst partners. Partners in Essex are continuing to more closely align themselves as they shift to more outcomes focussed ways of working, set organisational budgets for the next financial year and prepare to implement their proposals.

New investment models

Partners in Essex have identified a range of parallel projects to enable effective delivery and to support future system change. One of these is focused on new investment models and Essex partners have identified a pipeline of social investment proposals in an attempt to attract £100m of social investment over coming years. This requires a social investment infrastructure in place that will include:

- ▶ An investment development project team, local statutory partners, service providers and investment intermediaries to develop and assess business cases and act as the main point of contact for stakeholders developing these propositions; and
- ▶ The development of new procurement mechanisms, financial and legal frameworks to enable the commissioning of multiple proposals at a reduced cost.

There are plans for further feasibility analysis to finalise likely benefits, contracting models and gain share agreements with partner organisations to build robust investment cases.

Extending city deals to county areas

Essex partners have set out proposals to be the first County area to secure a 'city deal' type arrangement. The proposed Deal for Growth seeks to enable quicker routes to finance and reverse underperformance in the economy. Core components of the business-led Deal are the provision of infrastructure that is fit for purpose and enabling young people to be better prepared for employment. Proposals include a £1bn infrastructure fund to deploy over 20 years, leveraging private sector investment into major enabling infrastructure supported by a single Infrastructure Gateway incorporating an investor panel and engaging the private sector.

4.3.4 West Cheshire

There are four main elements that characterise the West Cheshire community budgets pilot and these can be summarised as:

- i Shared vision for public service reform;
- ii Reducing long term demand for services;
- iii Driving economic growth;
- iv Geography and capacity.

Shared vision for public service reform

West Cheshire partners have made a clear commitment to a ten to fifteen year programme of public service reform, with the six business plans within the Community Budget as the catalyst to kick start this. This is being delivered in a new model of collaborative leadership,

with all members of the Public Services Board being accountable for delivery of individual themes and projects, together with wider aspects of the reform agenda.

All partners recognise that integration is critical to delivering long term reform, and therefore integration operates at every level within the programme, from the creation of a multi-agency case management function for those small numbers of families and individuals presenting the greatest demand on services, through to joint workforce development activity. A new integrated delivery team operating on a hub and spoke basis, together with new governance arrangements have been developed to support this much higher level of integrated working. Work on implementing the business plans will look to identify further opportunities for integration, and the potential savings flowing from this.

Reducing long term demand for services

It is understood that further efficiencies will not deliver sufficient savings to meet the long term reduction in public expenditure and as such demand reduction has been key to the design of new delivery models. There has been a strong focus on those areas where demand is set to grow due to demographic change e.g. adult health and social care, or where there is a strong evidence base to demonstrate that preventative work can reduce long term systemic costs e.g. domestic abuse.

In parallel to the design of new delivery models, new ward based delivery structures are being developed to encourage communities to take responsibility for doing more for themselves. This approach is being piloted through five 'Test Beds', which will create new models of community delivery with the ward elected member being central to the operation of these.

Driving economic growth

The Public Service Reform programme has been complemented by a focus on driving economic growth, to offset the reduction in public expenditure and to make sure that there are economic opportunities for all those of working age. The public sector has recognised it has an important role in helping the private sector to grow by providing clear and consistent leadership on growth related issues such as planning, creating the right infrastructure e.g. transport, employment sites, housing, developing a suitably qualified workforce, and providing effective and co-ordinated business support services. In addition, West Cheshire partners have been working with the Cheshire and Warrington LEP to accelerate economic growth within the sub-region, through a growth conversation with government.

Geography and capacity

The West Cheshire geography mirrors the Unitary Boundary of Cheshire West and Chester Council and as such is not co-terminus with a number of public service agencies including Police and Fire. This has presented challenges of scale, as it is difficult for pan-Cheshire agencies to develop new and different delivery models for smaller areas of geography. Additionally, it has presented capacity issues as there has been a relatively small pool of resource to draw upon, which resulted in the need to complement internal capacity with, bought in external resource. This will be an ongoing consideration as the business cases move into implementation in 2013.

The partnership is also relatively new, really coming into being following Local Government Reorganisation in 2009. This has meant that the data in the CBAs and supporting financial models has had to be supplemented with data from national research and expert practitioner knowledge, alongside experiential data from the locality itself. This approach has resulted in higher levels of discounting, which may understate potential savings. As the business cases move into implementation the financial model will continue to be refined and tested, with further experiential data captured during this phase.

5. Where is Government support required?

Within the operational plans and supporting case submissions there are a number of national pre-conditions that have been identified as key to drive public service reform within each of the localities.

The support of Whitehall departments for the concept of community budgets is a critical success factor. Without this support there is a risk that organisations will retrench to their own core single agency responsibilities.

The process of co-design with Government would need to continue as it appears that it has demonstrated that the recommendations for change can go further and more quickly with the support, expertise and experience of Whitehall. Despite the request for further support in a number of areas the pilot sites are essentially asking for Government departments to devolve responsibilities from Whitehall to local areas.

It appears that many of the projects have been designed to avoid the need for significant legislative change and are consistent with the principles set out in the White Paper, Open Public Services (OPS).

The challenge for community budgets is to now to move from design into implementation by using existing or by creating new governance structures that can be put in place to drive, lead and manage integrated public services at a local level.

There appears to be a number of simple actions that Government could take to ease the implementation and operation of suggestions being put forward by the pilot sites.

5.1 National pre-conditions for successful implementation

Set out below is the detail of the common national pre-conditions determined by the pilots as pre-requisites for successful implementation at a local level.

Funding agreements that allow devolution to the lowest level to deliver at scale

The premise on which the pilot sites have all broadly recommended changes to the current funding agreements is based largely on the principle that new delivery models are easier to deliver where the budgets are managed locally and determined based on local insight and knowledge to improve the delivery against local outcomes. The devolution of budgets creates a situation where local leaders can discuss how to best manage all the costs and benefits because they all fall within their local accountability mechanisms. It is being proposed that decisions on new delivery models can be made and agreed locally.

The experience of the pilot sites indicated that the structural change needed to deliver more integrated services is a substantial and long-term project. The objective set out by pilots was the need to remove the barriers to integration and develop new initiatives which will use existing budgets more effectively. One example provided was the need for a more open dialogue with BIS and DWP around devolving budgets for youth contract incentives to increase the uptake and impact within localities.

One benefit of this type of delivery model is the positive impact it could have on reducing the future demand for services. For example the flexibility to use under spends in one year to invest in integrated services, particularly health and social care in subsequent years could lead to reductions in demand for acute and social care services, although to deliver these requires investment in community care.

The case being made by pilot sites is that to get the scale of change identified in the business cases that could deliver significant savings, such as health and social care, the leaders of local public services would have to hold the budgets to be able to make and be accountable for making the difficult political and operational decisions.

Other examples include the need to work with DWP and BIS on investment models that allow accrued savings to be reinvested in local public services programmes such as the increasing of employment levels among troubled families and other cohorts at risk of becoming troubled.

The development of investment agreements requires the involvement of national agencies and departments and options might include a cross-Whitehall fund or payment by results mechanism, further funding or an employer incentives element to enhance the Work Programme for the Employment Support Allowance claimants on the Work Programme or a skills escalator funded by Universal Credit payments no longer required if the low skills, low pay cycle is broken.

Finally it has been suggested that transferring the justice budgets, in London for example, to the Mayors' Office for Policing and Crime (MOPAC) would help new local delivery models for crime reduction to develop, as local deals would be easier to broker on a London wide level.

A default to share information and data between local partners and Government

The national pre-condition on information and data sharing is based on the need to work within the current regulatory requirements which can drive perverse incentives and behaviours that result in overly complex protocols between public sector organisations.

Pilot sites have asked that Cabinet Office champion the provision of consistent standards and guidance, and challenge the complexity across government departments, allowing the use of locally adopted equivalent technology and processes to remove the resistance to the sharing of data between public sector organisations.

A series of options were put forward that range from permitting named Council staff access to DWP data to the idea of national and local data sharing teams, exempt under Data Protection Act and guidance to more fundamental changes to make the sharing of data between these organisations far easier the norm rather than a process which requires extensive negotiation.

The belief is that existing rules on performance management, data-sharing, workforce and governance stifle innovation and promote risk aversion. To allow more innovative ideas to be developed through to cost effective and implementable delivery models pilot sites are arguing for a relaxation in or exemption from, existing regulation.

Clear accountability and a joined up approach on key cross-cutting issues that focus on complex needs

The approach taken by the community budgets pilots has been to align their proposals for locality based reform with the national pre-conditions that need to be in place. On the basis the pilots are confident they can deliver better local public services that are more joined up and more responsive to their residents. One of the pilots has used the Troubled Families Unit as an example where Whitehall has recognised the need to better join up where multiple Whitehall departments are involved and have an interest in better outcomes.

The suggestion is that for specific issues related to complex needs that are relatively high cost there should be a single accountable unit with a cross-cutting budget and focus. To be more successful the pilots believe that clear accountability is required. Examples provided were in relation to vulnerable adults or re-offending unit with budgets covering police, criminal justice, housing, drugs, alcohol and mental health, and benefits.

Integrated commissioning arrangements between public sector partners

A strong theme evident in the business cases related to the need for more integrated commissioning arrangements between public sector partners. The pilots were of the view that more integrated commissioning would be achievable within existing legislative and policy enablers, but needs Whitehall endorsement and support. Pilots believe that when local factors allow the objective should be to create a single commissioning body similar to a Commissioning Care Trust arrangement. An example of the suggestions being put forward

include local partners entering into an Integrated Commissioning Arrangements that would be achievable within existing policy and legislation.

The majority of the community budget areas would like change to the commissioning arrangements, primarily in Health and Social Care such as better alignment of Clinical Commissioning Groups and Council settlement periods to reduce financial risk and improve planning where parties enter into longer term agreements to integrate commissioning and the provision of services.

Another pre-condition is greater flexibility to use under spends in one year to invest in integrated health and social care in subsequent years – integration will lead to reductions in demand for acute and social care services, but to deliver these requires investment in community care.

Pilots would like support from the NHS Commissioning Board (NHSCB) and Monitor to enable local CCG's and partners to adopt new reimbursement models for providers and to move away from the national tariff – named members of the NHSCB and Monitor could offer on-going support to sites planning changes as the learning from pilot sites will provide valuable evidence for the NHSCB and other local areas.

There has been commentary within the business cases that highlights that there is no current model for Commissioning Boards and Monitor to provide information for partners to adopt new re-imbursement models to move away from the national tariff.

NHS Commissioning Board and Monitor could provide advice and support on contracting and competition to ensure that the establishment of new delivery models, e.g. consortium based or Joint Venture do not create unintended consequences. Pilots would like the NHSCB and Monitor to agree flexibilities to existing contract terms for NHS community providers to enable them to join such new organisational forms as most existing contracts will end in 2013-2014.

An alternative would be to devolve budgets down to the lowest possible level at which you can achieve scale, and allow local public sector leaders to develop integrated approaches to commissioning and delivery.

Develop social investment vehicles for complex problems

Pilots have stated that social problems can only be addressed effectively if both local and national partners share in the risk and reward of delivering successful outcomes. As part of the next Spending Review process, pilots would like HM Treasury to assess the potential efficiency savings and wider economic benefits of an outcomes based investment fund to support local public sector reform and suggest that the fund could be made up of proportionate financial contributions from all relevant spending departments.

The experience and learning by the pilot sites from the community budgets programme indicates that the social investment market is immature, and very few local authorities have entered into these arrangements. The Councils that have pursued social investment have focused on smaller scale of product, single outcomes and are delivering these through additional funding rather than cashable efficiencies. They have stated there is a need for a change to drive outcomes combined with an assessment and better understanding of the complexities, set up and transactional costs.

For the social investment market to take off, pilot sites have identified that Government has to enable greater liquidity and reduce risk for investors by supporting early adopters, sharing risk with outcome payments and start-up costs, and providing technical support for commissioners to develop legal and financial agreements.

One suggestion is that the Cabinet Office could provide brokerage between investors and providers, develop model finance and financial agreements to improve confidence and reduce costs, and provide access to specialist financial and commercial expertise.

The potential Cabinet Office Outcomes Finance Fund could be valuably used to support this work with these very complicated families alongside the commitment of pilots to deliver to the Troubled Families cohort, to facilitate national and local investment.

One of the pre-conditions in this area is that Outcomes Finance Fund should rapidly scale up and roll out its programme if the pilots demonstrate good evidence of effectiveness and value for money. Pilots would like Government provide funding to support the development of a pipeline approach to developing social investment projects to cover a wider range of departments and agreed key outcomes for Government and areas that cover a wider range of propositions.

The belief is that the development of a pipeline of social investment projects will support the Government's aspirations of developing the social investment market and rolling out new financial and legal vehicles to support more widespread use of social investment in the public services.

6. Results of aggregation

6.1 Summary of aggregation results

The whole place community budget pilots provide evidence that new ways of investing in, integrating and delivering public services can deliver net financial benefits. They are part of the solution to the public sector funding gap.

If we aggregate and scale up the results of the whole place pilots, there is potentially a significant net financial benefit, but it is highly sensitive to the assumptions made about the ability of local public services to apply the local approaches taken by the pilots.

The Net Financial Benefits are real monetary gains that can be achieved through community budgets. These are a coping mechanism to deal with savings already identified in Local Government and Departmental budgets.

The benefits provide a way in which public services can manage reductions in budgets, such as the QIPP savings already assumed in NHS budgets.

The pilot sites approaches have primarily been to identify community budgets as a mechanism to deal with existing fiscal pressures rather than a rationale for a further set of budget reductions.

The net benefits are spread across the public sector, for example it is estimated that local authorities would achieve under a fifth of the total net benefits achieved through community budgets across all thematic areas.

The table set out below details the assumed, annual net benefit relative to annual addressable spend and a 5 year net benefit, discounted at 3.5% net present value across all themes.

The potential 5 year net benefit³ of community budgets is £9.4bn-£20.6bn. The net 1 year annual benefit is £4.2bn-£7.9bn of a 1 year annual addressable spend of £107.1bn⁴.

Theme	Net Annual Benefit (£bn)	Annual Addressable Spend 2011-12 ⁵ (£bn)	Addressable Spend (%)	5 Year Net Benefit (£bn)
Health and Social Care	2.8-5.0	56.7	5%-9%	5.8-12.0
Families with Complex Needs	0.4-1.2	9.0	4%-13%	0.5-2.7
Work and Skills	1.0-1.7	41.4	2%-4%	3.1-5.9
Total (rounded)	4.2-7.9	107.1	4%-8%	9.4-20.6

³ The net financial benefit includes ongoing and one off investment costs.

⁴ Where summary figures have been presented in the report it has been necessary to round figures. Therefore any perceived summation errors are the impact of rounding. The stated totals are accurately presented.

⁵ The annual addressable spend for each of the relevant Government departments is taken from Business Plan Quarterly Data Summary, to indicate the level of DEL and AME benefits derived from community budgets. Where non-departmental spend is included in the addressable spend such as local authority spend on Social Care this is taken from the Office of National Statistics 2010-11. Throughout the model it is assumed that all benefits hit the DEL Resource, as there are no capital initiatives detailed in the business cases submitted by the pilot sites, except any benefits derived through the reduction in income support benefits, which is then allocated to AME.

6.2 Health and Social Care

6.2.1 Aggregated net benefits

Overall summary

Community budgets for health and social care could lead to potential steady state annual benefits of £2.8bn-£5.0bn which represents 5%-9% of the assumed addressable spend.

Total annual recurring addressable cost (£bn)		£56.7
Total Annual Net Benefit (£bn)	This is the potential annual net benefit	£2.8-£5.0
% Reduced	This is the percentage reduction of the overall recurring cost	5%-9%
Net Fiscal Benefit (£bn)	This is the total Net fiscal benefit over 5 years (NPV @ 3.5%)	£5.8-£12.0

The annual net benefit in health and social care is the result of a fall in demand and cost for health and social care services. For example, the impact of Community Budget measures will lead to fall in acute admissions, reduction in the length of stay during admission and reduced costs for care packages. This will be a result of targeted preventative interventions and investment in community and social care services.

Benefit realisation summary

The table below shows the assumed benefit realisation profile derived from the aggregated pilot sites business cases. Although there is an increasing trajectory in the benefits profile, evidence from the pilot sites still indicates that it will take longer than 5 years to realise the full benefit of the scheme.

£bn	Yr 1 (y/e 31/03/13)	Yr 2 (y/e 31/03/14)	Yr 3 (y/e 31/03/15)	Yr 4 (y/e 31/03/16)	Yr 5 (y/e 31/03/17)	Total 5 year
Profile (%)	51%	59%	60%	62%	72%	-
Prudent	0.6	1.6	1.3	1.1	1.2	5.8
Base	1.7	2.9	2.5	2.3	2.6	12.0

Partner allocation summary

The table below details the departmental allocations assumed within the model. It sets out the assumed benefit across partners as per the aggregated pilot data.

Department	% allocation of net benefits	Annual Net Benefit (£bn)
Total Annual Net Benefit in thematic area:		2.8-5.0
DH	67%	1.9-3.4
DCLG - Local Government ⁶	31%	0.9-1.6

Departmental annual benefits related to DEL expenditure

The table below provides an overview of the net benefits as a relation to the DEL expenditure limit for each government department.

⁶ The term DCLG Local Government was titled Departmental Expenditure Limit - Local Government in the Vote on Account by HM Treasury. For the purposes of this report the term represents the level of savings that can be attributed to local authorities and not DCLG.

Department & Benefits (£bn)	DEL Expenditure for that Department (£bn)	Representative saving as % of DEL
DH save: 1.9-3.4	£111.6	2%-3%
DCLG - Local Government save: 0.9-1.6	£26.0 ⁷	3.5%-6%

6.2.2 Scenario – testing the aggregated results for sensitivity

In order to test the robustness of the results of the model, and to develop an increased understanding of the relationships between input and output variables in a system or model, a series of scenarios have been modelled.

Scenario 1: 'Testing the sensitivity of five year benefit position'

The following scenario tests the sensitivity of the overall benefit position. It tests the scenarios to see how much of the savings could be 'leaked' before a negative five year benefit occurs.

5 Year Net Benefit (£bn)	£5.8-£12.0
This 5 year net benefit reduces to zero when benefit assumptions in the model decrease by:	52%-69%

Potential causes of benefit leakage include: demand variances, the ability to release cash from the system and hurdles in engagement. For Health & Social care the range of potential variance is 52-69% against a 5 year net benefit profile of £5.8-£12bn.

Scenario 2: 'Testing the potential range of benefit for Partners'

The summary set out below details the range of potential benefits to partner departments as proposed in the pilot cases. In all cases the Department of Health was assumed to be the main benefactor. The case that demonstrates financial benefit split of 4% Local Government and 96% DH indicates the importance of localities developing community budgets with their local partners and local investment agreements.

Department	% allocation in aggregation	Range of allocation across cases
DH	67%	56%-96%
DCLG - Local Government	31%	4%-44%

Scenario 3: 'Testing the sensitivity of when benefits are realised'

The scenario tests the sensitivity of the overall benefit position if the assumed benefit profile was delayed. It tests the scenario to see how much of the savings could be 'delayed' before a negative NPV occurs. In Health & Social Care aggregation it is assumed that the break-even point for the 5 year net benefit would be between 3-4 years.

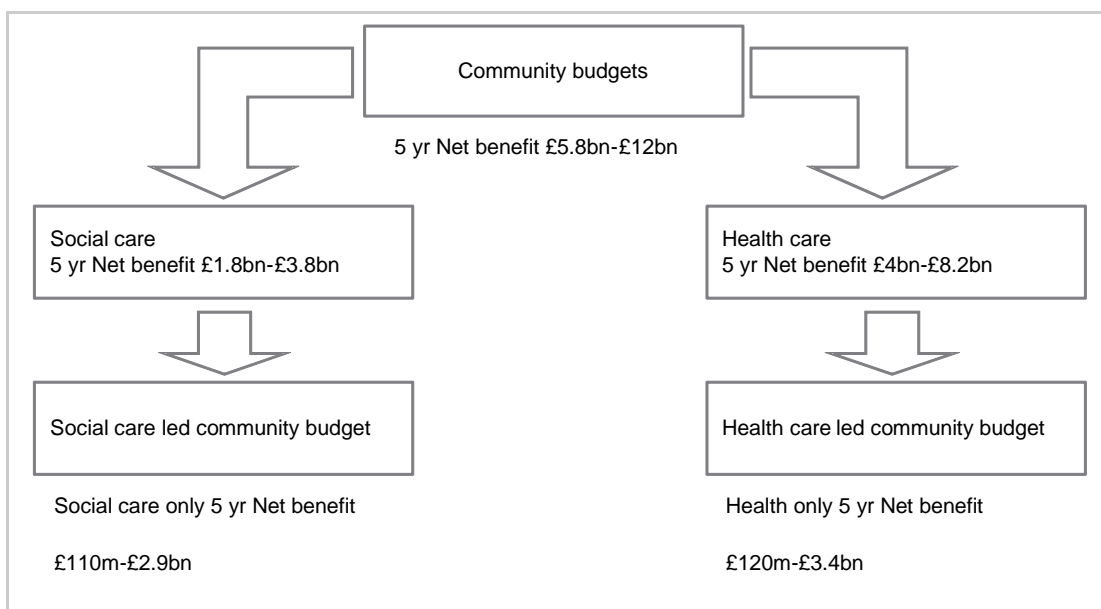
5 Year Net Benefit (£bn)	£5.8-£12.0
This 5 year net benefit reduces to zero when benefits are delayed by:	3 years-4 years

⁷Departmental Expenditure Limit - Local Government is a representative figure for the purposes of this report and includes expenditure arising from financial support to local authorities, including revenue support grant and national non-domestic rates; council tax freeze, emergency assistance, elected mayors; improvement, transformation and efficiency; intervention action and capacity building in local authorities; local government reviews and revisions to administrative and electoral boundaries; payments to specified bodies; payments to the Valuation Office Agency for rating and valuation services; Audit Commission disbanding costs; GLA General Grant; Private Finance Initiative Special Grant. The figure excludes locally raised financing in the form of taxation and income.

Scenario 4: ‘Testing the importance of an integrated approach’

This sensitivity demonstrates the impact if one party were to lead a solution, and drive individual outcomes specific to their sector, i.e. one partner receives 100% of the financial rewards allocated to them.

The diagram indicates the potential impact on partner benefits should this scenario occur.



The diagram above shows that a single party led solution can lead to an overall positive NPV and breakeven over the 5 year Community Budgets programme. It does however limit the potential of realised benefit to align with that of the prudent scenario, whilst taking the full risk.

For example, if a health led community budget occurred and health realised 100% of their full benefit this would lead to a potential benefit range of £120m-£3.4bn over 5 years, relative to the potential benefit of full collaboration £4bn-£8.2bn.

It can be observed that there is more potential benefit to be unlocked through whole place community budgets. Similarly, should the converse happen and a social care led solution occurs, the potential benefit range is £110m-£2.9bn, against a total solution benefit of £1.8bn-£3.8bn.

6.3 Families with Complex Needs

6.3.1 Aggregated net benefits

Overall summary

Whole place community budgets for families with complex needs could lead to potential steady state annual benefits of £0.4bn to £1.2bn which represents 4% to 13% of the assumed addressable spend.

Total annual recurring addressable cost (£bn)		£9.0
Total Annual Net Benefit (£bn)	This is the potential annual net benefit	£0.4-£1.2
% Reduced	This is the percentage reduction of the overall recurring cost	4%-13%
Net Fiscal Benefit (£bn)	This is the total Net fiscal benefit over 5 years (NPV @ 3.5%)	£0.5-£2.7

Pilot sites stated in their business cases that there are local and national changes which could help broker investment, and improve cross partner working to sustain this work.

The basis for aggregation was 117,000 families defined by the Troubled Families Unit and the current TFU cohort spend of £9.0bn. The cohort size for each pilot site which was used the basis for their cost benefit analysis and are recognised as TFU cohort numbers is set out, along with the national cohort, in the table below.

Pilot	Current TF Cohort (as per TFU Listing)
Tri-borough	614
Greater Manchester	8,090
Essex	2,220
West Cheshire	525
Current TFU Cohort	117,000

The annual net benefit in families with complex needs is the result of successful interventions for low level emotional and mental health disorders that reduce drug and alcohol dependency and associated criminal and health costs. Community budgets also enables the reduction of possession orders and temporary eviction notices, the number of benefit claimants and a reduction in the proportion of children placed in residential or foster care.

Benefit realisation summary

The table below shows the assumed benefit realisation profile derived from the aggregated pilot sites business cases. The scale of benefit indicates that it will take longer than 5 years to realise the full benefit of the schemes. There is a peak after 2 years, which decreases again in later years. This is due to the profiling assumptions adopted by the pilot sites, and impact of local factors on their assumptions.

£bn	Yr 1 (y/e 31/03/13)	Yr 2 (y/e 31/03/14)	Yr 3 (y/e 31/03/15)	Yr 4 (y/e 31/03/16)	Yr 5 (y/e 31/03/17)	Total 5 year
Profile (%)	46%	74%	65%	62%	57%	-
Prudent	0.0	0.0	0.2	0.2	0.1	0.5
Base	0.4	0.5	0.7	0.6	0.5	2.7

Partner allocation summary

The table below details the departmental allocations assumed within the model. It sets out the assumed benefit across departmental partners in a prudent to base range.

Department	% allocation of net benefits	Annual Net Benefit (£bn)
Total Annual Net Benefit in thematic area:		0.4-1.2
DCLG - Local Government ⁸	22%	0.1-0.3
DH	21%	0.1-0.3
DWP	26%	0.1-0.3
HO	13%	0.1-0.1
MoJ	9%	0.0-0.1
DfE	8%	0.0-0.1

⁸ The term DCLG Local Government was titled Departmental Expenditure Limit - Local Government in the Vote on Account by HM Treasury. For the purposes of this report the term represents the level of savings that can be attributed to local authorities and not DCLG.

Departmental annual benefits related to DEL expenditure

The table below provides an overview of the net benefits as a relation to the DEL expenditure limit for each government department.

Department & Benefits (£bn)	DEL Expenditure for that Department (£bn)	Representative saving as % of DEL
DCLG - Local Government save: 0.2-0.4	£26.0 ⁹	0.8%-1.5%
DH save: 0.1-0.4	£111.6	0.1%-0.3%
DWP save: 0.2-0.5	£161.4 (AME)	0.1%-0.2%
HO save: 0.1-0.2	£114.1	0.1%-0.3%
MOJ save: 0.1-0.2	£9.8	1%-2%
DfE save: 0.1-0.1	£54.0	0.1%-0.2%

6.3.2 Scenario – testing the aggregated results for sensitivity

Scenario 1: 'Testing the sensitivity of five year benefit position'

The following scenario tests the sensitivity of the overall benefit position. It tests the scenarios to see how much of the savings could be 'leaked' before a negative NPV occurs.

5 Year Net Benefit (£bn)	£0.5-£2.7
This 5 year net benefit reduces to zero when benefit assumptions in the model decrease by:	48%-74%

Potential causes of benefit leakage include, demand variances, the ability to release cash from the system and hurdles in engagement. For troubled or complex families the range of potential variance is 48-74% against a 5 year net benefit profile of £0.5-£2.7bn.

Scenario 2: 'Testing the potential range of benefit for Partners'

The summary set out below details the range of potential benefits to partner departments as proposed in the pilot cases. There is a wide range of benefactors from community budget initiatives across all spending departments; such is the diverse and multi-disciplinary approach to troubled or complex families.

Department	% allocation in aggregation	Range in cases
DCLG - Local Government	23%	8%-46%
DH	21%	1%-54%
DWP	26%	10%-51%

⁹Departmental Expenditure Limit - Local Government is a representative figure for the purposes of this report and includes expenditure arising from financial support to local authorities, including revenue support grant and national non-domestic rates; council tax freeze, emergency assistance, elected mayors; improvement, transformation and efficiency; intervention action and capacity building in local authorities; local government reviews and revisions to administrative and electoral boundaries; payments to specified bodies; payments to the Valuation Office Agency for rating and valuation services; Audit Commission disbanding costs; GLA General Grant; Private Finance Initiative Special Grant. The figure excludes locally raised financing in the form of taxation and income.

HO	13%	6%-23%
MoJ	9%	0%-27%
DfE	8%	0%-22%

In this case the allocation of benefit there is a wide distribution of benefits across different departments. The allocation to DWP is all assumed AME spend as it is linked to the reduction of individuals claiming benefits, following interventions through proposed community budget initiatives. The remainder of the benefit is assumed to be resource DEL as there is no impact on capital programmes or annual managed expenditure.

Scenario 3: 'Testing the sensitivity of when benefits are realised'

This is a sensitivity test to assess the impact of the 5 Year NPV if the assumed benefit realisation profile was delayed. The scenario above tests the sensitivity of the overall benefit position if the assumed benefit profile was delayed. It tests the scenarios to see how much of the savings could be 'delayed' before a negative NPV occurs. In the aggregated theme for families with complex needs it is assumed that the break-even point for the 5 year net benefit would be between 3-4 years.

5 Year Net Benefit (£bn)	£0.5-£2.7
This 5 year net benefit reduces to zero when benefits are delayed by:	3 years-4 years

6.4 Work and Skills

6.4.1 Aggregated net benefits

Overall summary

Whole place community budgets Work and Skills could lead to potential steady state annual benefits of £1.0bn-£1.7bn which represents 2%-4% of the assumed addressable spend.

Total annual recurring addressable cost (£bn)		£41.4
Total Annual Net Benefit (£bn)	This is the potential annual net benefit	£1.0-£1.7
% Reduced	This is the percentage reduction of the overall recurring cost	2%-4%
Net Fiscal Benefit (£bn)	This is the total Net fiscal benefit over 5 years (NPV @ 3.5%)	£3.1-£5.9

The majority (85%) the addressable spend is comprised of AME budgets, through the social security allocations. However there is also a DEL (15%) which can be achieved through up skilling the unemployed to allow for increase employment prospects and opportunities.

It is important to note in this section that there are also wider social and economic benefits for the Work and Skills theme, bringing additional wealth to a local area, through prosperity and growth and an increased Gross Value Added (GVA).

The aim of the pilot sites has been to place each of the localities in the best possible position to benefit from future economic growth. Each of the pilot sites considered how they could promote growth more effectively and identified the fit between local training and local skills needs as a key priority.

This will be achieved through the delivery of a better skills system, sustainable employment, with wider business benefits from ready access to a pool of skilled employees increasing the value of local economies and reducing welfare dependency.

The proposals include the re-design of vocational skills in Essex to fit local labour market needs through a payment by results funding model which aims to create 8,000 additional apprenticeships by 2020.

In Greater Manchester the objectives are to reduce the number of people on Employment Support Allowance through a 'Fit for Work' service and an enhanced offer for Employment Support Allowance claimants, combined with improving qualifications and work opportunities for young people and increasing progression in the labour market for low skilled residents.

Tri-borough believe that benefits are delivered by introducing an Employability Programme that runs from the first year of secondary education through to sixth form or further education college and making this a key part of the school curriculum and prioritising skills funding on achieving job outcomes. It estimates they can give 3,500 young people a year a better chance of finding work.

West Cheshire is proposing new employment and skills hubs which will co-locate national and local agencies in specific neighbourhoods to provide a tailored offer through specialist advisers to different groups of job seekers including young people, over 50's and the long term unemployed.

The annual net benefit in work and skills is the result of a reduction in the proportion of short-term and long-term benefit claimants. There is also likely to be an improvement in the health of JSA/ESA claimants leading to a reduction in health expenditure. There is also likely to be a reduction in the number of NEETs and as the impact of employment takes effect then crime will also reduce.

Benefit realisation summary

The table below shows the assumed benefit realisation profile derived from the aggregated pilot sites business cases. The scale of the proposed Work and Skills whole place community budget initiatives proposed by the pilot sites, indicate that it will take longer than 5 years to realise the full benefit of the schemes.

All of the variables within the model have been derived from pilot cost benefit analysis. Unfortunately there was limited profiling data; hence the usual validation across all pilot cases was not able to be undertaken.

£bn	Yr 1 (y/e 31/03/13)	Yr 2 (y/e 31/03/14)	Yr 3 (y/e 31/03/15)	Yr 4 (y/e 31/03/16)	Yr 5 (y/e 31/03/17)	Total 5 year
Profile (%)	47%	73%	82%	98%	85%	-
Prudent	(0.1)	0.7	0.8	1.0	0.8	3.1
Base	0.3	1.2	1.4	1.7	1.4	5.9

Partner allocation summary

The table below details the departmental allocations assumed within the model. It sets out the assumed annual net benefit across departmental partners in a prudent to base range.

Department	% allocation of net benefits	Annual Net Benefit (£bn)
Total Annual Net Benefit in thematic area:		1.0-1.7
DWP	69%	0.7-1.2
HO	14%	0.1-0.2
DH	14%	0.1-0.2
MoJ	2%	0.02
DfE	1%	0.01-0.02

Departmental annual benefits related to DEL/AME expenditure

The table below provides an overview of the net benefits as a relation to the DEL or AME expenditure limit for each government department.

It has been assumed that all of the benefits are allocated to the resource DEL budgets, as there are no capital programmes in the community budget proposals. The only exception that is a benefit in relation to AME is DWP social security benefits.

Department & Benefits (£bn)	DEL Expenditure for that Department (£bn)	Representative saving as % of DEL
DWP save: 0.7-1.2	£170 (AME)	0.4%-1%
HO save: 0.1-0.2	£10.9	1%-2%
DH save: 0.1-0.2	£111.6	0.1%-0.2%
MoJ save: 0.02-0.03	£9.8	0.2%-0.4%
DfE save: 0.01-0.02	£54.0	0.02%-0.03%

6.4.2 Scenario – testing the aggregated results for sensitivity

Scenario 1: 'Testing the sensitivity of five year benefit position'

The following scenario tests the sensitivity of the overall benefit position. It tests the scenarios to see how much of the savings could be 'leaked' before a negative NPV occurs.

5 Year Net Benefit (£bn)	£3.1-£5.9
This 5 year net benefit reduces to zero when benefit assumptions in the model decrease by:	73%-84%

Potential causes of benefit leakage include, demand variances, the ability to release cash from the system and hurdles in engagement. For Work & Skills the range of potential variance is 73-84% against a 5 year net benefit profile of £3.1-£5.9bn.

Scenario 2: 'Testing the potential range of benefit for Partners'

The summary set out below details the range of potential benefits to partner departments as proposed in the pilot cases.

There is a range of benefactors from community budget initiatives with the majority allocated to DWP. All of the pilot sites assumed that DWP was the principle beneficiary to the scheme. Interestingly there are no local benefits to the local authorities.

Department	% allocation in aggregation	Range in cases
DWP	69%	52%-84%
HO	14%	4%-36%
DH	14%	7%-25%
MoJ	2%	0%-8%
DfE	1%	0%-4%

Scenario 3: 'Testing the sensitivity of when benefits are realised'

This is a sensitivity to assess the impact of the 5 Year Net benefit if the assumed benefit realisation profile was delayed. The scenario above tests the sensitivity of the overall benefit position if the assumed benefit profile was delayed. It tests the scenarios to see how much of the savings could be 'delayed' before a negative NPV occurs.

In the aggregated Work and Skills theme it is assumed that the break-even point for the 5 year net benefit would be in the 4th year.

Five Year Net Benefit (£bn)	£3.1-£5.9
This five year net benefit reduces to zero when benefits are delayed by:	3 years

Scenario 4: 'Are localised partners incentivised to deliver'

This scenario tests whether localised financial benefits are enough to incentivise a Community Budget approach to work and skills. The proposals are underpinned by the premise to get citizens back to work; however the biggest benefactor in of the model is the Department for Work and Pensions through the Social Security AME budget. Community budgets will therefore lead to a drive from the centre to deliver a localised solution.

5 Year Net Benefit (£bn)	£3.1-£5.9
This 5 year net benefit when the benefit to the DWP is removed:	£143m-£1.0bn

Should the benefits allocated to DWP (69% of total net benefits) be excluded from the CBA analysis, there is still a positive NPV for the localised partners, ranging from £143m-£1bn over 5 years, indicating that there is an incentive locally. However, it creates a much higher risk for local partners to deliver and highlights the importance of support from DWP in this area.

7. What next for Community Budgets?

7.1 Implementation of the pilot site business cases

Whole place community budgets potential is wide ranging and significant across local public services as it has the ability to:

- ▶ Move to implement the business cases developed by the pilot sites and deliver both improved outcomes for citizens and significant cashable savings; and
- ▶ Wider rollout of community budgets to other areas of England to deliver new innovative service delivery models and deliver significant cashable savings with improved outcomes.

This report cannot predict the level and extent of savings that will actually be achieved in these areas. Instead it aims to provide a summary of the key considerations and observations from the aggregation work in considering the potential next steps for community budgets.

The pilot sites are now taking forward their own conversations to address the local factors and national pre-conditions for implementation. They then intend to move to implement their operational plans.

7.2 Financial feasibility of wider scale implementation of Community Budgets

Ernst & Young's work on aggregation has demonstrated there is the potential to scale up the results of the whole place pilots, and there is a significant opportunity for net financial benefit. These are spread across the public sector, and it is estimated that local authorities would achieve a fifth of the total net benefits achieved through community budgets across all thematic areas.

This benefit is highly sensitive to the assumptions made about the ability of other places to apply the approaches taken by the pilots. It should not be underestimated as to how difficult it will be to realise savings to the extent and scale that has been demonstrated through the results of aggregation. Not all places will be capable of achieving and delivering savings by releasing money out of the system through community budgets. Some localities will be unable to deliver against the outcomes expected from adopting new delivery models based on the principles of community budgets.

The assumed benefit realisation profile for each of the themes has been derived from the aggregated pilot sites business cases. The benefits profile, scale of the proposed initiatives and the quantum of benefits are very different for each theme and in some cases indicate that it will take longer than 5 years to realise the full benefit of the scheme.

The potential departmental allocations assumed within the model for aggregation will again differ significantly by theme. The assumed benefit has been set out across partners as per the data provided by the pilot sites. It also shows the proportion of the benefits in relation to the departmental Total Managed Expenditure (TME), Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) where this split is applicable or appropriate within the theme.

The scale of the programme will determine the quantum of what could be achieved and should allow partners to focus collectively on the strategic priorities of long-term economic growth and prosperity for all. There is a lot of work to do before this potential can be realised on a national scale but success will have a positive impact on national growth and spending.

7.3 What if others want to implement Community Budgets?

There are clear opportunities for better outcomes and the achievement of financial savings through the adoption of the principles of community budgets. This has been demonstrated through the level and extent of the evidence provided by the pilot sites in the submission of their business cases. Regardless of geography a community budgets approach has the potential to deliver improvements through improved outcomes and deliver financial benefits.

The greater the size and scale the greater the opportunity for partners to focus collectively on the strategic priorities of delivering long-term economic growth and prosperity.

This may require new forms of governance and collaborative leadership from organisations prepared to work across complex administrative boundaries, from across Government and other public sector organisations to exhibit the level of partnership working that will manage these local arrangements. This should enable the private and public sector to release the potential for innovation to improve the quality of services.

The working hypothesis tested through Ernst and Young's work is that community budgets have the potential to deliver better outcomes in addition to financial benefits. To realise the potential level of benefits set out within Ernst and Young's work on aggregation will require substantial and systemic reform to existing models of delivery within local public services. In addition to achieve wide scale and replicable change the barriers set out by pilot sites in their business cases will need to be removed to enable better outcomes at reduced cost.

Change on a sufficient scale to achieve systemic reform will also require new delivery and investment models applied to local public services. These models will need to manage the upfront risks and assess these against the potential for downstream benefit. They could be applied by Government through a place based approach, contract or investment agreement between localities.

Some of the key challenges now for Government will be to decide how to incentivise organisations delivering local public services and how to manage change with such a significant local variation in objectives and behaviours.

There needs to be a recognition that not all places will be capable of achieving and delivering savings by releasing money out of the system through community budgets and we believe careful consideration is needed to understand the impact of a larger scale and more replicable approach on localities unable to deliver against the outcomes expected from adopting new delivery models based on the principles of community budgets.

The proposals set out by the pilot sites do not appear to indicate the need for any major change in the legislative framework of Government and there may not be a need for the wholesale implementation of pooled budgets as has been considered in the past. Instead our work has highlighted the potential opportunity and difficulty of aggregation but should provide a better understanding of this potential and form the basis of a conversation on the best way to take forward the concept of community budgets.

The LGA should take the opportunity to brief the leaders of councils and to begin to test their interest in replicating the approaches developed by the pilot areas.

8. Annex

8.1 Crime and Justice

8.1.1 Limitations of the aggregation work on Crime and Justice

Detailed below in the table is a summary of the main themes for aggregation and what the scope of work in these business cases has focused on.

Theme	Scope and objective of the proposals
Crime and Justice: Domestic abuse	Joint service provision through multi-agency hubs, integrated commissioning framework and development of a perpetrator strategy.
Crime and Justice: Reducing re-offending	Local re-offending service for short sentenced prisoners with new referral teams to engage offenders at the earliest opportunity and a shift in current discretionary spend on adult reoffending.

The approach and information provided in relation to the Crime and Justice theme for Community Budgets did not allow aggregation to be undertaken on the same basis as the other theme groups. This analysis is provided as an indicative assessment of the potential range that different approaches could deliver but has not been presented in the main report owing to the limited confidence in being able to establish a 'national' or aggregated approach to the theme at this stage.

8.1.2 Domestic Abuse

The approach to national aggregation for the transforming justice theme required a different methodology, due to the diverse nature of the initiatives proposed by the pilot site.

Two of the four pilots developed community budgets proposals addressing the issue of Domestic Abuse. Given that there were only two pilots, it did not provide a robust enough data base on which to aggregate nationally. Therefore each approach has been scaled up individually to provide an indication of the range of potential benefits, noting that this has not been undertaken using the common currency methodology.

Overall summary

Whole place community budgets within the Domestic Abuse theme could lead to potential steady state annual benefits of £0.1bn to £0.4bn which represents 1% to 4% of the assumed addressable spend.

Total annual recurring addressable cost (£bn)		£9.8
Total Annual Net Benefit (£bn)	This is the potential annual net benefit	£0.1-£0.4
% Reduced	This is the percentage reduction of the overall recurring cost	1%-4%
Net Fiscal Benefit (£bn)	This is the total Net fiscal benefit over 5 years (NPV @ 3.5%)	£0.2-£0.33

Benefit realisation summary

The table below shows the level of variance between the benefit realisation profiles from the two pilots when addressing the domestic abuse. One pilot demonstrates a clear scaling up, while the other demonstrates a peak, to then taper off to a relatively constant level.

£bn	Yr 1 (y/e 31/03/13)	Yr 2 (y/e 31/03/14)	Yr 3 (y/e 31/03/15)	Yr 4 (y/e 31/03/16)	Yr 5 (y/e 31/03/17)	Total 5 year
Pilot A (%)	58%	100%	77%	75%	73%	-

Pilot A (£bn)	(0.07)	0.13	0.08	0.05	0.02	0.21
Pilot B (%)	0%	33%	67%	100%	100%	-
Pilot B (£bn)	(0.70)	(0.41)	(0.12)	0.86	0.86	0.5

Partner allocation summary

The table below details the departmental allocations assumed within the model. It sets out the assumed annual net benefit across departmental partners in a prudent to base range.

The stated benefits above are all assumed to be resource DEL, as there is no social security impact, and no capital programmes. Given that the focus of the initiative is so specific, the benefits in relation to overall DEL limits are small, and therefore have not been stated as a proportion of overall DEL as in other themes,

Department	% allocation	£bn
Total Annual Net Benefit		0.1-0.4
DCLG - Local Government ¹⁰	55%	0.03-0.1
HO	28%	0.07-0.1
DH	4%	0.04-0.1
MoJ	13%	0.02-0.03
DfE	1%	0.01-0.02

8.1.3 Re-Offending

Two of the four pilots developed community budgets proposals addressing the issue of Re-offending. Given that there were only two pilots, it did not provide a robust enough data base on which to aggregate nationally. Therefore each approach has been scaled up individually to provide an indication of the range of potential benefits, noting that this has not been undertaken using the common currency methodology.

Overall summary (£bn)

Total annual recurring addressable cost (£bn)		£19.9
Total Annual Net Benefit (£bn)	This is the potential annual net benefit	£0.03-£7.3*
% Reduced	This is the percentage reduction of the overall recurring cost	0.1%-37%
Net Fiscal Benefit (£bn)	This is the total Net fiscal benefit over 5 years (NPV @ 3.5%)	(£0.3)-£12.6*

**It should be noted that the data for the Essex re-offending business case has been excluded from the analysis as it has been developed based on a Ministry of Justice financial model with restricted access.*

The summary above details the potential level of benefit should individual pilot site data be aggregated nationally. The scope and assumed cohorts are very different across both of the examples; however it is demonstrative of potential benefits relating to Crime & Justice,

The table above demonstrates a range which includes a negative NPV. This is driven by a high cost base relative to low benefit realisation in year 1, however if the programme were to

¹⁰ The term DCLG Local Government was titled Departmental Expenditure Limit - Local Government in the Vote on Account by HM Treasury. For the purposes of this report the term represents the level of savings that can be attributed to local authorities and not DCLG.

continue beyond 5 years, it would lead to a positive NPV. It is worth observing that this demonstrates that local solutions may not all lead to positive results nationally, as relationship with demand and cost will vary as demonstrated here.

Benefit realisation summary

The table above shows the level of variance between the benefit realisation profile between the two pilots when addressing re-offending both pilots demonstrates a clear ramp up, however one exceeds 100% assuming that each perpetrator currently commits more than one crime.

£bn	Yr 1 (y/e 31/03/13)	Yr 2 (y/e 31/03/14)	Yr 3 (y/e 31/03/15)	Yr 4 (y/e 31/03/16)	Yr 5 (y/e 31/03/17)	Total 5 year
Pilot A (%)	36%	81%	110%	139%	154%	-
Pilot A (£bn)	2.3	1.7	1.9	2.9	4.8	13.7
Pilot B (%)	0%	33%	67%	100%	100%	-
Pilot B (£bn)	(0.2)	0.03	0.04	0.04	0.04	(0.02)

Partner allocation summary

The table below details the departmental allocations assumed within the model. It sets out the assumed annual net benefit across departmental partners. As one scenario shows a negative NPV only positive allocations have been recorded.

Department	% allocation	£bn
Total Annual Net Benefit		(0.3)-12.6
DCLG - Local Government ¹¹	5%	0.37
HO	39%	2.87
DH	11%	0.81
MoJ	43%	3.16
DWP	2%	0.15

Departmental annual benefits related to DEL/AME expenditure

The stated benefits above are all assumed to be resource DEL, as there is no social security impact, and no capital programmes. The only exception to this is benefits allocated to DWP which represent AME social security benefits.

The series of tables set out below detail the potential benefits in relation to overall departmental expenditure limits. It has been assumed that all of the benefits are allocated to the resource DEL budgets, as there are no capital programmes in the community budget proposals. The only exception that is a benefit in relation to AME is DWP social security benefits.

¹¹ The term DCLG Local Government was titled Departmental Expenditure Limit - Local Government in the Vote on Account by HM Treasury. For the purposes of this report the term represents the level of savings that can be attributed to local authorities and not DCLG.

Department & Benefits (£bn)	DEL Expenditure for that Department (£bn)	Representative saving as % of DEL
DCLG - Local Government save: 0.37	£26.0 ¹²	1.4%
HO save: 2.87	£10.9	26.2%
DH save: 0.81	£111.6	1%
MoJ save: 3.16	£9.8	32.3%
DWP save: 0.15	£161.4 (AME)	0.1% (AME)

¹²Departmental Expenditure Limit - Local Government is a representative figure for the purposes of this report and includes expenditure arising from financial support to local authorities, including revenue support grant and national non-domestic rates; council tax freeze, emergency assistance, elected mayors; improvement, transformation and efficiency; intervention action and capacity building in local authorities; local government reviews and revisions to administrative and electoral boundaries; payments to specified bodies; payments to the Valuation Office Agency for rating and valuation services; Audit Commission disbanding costs; GLA General Grant; Private Finance Initiative Special Grant. The figure excludes locally raised financing in the form of taxation and income.

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