

An Assessment of the Options for Local Government Service Delivery Phase II Draft Report (Economic Appraisal)

Belfast City Council Initial Comments

1. Overview

- 1.1 Belfast City Council welcomes the opportunity to comment on the PriceWaterhouseCoopers draft Phase II report “Economic Appraisal of options for local government service delivery” commissioned by the Department of the Environment.
- 1.2 This economic appraisal is fit for purpose as a high level strategic document intended to provide advice on the overall direction of travel. However, as contained within the report, detailed design is needed before the costs of transition and transformation can be clearly established and savings properly assessed. Therefore, this high level analysis should not be used to determine the level of upfront investment required nor should the potential savings be set as a target at this stage.
- 1.3 In reviewing the PwC report and the proposals contained therein, the Council would make the following observations.

2. Vision for Local Government

- 2.1 The Council would be fully supportive of the aspirations for local government as set out in the PriceWaterhouseCoopers report including the role of Councils in:
 - **Providing strong local government** with service performance and costs of delivery in line with national best practice;
 - **Adding value for citizens** with increased citizen confidence and increased participation in local democracy;
 - **Attracting developing and retaining high quality and dedicated staff** with increased satisfaction levels and reduced staff turnover;
 - **Providing service excellence** with increased citizen satisfaction with services and value for money; and
 - **Providing value for money** with minimum rate increases and decreased costs.
- 2.2 The Council notes that the analysis set out within the PriceWaterhouseCoopers draft report recommends new councils which are citizen focused, organised to deliver services in line with best practice and seeking to deliver value for money through their internal processes and collaboration with each other. This is a compelling vision and one which the Council would fully endorse.

3. Deliverability

- 3.1 It is important to recognise that the transition to 11 new councils with new services transferring from central government will be a challenging task for local government and will represent the most far reaching change faced by local government in Northern Ireland in more than thirty years. It is important that this change is founded upon the support of key stakeholders in local government – local citizens, elected representatives, staff and managers.
- 3.2 Trying to undertake transition and transformation simultaneously, in addition to any consideration given to the establishment of a Business Services Organisation shared service model (as suggested as option 5) is high risk and will be difficult to deliver given the time remaining and the level of resources and capacity that would be required.

- 3.3 There is not adequate consideration given to the significant lead in time required to bring effect to the proposals put forward (particularly in relation to option 5); or any understanding of the necessary infrastructure required to maintain service continuity whilst going through a change process such as the RPA.
- 3.4 The Council has previously stressed the importance of ensuring the continuity of service delivery in the transition to the new councils and during the local government reform process. Services cannot start and stop once the new councils are well established or once transformation takes place. Services are being delivered now and must continue to be delivered well throughout the transition period. We do not believe that the PriceWaterhouseCoopers report reflects adequately the extent and complexity of the change that will be necessary in the transition to new councils and the maintenance of services during that period.
- 3.5 The potential disruption to service delivery in the initial transition period when there is likely to be a loss of significant numbers of experienced councillors and managers and when nearly 1,000 staff will be transferred to newly created employers needs to be planned for and managed carefully.
- 3.6 While there is a lot of merit in stressing the importance of transformation as we move into RPA to generate efficiencies and improve customer service, to believe that local government could cope with this in the two years or less now available, may be unrealistic.
- 3.7 To take this on with an imperative of completion prior to introduction of the transferring functions in 2011 would be a mammoth task and it is difficult to see how Belfast City Council (notwithstanding the merging councils) would cope with this without losing a lot of ground in a number of the areas of improvement we have already embarked upon.

4. Baseline Costs and Assessment of Costs and Savings

- 4.1 We recognise that this report is intended as a high level strategic analysis. Clearly it is important that much more work is needed to verify all elements of the financial appraisal.
- 4.2 For example, work is needed to ensure that the assumptions used to determine baseline costs are robust and transparent, as these baseline costs have been used to calculate the transformation costs and benefits to be realised under the various options considered within the PwC economic appraisal. In addition, costs relating to transferred services and capital expenditure have been included in the baseline from which the potential savings are then estimated. However, it is highly unlikely that the RPA process will be able to achieve savings on such expenditure in the short to medium term in all Councils and particularly in the case of Belfast. Indeed, it is highly likely that capital costs (and indeed other costs) may increase due to a need for equality across new boundaries. .
- 4.3 The report attempts to quantify the potential efficiency savings (or otherwise) for each of the proposed service delivery options The Council would have major concerns about the unspecified and unsupported nature of the costs and savings estimates presented within the report which are based on high level benchmarks and would seek further clarification and detailed work on the assumptions behind this analysis.
- 4.4 The Council notes that both transformation costs and savings are simply presented as percentage figures of gross revenue expenditure and these percentages have been arrived at on the basis of unspecified English Council experience. There is no recognition of the different context and scale of operation of English councils and the associated difficulty in making any comparison. Local government within NI will continue to deliver a limited suite of functions and be responsible for a minority share of the public purse in comparison to their English council counterparts and, therefore, it would not be viable to assume a direct read across.
- 4.5 Furthermore, the Council would suggest that without a clear understanding of what systems and structures will result from the changes proposed by PwC, it is impossible to undertake any prudent assessment of potential costs and savings to be realised. The

PwC report itself acknowledges this very point when referring to Programme Delivery Costs at para 5.14 (page 78):

“The key challenge in developing this section of the Economic Appraisal has been in relation to estimating the costs of future service delivery for newly formed organisations when the detailed design of those organisations (a process which we are also costing for) is not complete, and in many cases not even started. In order to meet this challenge, we have had to make a series of prudent assumptions in conjunction with the relevant impacted stakeholders”.

- 4.6 It would be wrong to enter into a major re-organisation and remodelling of public services without a robust appraisal of potential costs and savings. Funding arrangements and savings targets must be arrived at on the basis of a more comprehensive analysis taking into account the circumstances for each local council and all concerned need to be satisfied that the high level assumptions about costs and savings are robust within the context of Northern Ireland’s new councils.
- 4.7 It is the Council’s view that it will take much more than a series of prudent assumptions to satisfy both elected members and the general public that the proposed cost of implementing option 5 is a) reliable and b) justifiable.

5. Cost vs. Outcomes

- 5.1 The report seems to be focused on process as opposed to securing strong local government and improved service delivery. The report does not reflect a real understanding of the role of local government especially with respect to its accountability to the citizen through electoral mandated politicians, the difference of place (localism) and the need to create public value.
- 5.2 If gaining efficiencies is the key driver, there are alternative proven methods which would be more conducive to a focus on outcomes for the community e.g. securing target driven efficiencies through the introduction of Local Area Agreements or Multi-Area Agreements which also support service improvement.
- 5.3 The Council would suggest that consideration should be given to the recent publication of the Government’s ‘Operational Efficiency Programme’ which seeks to secure greater efficiencies and provide value for money public services through setting efficiency related targets across a range of areas and ensuring that such targets are adhered with.
- 5.4 Incidentally, there will be difficulties in regard to capturing any RPA related efficiencies on a sectoral basis given the current financial constraints of local government. This will clearly need to be considered further alongside the wider thinking around the future financial and performance management regimes to be put in place for local government.

6. Need to build on the success of Local Government

- 6.1 There is clearly an absence of any consideration or analysis of the current structures in place or of the performance of existing councils within Northern Ireland. There is no analysis of the lessons learnt in terms of what has worked and what hasn’t, which should be surely the starting point for such an exercise. There is no recognition of how councils have improved over recent years and delivered greater efficiencies and improved services with no additional resources.
- 6.2 Whilst the RPA reform process will result in the establishment of 11 new councils, it is important to recognise that we are not working from a blank canvass. All efforts should be made to identify and build upon the successes already achieved by particular councils /council clusters and build upon these as we move forward. Such an assessment would also highlight potential areas whereby greater collaboration by councils could be pursued.

Belfast Experience

6.3 It is important to recognise that enhancing efficiency whilst improving service delivery is not a new challenge for local authorities. Belfast City Council has worked strenuously over the past 4 years to take forward its own comprehensive improvement (transformational) programme which has sought to put in place the foundations of a successful 'fit for purpose' organisation and to prepare itself for the outworking of the RPA process. For example:

- Revised governance arrangements to improve decision making processes, through the introduction of a streamlined committee structure and the establishment of a Strategic Policy and Resources Committee which has responsibility for overseeing strategy, policy, improvement and resources within the organisation. We introduced an enhanced scheme of delegation for Chief Officers which reduced the amount of necessary council business. The Strategic Policy and Resources Committee has seamlessly become the Council's RPA Transition Committee
- Developed and implemented the necessary infrastructure (e.g. key strategic frameworks such as Performance, Finance, HR, Communications, Customer Focus, ICT) which enables us to holistically consider any changes (including RPA), examine potential organisational consequences and identify what actions are required
- Aligned the corporate planning, financial planning and performance management processes within the organisation
- Moved away from a purely functional service delivery model to an approach whereby we now deliver on a functional, area and thematic basis simultaneously
- Introduced a new innovative performance management framework which supports continued service improvement and puts performance at heart of planning and demonstrates clear links between corporate strategy and delivery of council services. This has been cascaded through individual performance improvement plans

6.4 As a consequence, Belfast City Council has continued to improve service delivery whilst securing efficiencies in excess of £7m from the baseline budget over the past 3 years. This is particularly pertinent given the fact that Belfast City Council would be more akin, in terms of both scale and structure, to the new local government arrangements which are to emerge from the RPA. It is therefore difficult to ascertain why no consideration has been given to the Belfast situation or an analysis undertaken of the potential lessons to be learnt.

7. Target Operating Model (TOM)

7.1 The Council would have concerns with regard to the proposed Target Operating Model and would suggest that it is very much process driven, focusing on efficiency rather than the outcome based approach which councils pursue. Limited recognition of the political dynamics within which local government operate.

7.2 There is no recognition of the current drive by some councils to adopt a more cross-cutting, integrated and thematic based approach to delivering services and meeting the needs of citizens.

7.3 Local government adapt to the organic nature of communities and the difference of place (urban vs. rural, major city vs. town), and aim to reprioritise and refocus efforts to deliver local priorities. Councils need to have the necessary flexibility and autonomy to address local needs and, therefore, a 'one-size fits all' approach would be disconnected and undeliverable. This is the essence of Community Planning which the report refers to but then fails to reflect in its recommendations.

7.4 It could be argued that the TOM looks to build a solution to a problem that has not been articulated or proven and attempts to achieve transformation in advance of transition.

8. Business Support Organisation (BSO)

- 8.1 Whilst the Council would recognise the potential benefits to be gained through greater collaboration in the delivery of back office services where aggregation provides for potential efficiencies (e.g. through economies of scale), it would not support the proposed development of a Business Services Organisation as set out within the PwC report as the necessary business case is not clearly defined within the report and more robust analysis and detailed design is needed before establishing such an organisation.
- 8.2 The Council would suggest that there are more innovative and effective solutions than the creation of a new quango with statutory powers which local government is obliged to fund, the services of which local government may be obliged to receive and to which 1000 or more staff are proposed to transfer. In addition, introducing such an organisation at a time of such major change and reform may put all organisations at significant risk of a breakdown in services, controls and governance arrangements. A delay to this particular aspect would also allow the robust analysis referred to above to be completed.
- 8.3 The Council would also seek evidence of the success or otherwise of already established shared services models within Northern Ireland and would note a recent statement¹ made by Sir Peter Gershon, leading expert on the Efficiency Review for the UK Government...

...“agencies should benchmark what they are currently doing, and improve themselves, before deciding whether it makes sense to enter into a shared service agreement.

But while they do so, they may find out that externally sourcing some of their processes could be a good fit, irrespective of whether there are other agencies to share those services with. In other cases, they may discover that collaborating with each other (which ranges from buying together, to sharing processes and assets, to centralising them) is the way to go.

The economic downturn will call for grater sharing and consolidation, but it is important to dispel the myth that shared services are the solution to most problems and recognize that – sometimes - they make problems even more complicated”

- 8.4 The Council would recommend that a more appropriate model would be an enabling organisation created by the councils themselves which would adopt the most appropriate model of collaboration for particular services, be that lead council, centres of excellence, or commercial providers. Whilst some of these options are alluded to within the main body of the PwC report, they did not find expression in the final recommendations.
- 8.5 Any collaborative approach to be considered must be subject to a robust ‘value for money’ test and a detailed assessment of the real benefits for the council(s) concerned. If however, it can be demonstrated that an existing or alternative approach within a local council can provide optimum value for money and a better level of service, then it should be utilised rather than the BSO.
- 8.6 If a decision is taken to progress with the proposed establishment of a central Business Support Organisation, the Council would advocate that the transfer of functions to the BSO must be voluntary and if a Council can demonstrate VFM in other arrangements it will be allowed to continue those arrangements. Any move towards a back office shared service type model should only be undertaken on a very carefully selected and controlled basis. The Council would advocate that it would be the role of councils to negotiate the design arrangements of the BSO, if brought forward. The Council would suggest that the design principles could include such elements as:
- Strong effective governance model, fully accountable to councils
 - The collaborative services provided must be developed in partnership with councils and agreed by them.

¹ Sir Peter Gershon; *Efficiency Review for the Australian Government’s Use of Information and Communication Technology*, October 27th, 2008

- The transfer of services should be voluntary and subject to a VFM test.
 - The decision for what is included in the BSO must be taken by councils and not by the BSO itself.
 - The accessibility to and responsiveness of services to the citizen needs to be paramount.
- 8.7 If there is a statutory compulsion for councils to use the services of the proposed Business Services Organisation, it will be difficult to ensure best value and innovation as there will be limitations on any recourse for poor performance
- 8.8 The rationale for grouping other functions (such as Training, Major Capital Projects, Parking Enforcement, Planning Specialists and Emergency Management) within the proposed Business Services Organisation seems to rest on the perceived difficulty of disaggregating small staff numbers to 11 Councils. There is no business reason why these services should be brigaded together with back office services. Such services could readily be provided on the basis of a lead council or shared services between a number of councils rather than be provided by a separate organisation.

9. Single Waste Disposal Authority

- 9.1 Belfast City Council would welcome the consideration being given to the potential establishment of a Single Waste Disposal Authority for Northern Ireland and would highlight that this has been a stated policy position endorsed by the Council. Further clarification is sought however with regard to the governance and operating arrangements for the proposed Single Waste Authority.
- 9.2 The Council notes that the PwC report recommends that consideration be given to an option which includes waste collection and disposal in the remit of the Waste Disposal Authority. The Council would recommend that any consideration given to the potential inclusion of waste collection within a Single Waste Authority needs to be based on a robust business case and a detailed examination of all potential consequences. Such an approach runs the risk of disconnecting the delivery of the service from the accountability for performance to the citizen and political process. Councils should be afforded the opportunity to collaborate for waste collection purposes but on a voluntary basis and where there is a proven added value.

10. Local Government Association

- 10.1 Belfast City Council is fully supportive of the need for a Local Government Association and recognises its central role as a representative body and 'voice' for the sector. The Council would endorse the view that the role and priorities of the LGA needs to be reviewed within the context of the new 11 stronger council environment and would suggest that it should be the responsibility of the new member councils to agree. The Council would furthermore support the proposal set out within the PwC that a new Local Government Association should be a voluntary organisation of the member councils.

11. Delivery Options

- 11.1 Limited consideration is given to the effectiveness of service delivery from a customer perspective. There is no reference within the report to key determinants of service delivery such as segmentation of customer requirements and therefore service delivery options.
- 11.2 There is an emphasis on confusing customer services and information technology which is unhelpful. Technologies can help to facilitate customer identification and profiling, they cannot and should not drive it. Delivering effective customer services is multi-faceted and is influenced by cultural, process, policy and technological drivers.

- 11.3 There are assumptions contained within the report that some services cannot be delivered within councils whilst the thrust of the collaborative design workshops facilitated by PwC had suggested that all services could and should be delivered in house. That said there is a citizen expectation and in some case a legal obligation to provide service at a sub-regional level. This raises the question of structures and co-terminosity which can be debated separately.
- 11.4 From a BCC Building Control practitioner's perspective, there are many examples of where it is essential that council have inter-working arrangements in order to be truly effective. This does not call for the need to delivery service outside the councils, which may disadvantaged the council in terms of control and exploring local initiatives and working.
- 11.5 In the analysis of the delivery options the report does not make it clear what the role of DoE should be. Should there be a scrutiny role for example?
- 11.6 With regards to **Option 1**, the Council understands that whilst this is in fact not an option (given the RPA announcement), it has been included to serve as a comparative figure against the other options.
- 11.7 The Council does not agree that **Option 2** describes reorganisation without transformation - community planning alone will require transformation as will the integration of new functions and the building of new integrated cultures.
- 11.8 With regards to **Option 4**, the Council would query why this option could not have included just the creation of a single waste authority without the need to group it with the BSO. Is there no costing for one without the other? With regards to Option 5, the Council does not necessarily agree that "regional collaboration" equates to a BSO.
- 11.9 With regards to **option 5** the Council would have major reservations in regards to its deliverability in terms of the capacity required to implement the level of transformation proposed alongside the already complex process of transition which councils will need to undertaken. The Council would not support the establishment of a Business Support Organisation as it is framed within the report and would wish to see the business case for collaboration in the delivery of services explore a wider range of options including lead councils, centres of excellence etc. (I have referred to this above under the BSO section – you will wish to consider)

12. Funding

- 12.1 Clearly securing the necessary level of resources to take forward local government transition and/or transformation remains an issue which needs to be addressed. The Council notes the proposals set out within the report for a work package to be taken forward to produce a financial strategy which will detail the costs and funding of transition and transformation, savings targets and how they will be dealt with. The Council would, however, stress the importance and urgency of this work and that this high level analysis should only be seen as the start of this process.
- 12.2 The PwC report identifies an option of transformation costs being funded by central government loan funding with repayment coming as a result of transformation savings. This appears to be a useful suggestion, although it does not find expression in the report recommendations. If arrangements such as these are not put in place and local authorities are expected to fund the greatest part of transition and transformation funding, that is likely to place significant burdens on ratepayers at a time when there will be additional burdens from rate convergence, waste costs and water charges. This impact needs to be examined, quantified and planned for. Therefore, the Council would support the recommendation that plans are produced for the convergence of district rates which takes account of impact of water charges and that transitional arrangements are needed for taxpayers who will see rate increases as a result of convergence.
- 12.3 The Council notes that the PwC report recommends funding for transferring services via grant aid prior to the redistribution (shift) from regional rate to district rate. Again, the

Council would have concerns with regard to the robustness of the cost estimates for the transferring functions and would note that there does not appear to be a standard costs model used to capture this information. Therefore, the Council would recommend that a more detailed **due diligence review is required to identify and validate the full costs attached to the transfer of functions thus enabling more robust budget projections to be put forward and ensuring greater transparency in costs of service delivery and grant for transferring services.**

- 12.4 The report recommends that local authorities seek agreement with HM Treasury on the refinancing of legacy debt. This represents good practice in treasury management and is something the Council would wish to support given its potential benefit to be gained by councils.
- 12.5 The Council notes that the PwC report recommends that there should be limits placed on the use of cash reserves, incurring additional debt and capital investment over certain levels in the period up to creation of new councils in May 2011. The Council would seek further clarification on the level and type of restrictions to be introduced and the proposed governance arrangements and process to bring these into effect.

13. Conclusion

- 13.1 It would be hard to challenge the general principles set out within the report including applying a design based approach to establishing the Ideal Local Authority, the need for greater collaboration between councils and the potential to drive out efficiencies through economies of scale and transformation activities. The Council would be concerned, however, of the potential risk of non-delivery given the scale of the challenge and the level of capacity and resources which exists within the sector to deliver such a significant change process in the timescale detailed and ensuring continuity of service delivery throughout.
- 13.2 Whilst the Council recognises that the PwC report is intended as a high level strategic analysis, clearly there remains a significant amount of detailed work needed to verify all elements and provide a robust assessment of both transition and transformation costs and savings.
- 13.3 Notwithstanding, the Council would strongly advocate the need for urgent action to be taken across a number of fronts to ensure that the necessary momentum, capacity and resources required to bring effect to the reform of local government is secured. Local government need to be directly involved in the process.
- 13.4 The Council would suggest that as a first step in considering the potential introduction of a shared service arrangement (i.e. BSO), it is important that a robust assessment is undertaken to quantify both the back office service levels within local government and the associated costs of their current provision arrangements, and this information should be used as the basis for determining what improvements can be realised through their own internal improvement efforts, such as process simplification and a reduction in manual interventions. This will help create a stronger foundation on which to assess the additional benefits that can be obtained from moving to a shared service in the future.

SOLACE NORTHERN IRELAND BRANCH

Response to PriceWaterHouse Coopers draft report

Local Government Service Delivery - Economic Appraisal of options for local government service delivery in its entirety

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Response to PriceWaterHouseCoopers draft report

Local Government Service Delivery - Economic Appraisal of options for local government service delivery in its entirety

SOLACE Overview

1. SOLACE Northern Ireland Branch welcomes the opportunity to comment on the PriceWaterhouseCoopers draft report “Local Government Service Delivery - Economic Appraisal of options for local government service delivery in its entirety” commissioned by the Department of the Environment. The transition to 11 new councils with new services transferred from central government and the transformation of these councils by 2015 will involve the most far reaching change faced by local government in Northern Ireland in more than forty years. It is important that this change is founded upon the support of key stakeholders in local government – local citizens, elected representatives, staff and managers.
2. SOLACE Northern Ireland Branch wholeheartedly supports the aspirations for local government set out in the PriceWaterhouseCoopers report for the new councils to
 - **Provide strong local government** with service performance and costs of delivery in line with national best practice;
 - **Add value for citizens** with increased citizen confidence and increased participation in local democracy;
 - **Attract, developing and retaining high quality and dedicated staff** with increased satisfaction levels and reduced staff turnover;
 - **Provide service excellence** with increased citizen satisfaction with services and value for money; and
 - **Provide value for money** with minimum rate increases and decreased costs.
3. The analysis set out in the PriceWaterhouseCoopers draft report recommends new councils which are citizen focused, organised to deliver services in line with best practice and seeking to deliver value for money through their internal processes and collaboration with each other. This is a compelling vision and one which SOLACE Northern Ireland Branch fully endorses.
4. We support the PriceWaterhouseCoopers evaluation that a model for local government based on transformation and collaboration will deliver the kind of local government that we wish to see in Northern Ireland. However, the conclusions about costs and savings which underpin the evaluation of option 5 in the PriceWaterHouseCoopers report are largely based on percentage costs and savings derived from English councils’ experience and are not supported by detail in the report. It would be wrong to enter into a major re-organisation and remodelling of public services without a robust appraisal of potential costs and savings. Funding arrangements and savings targets will be arrived at on the basis of these figures and all concerned need to be satisfied that the high level assumptions about

costs and savings drawn from English council experience can be translated into specific actions and savings in Northern Ireland's new councils. This is not the case at present.

5. We are supportive of the Target Operating Model produced by PriceWaterhouseCoopers as a useful tool to help in organising our new councils through the transition period and subsequent development. However, we feel that the model gives only limited recognition to the political and community dimension in shaping services and the organisation of Councils. SOLACE Northern Ireland Branch has agreed a common framework for collaboration in planning the transition to new councils which incorporates these dimensions. That framework is appended to this submission.
6. SOLACE Northern Ireland Branch has previously stressed the importance of ensuring the continuity of service delivery in the transition to the new councils and during the process of transformation. This is not a project where services can start once the new councils are well established or once transformation takes place. Services are being delivered now and must continue to be delivered well throughout the transition and transformation period. We do not believe that the PriceWaterhouseCoopers report reflects adequately the extent and complexity of the change that will be necessary in the transition to new councils and the maintenance of services during that period. The potential disruption to service delivery in the initial transition period when there will be a loss of significant numbers of experienced councillors and managers and when nearly 10,000 staff will be transferred to newly created employers needs to be planned for and managed carefully.
7. We support the new roles proposed for the Northern Ireland Audit Office and the Northern Ireland Ombudsman. We also support the proposals for a new Local Government Association as a member organisation of the 11 new councils. Planning should take place for the new Local Government Association prior to May 2011. However, its role, agreement on its priorities and its funding are matters for the Association's members – the new councils.
8. We recognise the challenge faced in waste management over the coming years and support the preparation of a business case examining the options for a Waste Disposal Agency for Northern Ireland.
9. SOLACE Northern Ireland Branch supports the need for collaboration at regional level to achieve efficiencies and recognises back office support functions are potential areas of collaboration. However, we do not support the proposed model for a Business Services Organisation as presented in the report. We believe that there are more innovative and effective solutions than the creation of a new quango with statutory powers which local government is obliged to fund, the services of which local government is obliged to receive and to which 1000 or more staff will transfer. SOLACE Northern Ireland Branch believes that a more appropriate model would be an enabling organisation created by the councils themselves which would procure the most appropriate model of collaboration for particular services, be that lead council, centres of excellence, shared service centres or commercial providers.²

² The PWC report states (p192 para11.16) that it does not make any recommendations about the detailed design of any of the new or changed organisations within the scope of this Economic Appraisal. We do not believe that the recommendations can be read in this way apart from the main body of the report and have therefore commented on the organisational details presented in the report in considering the recommendations.

10. SOLACE Northern Ireland Branch is also strongly opposed to the idea, suggested by PriceWaterHouseCoopers, that strategic advice will be provided by the Business Services Organisation to councils. It is important that strategic financial, HR and ICT advice is provided to a council by directly employed staff or by organisations contracted direct by the council.

Comments on Report Conclusions and Recommendations

Overarching conclusion and overarching recommendation

11. SOLACE Northern Ireland Branch supports the overarching conclusion of the report that Option 5 “Transformation with Regional Collaboration” represents the best solution for local government in terms of financial and non financial assessments presented in the report. However, we have already noted our concerns about the unspecified (apart from ICT) and unsupported nature of the costs and savings estimates presented in the report. Both transformation costs and savings are simply presented as percentage figures of gross revenue expenditure and these percentages have been arrived at on the basis of unspecified English Council experience. A robust assessment of costs and savings is required before finalising organisational and funding decisions. We have also already recorded our lack of support for the specific model of Business Service Organisation presented in the report and will comment further at recommendation 3.

Recommendation 1 – 11 New Councils

12. SOLACE Northern Ireland Branch supports the detail of recommendation 1 setting out planning arrangements for the establishment of new councils with the caveats that an appropriate model for collaboration on back office and support services remains to be agreed; the basis for, and impact of, a potential savings target of 7.5% per annum by 2015 has yet to be substantiated or agreed; and agreement between central and local government on costs and funding for transition and transformation programmes are essential prior to undertaking these programmes. The Association of Local Government Finance Officers, Northern Ireland has set out a detailed appraisal of the transition and transformation costs and savings set out in the report. That document is appended to our reponse. SOLACE Northern Ireland Branch concurs with the issues raised by the Association of Local Government Finance Officers, Northern Ireland.

Recommendation 2 – A new generation of local government politician

13. SOLACE Northern Ireland Branch supports this recommendation.

Recommendation 3 – Business Services Organisation

14. SOLACE Northern Ireland Branch cannot support this recommendation as it is framed. We would wish to see the business case for collaboration in the delivery of services explore a wider range of options than the model of the Business Services Organisation set out in the report. The report describes a model of a statutory business services organisation from which councils would be obliged to receive services and which would be funded initially by top slicing council budgets, possibly with a charging mechanism at a later date. An estimated 1000 council staff dealing with back office functions would be transferred to this organisation together with a small number of central government staff providing a range of functions without sufficient staff to disaggregate to 11 councils. It appears that former local authority staff will remain devolved in the new local authorities, but be employed by the Business Services Organisation. It is anticipated that there will be a 20% reduction in the number of staff engaged in back office services.

15. Collaboration in the delivery of back office services, particularly transaction processing, procurement and other areas where aggregation provides efficiencies, makes sense. However, the organisational model and compulsion to use the services of a statutory Business Services Organisation should be considered carefully. It will be difficult in such a model to ensure best value and innovation. The proposed model also represents a high risk course of action, transferring key support services to a new, untried organisation with no fallback position. Experience of other local government reorganisations shows that support services, especially HR, Finance and ICT, play a key role in securing a smooth transition to new organisations. It may pose significant problems for the transition process if the focus of these services is on establishing a new Business Services Organisation rather than on the core task of establishing the new councils. We believe that it is unrealistic and undesirable to consider implementing a Business Support Organisation by May 2011.
16. The public sector has a poor record in planning for and procuring shared services and IT services. The main failings are unrealistically optimistic timescales, poor service specification, underestimated costs, overestimated savings and poor service delivery. However, the potential benefits from shared services and IT in efficiency, reduced cost and improved service delivery are significant. We believe that the current proposal for a Business Service Organisation runs the risk of missing delivery of these potential benefits.
17. Other models for the delivery of collaborative services, including the possibility of an enabling organisation which can procure services for its members in the most appropriate way, including utilising lead councils, centres of excellence, council owned public sector companies and commercial providers should be considered as part of the business case. We believe that local government should take the lead role in this process and that the project management arrangements should reflect that.
18. SOLACE Northern Ireland Branch is clear in its view that strategic advice to a council for functions such as Finance, HR, and ICT should be provided by directly employed staff or by organisations contracted direct by the council.
19. The rationale for grouping other functions (such as Training, Major Capital Projects, Parking Enforcement, Planning Specialists and Emergency Management) within the Business Services Organisation seems to rest on the difficulty of disaggregating small staff numbers to 11 Councils. There is no business reason why these services should be brigaded together with back office services. Such services could readily be provided on the basis of a lead council or shared services between a number of council rather than be provided by a separate organisation.
20. Whatever model of collaboration is agreed, consideration will need to be given to the possible impact of European Procurement Rules. The nature and scale of some of the services involved, mean that where services are procured by a council (or other contracting body) from another organisation (whether a public or private organisation), then the contracts for these services would normally need to be subject to open advertisement. There are, of course, possible exemptions to such provisions. These would need to be considered very carefully.

Recommendation 4 – Waste Disposal Authority

21. SOLACE Northern Ireland Branch supports consideration of a Waste Disposal Authority for Northern Ireland. We would wish, however, to stress that the business case for such an organisation needs to be considered prior to developing a detailed Target Operating Model.

We note that consideration is recommended of an option which includes waste collection and disposal in the remit of the Waste Disposal Authority.

Recommendation 5 – Central Government Departments

22. We note the recommendation for Target Operating Models and cost reductions in central government departments.

Recommendation 6 – Local Government Association

23. SOLACE Northern Ireland Branch supports the view that a new Local Government Association should be a voluntary organisation of the member councils. In these circumstances, it should be for the member councils to agree the role and priorities of the Local Government Association and their funding contributions to the organisation. The Target Operating Model proposed by the PriceWaterhouseCoopers report should reflect this.

Recommendation 7 – Enhanced role for Northern Ireland Audit Office

24. SOLACE Northern Ireland Branch supports the proposed enhanced role for the Northern Ireland Audit Office and the process for developing that role.

Recommendation 8 – New role for Northern Ireland Ombudsman

25. SOLACE Northern Ireland Branch supports the development of a comprehensive Code of Ethics for elected members in local government and supports the role of the Northern Ireland Ombudsman in monitoring that. We are surprised that there is no role for local government in contributing to the development of the Code of Ethics.

Recommendation 9 – Human Resources Framework

26. SOLACE Northern Ireland Branch supports the conclusion that there is a pressing need for staff in local government and relevant central government departments to be given a clear indication of which will happen to their posts. We support the recommendation for the introduction of a comprehensive human resource framework as soon as possible. We are concerned that while the PriceWaterhouseCoopers report usefully sets out high level frameworks for addressing transition issues, it does not fully capture the amount or complexity of work required in the transition to completely new organisations_or the potential loss in performance in that period. With the exception of Belfast City Council, the process of transition is not simply a question of an existing organisation taking on new functions. Creating completely new organisations with new political leadership and new senior management and the extent of potential staffing issues – recruitment, redundancy, consultation, transfer arrangements, gradings, staff relocation, appeals, accommodation issues, implementing and training for new procedures and systems - are likely to see drops in morale and productivity unless they are explicitly addressed. This is not a project where services can be put on hold until the new organisations are fully in place. We see a real need to give specific consideration to service continuity arrangements over the period from January 2011- May 2012, possibly utilising staff who would otherwise retire or be made redundant in May 2011.

Recommendation 10 – Programme of Work

27. SOLACE Northern Ireland Branch supports the recommendation for a programme of work to bring forward the design and implementation of the preferred option for the delivery of local government services and supports the overall programme management arrangements set out in the report. There is a danger in the present arrangements that work for the development of 11 new councils is unnecessarily duplicated. As mentioned at paragraph 5, above, SOLACE Northern Ireland Branch has agreed, for its interests, a common framework for collaboration in planning the transition to the new Councils which is appended to this

response. We believe that there is a role for the Regional Transition Committee in ensuring the use of common frameworks and knowledge transfer between local Transition Committees.

28. The design of programme management arrangements reflects conventional practice for managing a large programme of projects and perhaps does not recognise fully the shift of focus to the role of politicians and management of the new councils who will manage the delivery of 90% of the transformation programme. The statutory, albeit temporary, nature of transition committees needs to be reflected in proposed arrangements.

Recommendation 11 – Funding

29. The report contains an extensive discussion of various funding opportunities for local government transition and transformation. However, the report recommendations do not deal directly with the funding of transition, the funding of transformation or how savings should be dealt with. SOLACE Northern Ireland Branch supports the recommendation for a work package to produce a financial strategy which will detail the costs and funding of transition and transformation, savings targets and how they will be dealt with.
30. SOLACE Northern Ireland Branch wishes to reaffirm the principle that where legislation imposes cost burdens on local authorities, these burdens are provided for in funding by central government. Thus the costs of transition and the costs of community planning would normally be addressed as part of discussions on the grant settlement. The report identifies an option of transformation costs being funded by central government loan funding with repayment coming as a result of transformation savings. This appears to be a useful suggestion, although it does not find its way into the report recommendations. If arrangements such as these are not put in place and local authorities are expected to fund the greatest part of transition and transformation funding, that is likely to result in minimal transformation and to place significant burdens on ratepayers at a time when there will be additional burdens from rate convergence, waste costs and water charges.
31. The report recommends funding for transferring services via grant aid prior to a shift from regional rate to district rate. SOLACE Northern Ireland Branch wishes to stress the need for transparency in costs of service delivery and grant for transferring services. There does not appear to be a standard costs model being used for transferring services.
32. We support the recommendation that plans are produced for the convergence of district rates which takes account of impact of water charges and that transitional arrangements are needed for taxpayers who will see rate increases as a result of convergence.
33. The report recommends that local authorities seek agreement with HM Treasury on the refinancing of legacy debt. This represents good practice in treasury management and is something SOLACE Northern Ireland Branch would wish to support.
34. The report recommends work to examine the creation of a municipal bank utilising balances to facilitate loans to local communities and businesses. There are significant limitations on the services provided by municipal banks, usually making them unattractive to individual customers. The purpose of the recommendation appears to be to “pool” local authority reserves and provide a loans fund for local communities and businesses. We are unclear what benefits this would have over other funding arrangements for this purpose, but are content for this issue to be explored.
35. The report recommends that there should be limits on use of cash reserves, incurring additional debt and capital investment over certain levels in the period up to creation of new

councils in May 2011. These are prudent measures and ones which SOLACE Northern Ireland Branch supports.

Recommendation 12 – Equality impact Assessments

36. SOLACE Northern Ireland Branch supports the recommendation that Equality Impact Assessments are prepared for appropriate work packages in the next stage of the programme.

Recommendation 13 – A new culture, a new set of behaviours

37. SOLACE Northern Ireland Branch supports the recommendation for a project to develop a new culture and new behaviours in local government. Delivery of a transformed local government and the realisation of the potential of community planning will demand new skills and new ways of working. There are already many examples of good practice operating in local government in Northern Ireland and elsewhere upon which this change should build.

Conclusion

38. Solace Northern Ireland Branch supports the recommendation for new councils which are citizen focused, organised to deliver high quality services and provide value for money. We recognise that this demands the transformation of the way local government works and collaboration between councils. We believe that the model of a Business Services Organisation as set out in the report as a basis for collaboration is flawed and will not deliver innovation or the service improvement required. Other models of collaboration should be explored.
39. There remains a significant amount of detail to be explored to provide a robust assessment of transition costs and savings, transformation costs and savings and funding arrangements. We believe that this work must be given priority and should involve local government. Costs, savings and funding arrangements need to be ones with which local government can agree and deliver.
40. There is a need to move urgently to implement the proposed human resources framework and to remove as soon as possible staff uncertainty about the future of their posts. We believe that this is critical in the transition to the new Councils and an essential part of ensuring continuity of service delivery over this period of change. We wish to stress again that continuity of service delivery during the period of transition and transformation is something that must be given a high priority and is something that needs to be planned. Continuity of service delivery is essential to the success of the new councils. We believe that there is a need for better engagement between the Department of the Environment and Transition Committees if this transition to a new model of local government is to be made successfully.

End.
V.02/131109/AMcC



12 November 2009

Re: PWC Report

Economic Appraisal of Options for Local Government Service Delivery

On behalf of ALGFO I wish to thank you for giving us the opportunity to comment on the SOLACE response to the above report. We would fully concur with the SOLACE response and in addition would make the following comments.

ALGFO welcomes the opportunity that RPA presents to Local Government for the review of service delivery to ensure best value. We would also accept that best value is likely to be best achieved within a realistic timetable by Option 5 i.e. through transformation within the New Councils with regional collaboration where it can be demonstrated that clear benefits and cost savings exist for the New Councils.

Whilst acknowledging that the PWC Report is an attempt to set the strategic direction for transformation of local councils, it is ALGFO's strong view that the assumptions used for estimating the potential costs and benefits for each of the options, need much further examination before the report's key findings and recommendations are approved and should not be used to determine the level of upfront investment required nor should the potential savings be set as a target at this stage by Central Government for Local Government to achieve.

I attach a paper setting out ALGFO's queries and concerns that were presented to PWC at a meeting on 10 November 2009. At the aforementioned meeting PWC gave the assurance that the issues raised would be appropriately addressed at the next stage of the process, which would be the detailed design.

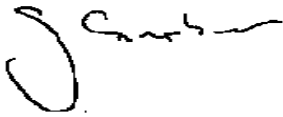
In relation to the recommendation in the PWC Report to establish an autonomous Business Services Organisation, we note that there is no detailed business case to support such a recommendation. It is also important that other models for the delivery of collaborative services at a regional level i.e. Lead Councils, Centres of Excellences, Shared Systems, Shared Processes (incorporating best practice) etc are fully considered at detailed design stage.

The detailed design stage will examine in much more depth the transformation required post RPA at the individual Council level and the associated costs and

savings that could be achieved. It should also identify the areas where regional collaboration would bring additional transformation benefits to the New Councils and demonstrate how achievable savings can be delivered on a business case by case basis that would justify the additional transformation costs required.

In order to progress against a very tight timetable for RPA Implementation, it is essential that detailed design be undertaken as it is only then that negotiations can take place between Local Government and Central Government on an informed basis as to the upfront investment required to implement RPA, how it will be funded and most importantly that the savings target are realistic and achievable.

Yours sincerely

A handwritten signature in black ink, appearing to be 'J. G. ...' with a stylized flourish at the end.

Chairman

PWC Report: EA of Options for Local Government Delivery

ALFGO Queries raised with PWC on 10th November 2009

1.0 Baseline Costs

It is important that the assumptions used to determine baseline costs are robust, as these baseline costs have been used to calculate the transformation costs and benefits under the various options.

1.1 Council's Costs Component

It is difficult to reconcile Council's Estimates to the figures used in the Economic Appraisal. The following queries arise:

- ❑ Latest year's estimates would be a better indication of cost than average, as Council budgets tend to be incremental.
- ❑ It appears depreciation has been excluded and loan charges included. Capital expenditure and Loan Charges is a double count. Furthermore Gross Capital Expenditure has been used rather than net capital expenditure and therefore does not take into account grant funding, which can be very significant for most Councils.
- ❑ The baseline costs contain a number of costs, for example landfill tax and loan charges that strictly speaking should be excluded from an economic appraisal.
- ❑ Finally, whilst capital may need to be included for the purposes of completing an Economic Appraisal, the inclusion of gross capital costs in the Council's Baseline Costs to calculate transformation costs and benefits is likely to result in an overstatement of potential savings. In particular, it is highly unlikely that much efficiency could be achieved on capital spend let alone 7.5% under option 5 as most capital projects are tendered and undertaken by contractors.

1.2 Transferring Functions Costs Component

A budget of £138.5 million has been assumed for transferring functions. By excluding certain capital budgets and Central Planning the sum of £86 million has been used in the Baseline Cost. As these services will be the target for efficiency savings prior to RPA, can up to a further 7.5% efficiency for transformation benefits be achieved post RPA?

1.3 Impact if Council Capital and Transferred Functions Costs Excluded

If budgets for Council Capital (£118.8 million) and Transferred Functions (£86.1 million net) were excluded for the purposes of calculating savings, then under Option 5 this would mean a reduction in transformation savings of £15.4 million. Therefore, in order to maintain £53 million of savings under Option 5, Council Revenue Costs would have to achieve savings in the region of 10.5%. As many Council services are either statutory or regulatory, is this level of saving realistic?

2.0 Transition Costs

Transition costs on the basis of simple transition only, both one off and recurrent, have been identified.

2.1 Transition Costs – One Off

£36 million of transition costs have been estimated for Options 3, 4 and 5. A slightly higher cost of £38.9 million is included for Option 2. Severance costs for Chief Executives, Directors and Councillors account for approximately £23 million (59%) of the total sum. Appendix 1 provides a detailed breakdown.

This sum of £36 million appears low and the following assumptions are queried:

- £17.8 million for severance costs for Chief Executives and Directors has been assumed. There are many other 'RPA Affected Staff' who are at risk and are likely to avail of voluntary severance. A detailed assessment of the likely numbers and severance cost needs to be made and reflected in the report.
- no allowance has been made for backfilling posts in existing Councils where Chief Executives/Directors are successful in securing posts in the New Council.
- £2.32 million has been assumed for relocation/ excess fares for 300 Central Government staff only. Local Government staff will also be affected and needs to be reflected.
- Property costs are treated as neutral – is this realistic?
- The cost of breaking up current group arrangements has not been reflected.
- Programme delivery costs, estimated at £1.65 million per annum up to 2015 appears to be very low. It is not clear why the costs associated with Change Manager, already funded by DOE, and Winding Down Managers for the existing Council has been excluded. It must be queried whether a Project Manager and a People Manager would be adequate for each Council, particularly if these posts are also expected to be responsible for delivering on the transformation programme (up to £53 million of savings to be delivered), and the assumption that these costs could be met out of current establishment.

2.2 Transition Costs – Recurring

Recurring Transition Costs have been estimated at £8.8 million per annum. This includes an assumption of 2% uplift on payroll for salary harmonisation. Is this sufficient particularly in that in some cases up to four sets of terms and conditions for Councils merging plus different terms and conditions for transferring functions?

3.0 ICT Costs

These can be summarised as follows:

	Set up Cost £m	Annual Maintenance £m
Option 3	21.3	2.4
Option 4	42.7	6.1
Option 5	30.6	5.7

Appendix 1 provides a detailed breakdown. Please note there appears to be a discrepancy in annual maintenance costs.

There appears to be a major disparity between the ICT set up costs of Options 4 and 5. This relates to applications update and in particular the hardware refresh costs, which have been reduced from £12 million to £7 million for Thin Client implementation. However, the refresh period has been set at 7 years for Option 5 and 5 years for Option 4. As the same technology is being implemented in both options, should the refresh period not be the same?

Training costs for ICT Staff would also appear low.

4.0 Transformation Costs and Benefits

These can be summarised as follows:

	One Off Costs £m		Recurring Benefits £m	
Option 3	21.1	3.0%	17.6	2.5%
Option 4	49.1	7.0%	35.2	5.0%
Option 5	59.8	8.5%	52.8	7.5%

The estimated transformation costs and benefits above for each option are calculated by applying the above percentages to the baseline costs of £704 million. Please refer back to Section 1.3 above where the baseline cost used has been queried.

The transformation costs stated above is in addition to significant ICT costs as detailed in Section 3 above.

The report does not specify what transformation will be undertaken (apart from the creation of a BSO and a Single Waste Authority) or how the transformation benefits will be delivered for each of the options. The report simply draws on the high level assumption about costs and savings experience from a sample of English Councils. The report needs to demonstrate in much greater detail how the transformation costs and benefits can be delivered. It would be important to detail the level of transformation envisaged with examples for each option and a breakdown of the costs and benefits associated.

There is also a need for a more detailed examination of the business rationale for recommending the setting up a separate BSO. For example, has Shared Systems been considered which could deliver many of the benefits without the management costs, property overheads etc

5.0 Funding Requirements and Savings Targets

ALGFO's position is that it is of critical importance that the above queries are addressed and any changes reflected to ensure that robust costs and benefits are produced for each option in the final report to be presented to SLB who will presumably formally select their preferred option.

This is essential so that negotiations can take place between Local Government and Central Government as to the upfront investment required, how it will be funded and most importantly that the savings target is realistic and achievable.

(a) Baseline Costs

	Revenue £m	Capital £m	Total £m	Notes
Councils	499.6	117.8	617.4	Average of 3 yrs to 09/10 including capital
Waste	4.8	1	5.8	
Councils			623.2	
Transferred Functions	1		138.5	
Less Capital			-47.3	
Less Planning Retained			-5.1	
			709.3	
Less Community Planning			-3.2	
Less LGA Addit Costs			-1.7	
Less NI Ombudsman			-0.3	
Baseline Cost			704.1	

Note 1 Transferred Functions

	£m
Planning	23.3
DCAL	1.7
DSD	77.2
DRD	-2.8
DETI	9.7
OFMDFM	2.7
Donaghdee	
Harbour	0.1
DARD	26.6
	138.5

(b) Transformation Costs

		£m	
Option 3	3.0%	21.1	
Option 4	7.0%	49.3	
Option 5	8.5%	59.8	Includes an additional £8m for establishing BSO

(c) Transformation Benefits - Additional Recurrent

		£m
Option 3	2.5%	17.6
Option 4	5.0%	35.2
Option 5	7.5%	52.8

(d) Transition Benefits/Costs - One off

		£ m	Note
Salary Harmonisation	C		2% of salary bill of £314.1m ??
Salary Increase for Chief Execs/Directors	C	-0.77	
SMT Savings	B	8.9	
Councillor Savings	B	1.59	
Councillor Allowance Increase	C	-1.84	
Audit Fee	B	0.2	
Insurance Premium	B	0.25	
Group Working		0	
Councillor Development Costs	C	-0.46	
Standards Committee Costs	C	-0.55	
Transition Benefits		10.94	
Transition Costs		-3.62	plus Salary Harmonisation

Transition Costs - One Off

	£m	Notes
Winding -up of Legacy Councils	0.77	£50k legal & £20k finance per New Council
Creation of New Councils	4.40	New name, branding, communication etc
Recruitment Costs of New Staff	0.99	6 posts per Council at £15k each
Overlapping salaries for 25% of staff	1.57	25% of posts will be filled by new appointments
Chief Execs Additional Cost	0.25	Extra remuneration for 26 Chief Execs backdated to Oct 2008
Councillors Severance Scheme	5.25	
Programme to attract new Councillors	0.25	
Voluntary severance for Senior Staff	17.80	17 Chief Execs * 200k, 90 Directors * £160k
Relocation/excess fares re Central Govt	2.32	300 Central Govt Staff at 28p per mile. What about Local Govt Staff?
Capacity Building	1.80	
Staff Induction into New Council	0.22	
Option 2/3/4/5	35.62	Implementation: 20% in 2010/11, 80% in 2011/12

Additional ICT Costs

	Option 2		Option 3		Option 4		Option 5	
	Set up £m	Annual £m	Set up £m	Annual £m	Set up £m	Annual £m	Set up £m	Annual £m
Network NI	0.585	0.375	0.585	0.375	0.585	0.375	0.585	0.375
Convergence	9.555	2.362	9.555	2.362	9.555	2.362	9.555	2.362
Training	4.000		4.000		4.000		4.000	
Performance Measurement	0.150	0.020	0.150	0.020	0.150	0.020	0.150	0.020
Good Practice Service Model			0.375		0.375		0.375	
Business Continuity			2.200	0.220	2.200	0.220	2.200	0.220
Applications Update			4.400	1.100	25.800	4.840	13.700	2.684
	14.290	2.757	21.265	4.077	42.665	7.817	30.565	5.661

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