

Financial Options Appraisal**Background**

1. This note sets out the methodology used to calculate the savings arising from a unitary council/s. It draws on the considerable evidence around the country of the savings achieved from establishing unitary councils. This has been used to both validate savings levels and ensure a robust methodology has been adopted.
2. Development of re-organisation proposals take a significant period of time. Hence the appraisal will be updated as the process continues. This will incorporate new sources of information that become available and reflect any relevant points arising from engagement activity.
3. If the proposals were progressed to business case development, it would involve external validation of the financial case for unitary local government.

Approach

4. The appraisal looks at two options: a single unitary council and two unitary councils. To simplify the financial appraisal for the two unitary options the councils are assumed to be of equal size.
5. The key financial changes of adopting unitary status are expected in the following areas:

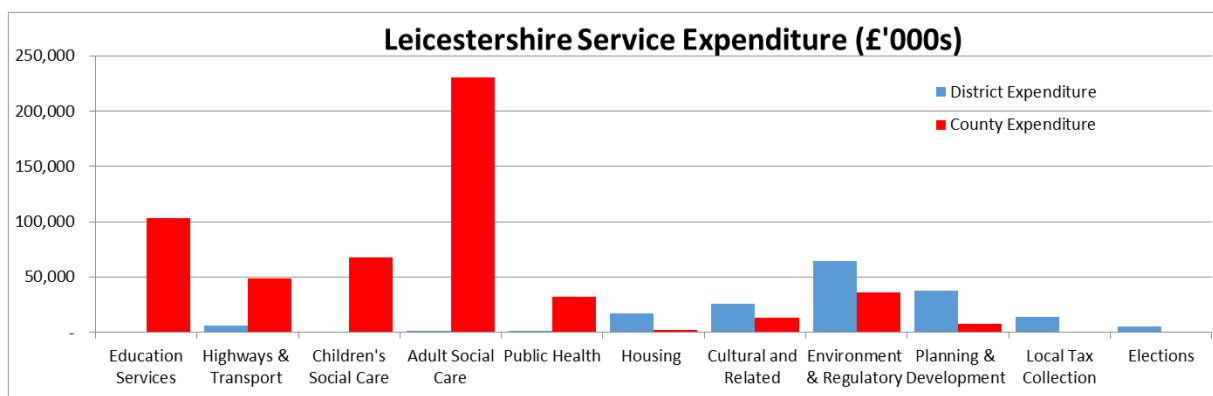
Category	Savings Rationale
Members' Allowances	Fewer organisations will mean that the number of elected members can be reduced, although those that remain will have greater responsibility.
Elections	Elections for district and county members are held in different years. Having one set of elections for fewer members will cost less. The operations to maintain the register of electors can also be combined.
Senior Management	A management structure is required to manage each organisation and the services within it. Having fewer organisations and joining up similar services will mean that management savings can be realised.
Back office	Joining up and running services in a similar way will simplify the back office support requirements greatly. Combined with the benefit of only having one set of back office services rather than one in each organisation will allow support to converge on common systems, infrastructure, policy and process. Benefit is enhanced by fewer staff in totality reducing the office space requirements.
Service management and administration	Joining up and running services in a similar way will allow management and administration roles to be combined and the best practice from the current disparate services to be selected for the whole county. Further benefit will be secured from improved procurement and contract management.

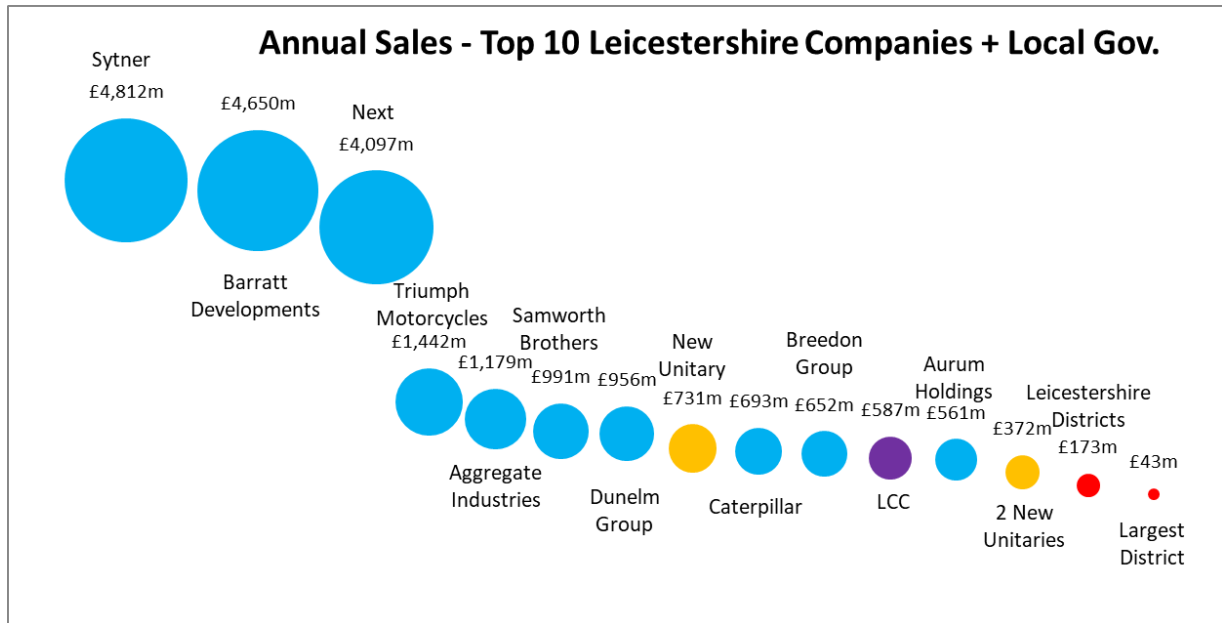
6. Savings for both options are derived in a similar way and are set out in the table below. The key differences reducing the financial benefits of the two unitary option are:
- County wide services need splitting to create two new services. This results in additional senior and middle management.
 - More organisations exist, which will require a greater total level of back office and infrastructure support. These costs tend to be fixed in nature.
 - The two unitary councils are smaller organisations than the existing County Council, resulting in a loss of purchasing power.
 - Salaries to attract the right people will not be materially lower in the smaller organisations. For some posts, where there is already a shortage of good candidates, salaries are likely to be the same.

Diseconomies of scale

7. A commonly cited concern of the merging of organisations is that by becoming excessively big they become more inefficient. These diseconomies of scale tend to centre on communication problems of the bigger organisation resulting in either a reduced service or additional management. In a county unitary scenario the diseconomies are unlikely to be significant, due to the nature of the change proposed:

- The geographic area is not changing and the County Council already offers county wide services
- The services that will combine are the smaller services, as shown in the column chart below.
- The single unitary is a significantly sized organisation, but not excessively so. In comparison to the largest businesses in Leicestershire the single unitary would be placed eight, between Dunelm group and Caterpillar UK. The two unitary councils would be joint fourteenth. This comparison excludes maintained schools expenditure.





8. Following this analysis no adjustment has been made for potential diseconomies of scale.

Summary Results

Annual Savings	Single Unitary £ million	Two unitary £ million	Difference £ million	
Members' Allowances	0.5	0.3	0.2	40%
Elections	0.9	0.9	0.0	0%
Senior Management	5.6	3.5	2.1	38%
Back office	17.4	10.5	6.9	40%
Service management and administration	8.5	5.3	3.2	38%
Contingency	(2.9)	(2.9)	-	0%
Total	30.0	17.6	12.4	41%
Saving % of gross budget (excluding schools)	4.2%	2.5%		

9. At the highest level the total reductions for either unitary option are reasonable in the context of the overall organisation size.

Comparison with other proposals

10. The savings achievable by a Leicestershire Unitary Council are in line with recent applications for unitary status that have been submitted to the Secretary of State, per the table below.

	Leicestershire (1 / 2 unitary)	Buckinghamshire (1 / 2 unitary)	Oxfordshire	Dorset* (2 unitary)
Saving target (£m)	30.0 / 17.6	18.2 / 10.3	20.5	27.6
Organisations abolished	7 / 6	3 / 2	5	8
Saving per organisation (£m)	4.3 / 2.9	4.6 / 3.4	4.1	3.9

*note this proposal involved one county area plus two unitary authorities; hence the savings proposed are closer to level seen in single unitary proposals. The risks of splitting county functions are partially mitigated by the existence of these functions in the unitary organisations.

11. The savings proposed for the Leicestershire re-organisation are also within the range of the savings targeted and delivered from the unitary organisations created in 2009.

	Organisations abolished	Savings Target	Saving Target per organisation	Estimated savings achieved	Estimated savings achieved per organisation
		£ million	£ million	£ million	£ million
Cornwall	6	17	2.8	25	4.2
Wiltshire	4	18	4.5	25	6.3
Northumberland	6	17	2.8	28	4.7
Durham	7	22	3.1	22	3.1
Shropshire	5	20	4.0	20	4.0
Average	6	19	3.5	24	4.4

12. The Saving Target per organisation is lower than more recent proposals due to a combination of cost inflation, over the past decade, and a greater necessity for savings to be made by Local Government organisations.

13. Inflation over the ten year period, as measured by the Consumer Price Index (CPI), has been 24%. If costs increased in line with inflation the savings target per organisation would increase to £4.3million. The cost base of Local Government over this time will not have behaved exactly in-line with CPI, but it does give assurance that the savings are in the right order of magnitude.

14. This necessity for Local Government to make savings is likely to be the key reason for the significant increase in the actual savings achieved, shown in the table above. When the business cases for the 2009 re-organisations were produced no-one could anticipate the depth of cost reductions required by austerity or the significant increase in social care costs. Post re-organisation all of these councils will have been under similar financial pressure to that experienced in Leicestershire.
15. If it is assumed the savings from re-organisation were completed within 5 years using CPI the Estimated savings achieved per organisation, at 2018 prices would be, £4.7million. This is 10% higher than the savings targeted in the single unitary for Leicestershire proposal. This supports the evidence from organisations that have been through re-organisation that more savings than were originally anticipated are achievable.
16. The Cabinet report made reference to an article by the BBC that identified councils under financial strain. It is worth noting that although eight of the eleven organisations identified were county councils none of these were councils involved in the 2009 re-organisation. This is not to say that these councils are immune from the pressures facing Local Government and it is possible that they could enter difficulties, but they do appear to have an advantage in dealing with the current level of savings.
17. Overall the high level comparisons are supportive of the latest savings estimate produced.
18. The level of savings is consistent with the 2014 EY report which calculated the annual savings from unitary local government in Leicestershire as £30.5m for one unitary and £18.5m for two unitaries.

Phasing of the savings

19. Re-organisation of Local Government requires several interrelated projects contained within a programme of work. Providing that the services delivered by the new council/s operate from day 1 the change activity required to deliver the savings can be phased over a period of time. This implementation can continue for several years post creation of the new council/s. Planning for the implementation takes place a significant period of time before creation, recent examples of planning periods are contained in the table below:

	Dorset	Buckinghamshire
Minded to decision	November 2017 4 months	March 2018 7 months
Approval	February 2018 13 months	November 2018 17 months
New Council	April 2019	April 2020

20. It should be noted that the Dorset councils had created implementation committees before the Secretary of State's minded to decision on November 2017.
21. This advance planning period is essential to ensure that the new council/s can function effectively from day1. The planning period allows a detailed assessment of

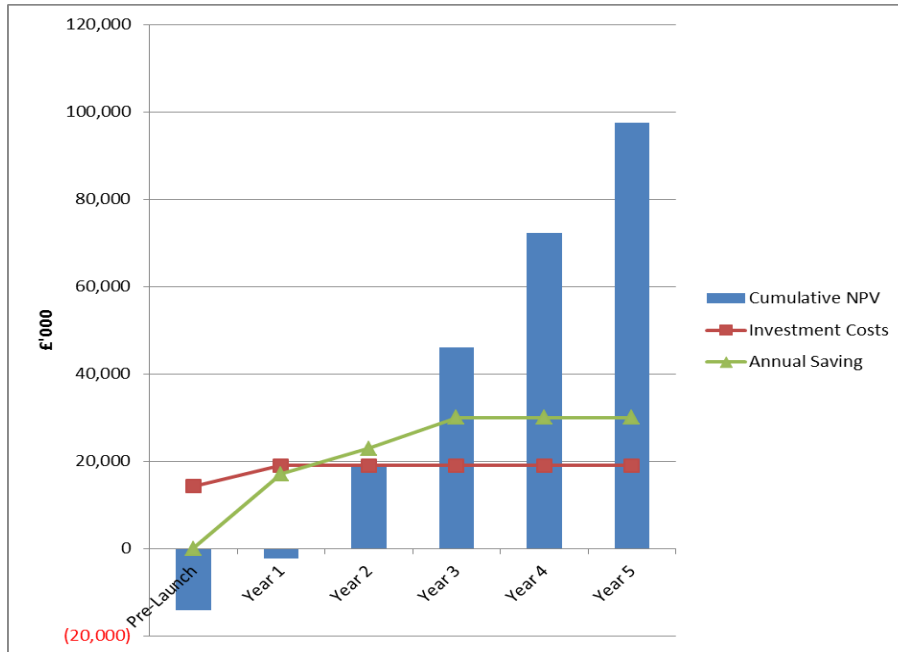
the change required and appropriate implementation phasing. Although some savings will accrue from the council/s first day other savings have been assumed to be delivered over the next three years. The actual phasing will take into account factors such as the capacity to deliver change projects simultaneously; technical difficult of individual projects and contract periods including termination provisions.

22. Savings have been phased as follows:

Category	Phasing Rationale
Members' Allowances	The creation of the new unitary council/s will coincide with the abolition of the existing ones. Shortly after this point elections will take place to appoint new members. For simplicity it has been assumed that the newly elected councillors benefit from all allowances from the first day of the new council. Hence the savings would accrue in full from the 1st year.
Elections	Following formation of the unitary organisation/s an election will take place to appoint the reduced number of members. Although all of the savings would be delivered in the first year the costs are normally spread across 4 years and the saving is presented on this basis.
Senior Management	The new senior management structure would be designed before launch of the new organisation/s. This would allow the restructure to be completed in advance of the launch, including the serving of notice periods. Therefore the full savings would occur from day 1 of the new unitary. This has the added benefit of managers knowing their responsibilities as the design phase is completed and transition commences. Certain key posts are likely to be filled early, but this expense would form part of the transition budget.
Back office	A significant amount of the work to achieve this saving would be carried out in the pre-launch phase. However it is assumed that only around 50% of the saving will be achieved in year 1. This is to reflect that some activities relating to the abolished councils will continue after the establishment of the new unitary organisation/s, for example completion and auditing of the final accounts. The phasing of the savings also allows harmonisation of processes/systems and increases the proportion of contracts that will naturally expire. Further work will be required during the first year to achieve the remaining savings, with a further 25% assumed to be delivered in year 2 with the remaining 25% achieved in year 3.
Service management and administration	A significant amount of the design and planning work to achieve this saving would be carried out in the pre-launch phase. However, it is anticipated that only around 25% of the saving will be delivered in year 1. This allows the changes to front-line services to be de-risked, by keeping the pace of change manageable. By implementing changes at a slower pace than for the back-office more support is available for implementation. It is assumed that a further 25% of the savings will be achieved in year 2 with the remaining 50% delivered in year 3. Similarly to the back-office the phasing of the savings allows harmonisation of operations and increases the proportion of contracts that will naturally expire.

Single Unitary

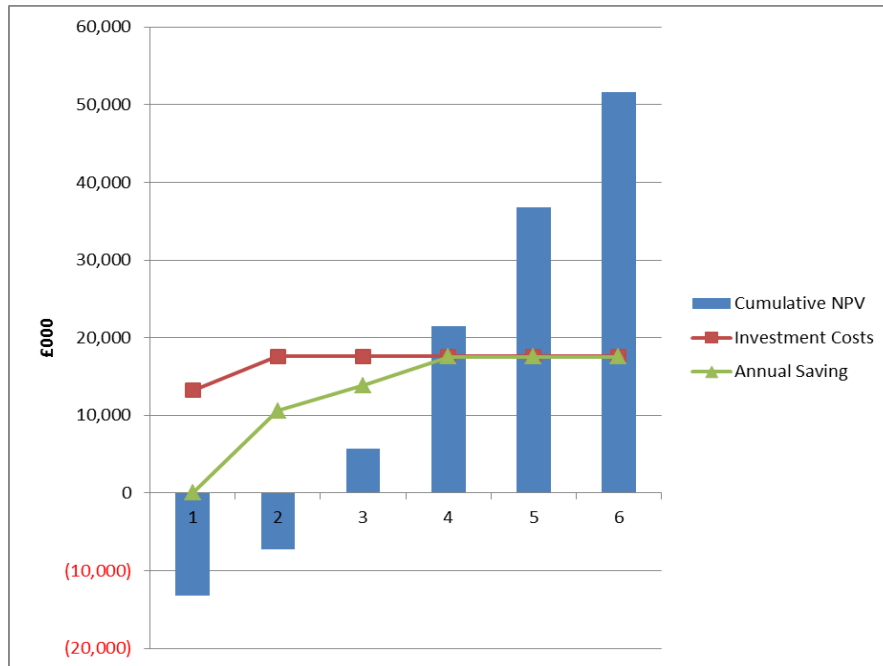
23. For the single unitary option the phasing of the £30 million saving is shown in the chart and table below. With a pay-back period of slightly over one year the Net Present Value (NPV) analysis is supportive of the project, even with a very prudent phasing of transition costs.



	Pre-Launch £000	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
Transition costs	(14,250)	(4,750)				0
Annual savings		17,100	22,850	30,000	30,000	30,000
Net Annual	(14,250)	12,350	22,850	30,000	30,000	30,000
NPV factor (Discount 3.5%)	1	0.966	0.934	0.902	0.871	0.842
Discounted net present saving	(14,250)	11,932	21,331	27,058	26,143	25,259
Cumulative NPV	(14,250)	(2,318)	19,013	46,071	72,215	97,474

Dual Unitary

24. For the dual unitary option the NPV remains favourable. However, the transition costs are higher relative to the level of savings and the payback period is longer.



	Pre-Launch £000	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
Transition costs	(13,200)	(4,400)				0
Annual savings		10,565	13,843	17,562	17,562	17,562
Net Annual	(13,200)	6,165	13,843	17,562	17,562	17,562
NPV factor (Discount 3.5%)	1	0.966	0.934	0.902	0.871	0.842
Discounted net present saving	(13,200)	5,957	12,923	15,840	15,304	14,787
Cumulative NPV	(13,200)	(7,243)	5,679	21,519	36,823	51,610

Equalisation of Council Tax

25. Residents of Leicestershire pay the same level of Council Tax for County Council services regardless of where they live. A different level of Council Tax is charged by each of the district councils. The level of tax varies depending upon a variety of factors including

- the amount of other income received from alternative sources, for example Government grants, service charges and investments;
- the services offered by the district council
- services offered by parish councils, funded by a separate precept
- demand for services
- efficiency of individual organisations

26. When unitary authorities are created they are required to charge the same level of Council Tax to all residents, for the services they deliver. This is known as Council Tax equalisation (sometimes harmonisation). The Financial Orders governing the last set of re-organisations permitted a five year period for this equalisation to take place.

27. Residents' Council Tax bills comprise of charges from 5 different types of organisation. The table below sets out the Local Authority Council Tax charges levied in Leicestershire in 2018/19 for a Band D property.

£ p.a.	Blaby	Charnwood	Harborough	Hinckley & Bosworth	Melton	N. West Leics.	Oadby & Wigston	County Average
County Council	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243
District Council	158	117	152	109	169	159	218	145
Police Authority	199	199	199	199	199	199	199	199
Fire Authority	65	65	65	65	65	65	65	65
Special Expense & Parish (avg.)	95	85	62	71	62	76	0	71
Leicestershire	1,760	1,709	1,721	1,686	1,737	1,741	1,725	1,722

28. The precepts relating to the Police and Crime Commissioner, Fire Authority and Parish/Town Councils are not directly impacted by the equalisation process. Similarly a practice currently undertaken by some district councils of making a Special Expense charge, where one or more special items relate to only part of what would be the unitary area, can be continued by the unitary council/s.

29. The re-organisation proposals include the potential for more parish councils to be created or for existing councils to take on more responsibility. There are a variety of methods that could be employed to achieve this without an overall increase in cost being borne by Council Tax payers. One of these methods is for the parish council to raise a precept to cover the costs of the services that they take on. A corresponding reduction can be made from the charge of the local authority that previously performed the service. This would ideally happen before re-organisation or during the Council Tax equalisation period. It is likely that there would be a difference in charges made by individual parishes. The average parish charge is £71, so the resulting difference is unlikely to be significant in the context of the overall Council Tax bill (approximately £1,700).

30. The starkest example is the Oadby & Wigston Borough where there are no town/parish councils. An estimate of the change to the Oadby & Wigston charge should parishes be introduced is not possible. The charge would depend upon the services the newly formed councils chose to provide and the coverage. The different districts of Leicestershire all have different levels of coverage by parish/town council. Several significant areas are not covered, for example Coalville, Hinckley and Melton Mowbray. Hence comparisons to parish charges in other districts provide an indication of the scale of the charges only.

31. The table below sets out the difference in charges levied in Leicestershire in 2018/19 for a Band D property.

£ p.a.	Blaby	Charnwood	Harborough	Hinckley & Bosworth	Melton	N. West Leics.	Oadby & Wigston	County Average
County Council	1,242.60	1,242.60	1,242.60	1,242.60	1,242.60	1,242.60	1,242.60	1,242.60
District Council	158.32	117.09	152.32	108.83	168.69	158.58	217.97	144.59
Two tier charge	1,400.92	1,359.69	1,394.92	1,351.43	1,411.29	1,401.18	1,460.57	1,387.19
Difference to lowest	49.49	8.26	43.49	0.00	59.86	49.75	109.14	35.76

32. The new unitary council/s can decide the level of Council Tax that they harmonise to. If the lowest level is chosen the Council Tax Charge would be based upon the charge of Hinckley & Bosworth Borough Council, as set out in the table below:

	£ per annum
Current County Council charge	1,242.60
Current H & B charge	108.83
Unitary Charge	1,351.43
Police Authority	199.23
Fire Authority	64.71
Special Expenses and Parish charge (average)	71.11
Total Leicestershire Charge	1,686.48

33. Based upon the current Band D levels the harmonisation of Council Tax would result in Leicestershire residents benefiting by up to £8 million from the re-organisation savings. This reduction in bills equates to 2.6% of the current county + district charges.

34. If re-organisation is undertaken the actual reduction in Council Tax bills will depend upon:

- The relative district charges at the time of re-organisation,
- The approach taken to charges during the equalisation period, expected to be up to 5 years post re-organisation.
- Change to charges due to any responsibilities transferred to parish councils.
- Changes to Special Expense charges, or introduction of new ones.

35. The benefit received by individual tax payers will depend upon their existing district of residence. With Hinckley and Bosworth residents receiving no benefit from this aspect of re-organisation. All other residents will see a reduction to bills with those of Oadby and Wigston seeing the greatest reduction at £109 per annum, based on current levels and allocations of Council Tax.

36. For a dual unitary it is not possible to make this calculation, as it is dependent upon how the district councils are allocated between the two areas. On the basis of

aligning the Council Tax charge to the level of the lowest district the harmonisation amount will be lower, as Hinckley & Bosworth will only be present in one area.

Savings Methodology

Members' Allowances

37. The basic premise of the saving is that fewer organisations will mean that the number of elected members can be reduced, although those that remain will have greater responsibility. The table below shows the number of elected members at Leicestershire County Council and each of the District Councils. The cost per member is also illustrated; this takes account of basic allowances, special responsibility allowances and other expenses (such as travel).

	Leicestershire County Council £ million	District Councils £ million	Total Leicestershire £ million
Basic Allowance	0.6	1.1	1.6
Special Responsibility Allowances	0.3	0.6	1.0
National Insurance	0.1	0.1	0.2
Other expenses	0.0	0.1	0.1
Total Cost	1.0	1.9	2.9
Number of Members			
Number of Members	55	254	309
Average Cost per Member (£000s)			
Average Cost per Member (£000s)	17.7	7.4	9.3
Population (000s)			
Population (000s)	690	690	690
Average Cost per resident			
Average Cost per resident	1.4	2.7	4.2
Gross Expenditure (incl. schools)			
Gross Expenditure (incl. schools)	719.8	173.4	893.2
Expenditure per Member (£ millions)			
Expenditure per Member (£ millions)	13.1	0.7	2.9

Note some estimation of the split between basic and special responsibility allowances has been required due to the availability of information.

38. The existing democratic structure results in over 200 full council, board and committee meetings across Local Government in Leicestershire. Many of these meetings are duplicated, for example:

- Cabinet
- Scrutiny panels
- Corporate Governance / Audit Committees
- Other regulatory meetings such as Planning/Development Management and Licensing

39. The expectation is that the number of members post re-organisation can be reduced significantly from the status quo. The proposal contained in the report is for a reduction of 199 elected members. This would generate savings directly through a lower total basic allowance paid in Leicestershire. There is a recognition that elected members would need to deal with a wider range of services than they do currently, although the number of residents each councillor works with would be the same as for the existing County Councillors. Hence a basic allowance of £15,000 is proposed. This is slightly less than the combined basic allowances for county and district members, hence is considered a reasonable assumption.
40. No difference is assumed for the single unitary versus the dual unitary proposal, as individual councillors would be representing the same division in both options.
41. The reduction in the number of organisations would reduce the number of members receiving special responsibility allowances. For example there would only need to be one Cabinet and Corporate Governance/Audit Committee per organisation. For the single unitary proposal, in a similar way to the basic allowance, it has been assumed that special responsibility allowances reflects the wider range of services performed by a unitary organisation. The assumed increase has been calculated based upon the current County Council Leader's allowance plus 50% of the average district allowance. The proportionate percentage increase has been applied across all special responsibility allowances. The assumption for the dual unitaries, which are significantly smaller organisations, is that the County Council's current schedule of allowances is adopted.
42. The assumptions for the proposed new Locality Level committees are for the chair of each Area Development Management Sub-Board to receive a special responsibility allowance. Members of these Sub-Boards and the Area Committees would not receive an additional allowance due to the increase in the basic allowance.
43. The estimated savings are shown in the table below:

	Current Leicestershire	Single Unitary Leicestershire	Dual Unitary Leicestershire
	£ million	£ million	£ million
Basic Allowance	1.6	1.7	1.7
Special Responsibility Allowances	1.0	0.4	0.6
National Insurance	0.2	0.2	0.2

Other expenses	0.1	0.1	0.1
Total Cost	2.9	2.4	2.6
Saving versus current	-	0.5	0.3
Number of Members	309	110	110
Average Cost per Member (£000s)	9.3	21.1	22.9
Population (000s)	690	690	690
Average Cost per resident	4.2	3.4	3.7
Gross Expenditure (incl. schools)	893.2	863.2	875.6
Expenditure per Member (£ millions)	2.9	7.8	8.0

44. The main driver of the savings is the reduction in special responsibility allowances, this is driven by the number of organisations abolished, hence is higher for the single unitary proposal. The increase in average cost per member is to be expected with the significant reduction in the number of elected members proposed. Although the expenditure per member has increased significantly compared to the current average this is still significantly lower than the current County Council level.

Other Factors

45. The final proposal would be subject to the view of the Boundary Commission. As the ratio of members:electorate is similar to existing unitaries 110 members is felt to be a reasonable assumption at this stage.

46. The assumptions made for members' basic and special responsibility allowances are intended to be reasonable estimates. If re-organisation proposals are progressed an Independent Remuneration Panel will be formed, at the appropriate time. The Panel will assess proposals and recommend the level of individual allowances.

Elections

47. This saving has two parts:

- 1) Elections for district and county members are currently held in different years. By only having one set of elections the costs incurred would be reduced significantly.
- 2) The maintenance of the register of electors is largely an administrative exercise. Combining the activity for the unitary area is expected to yield savings

Election Savings

48. The County Council holds elections every 4 years, with the latest being in 2017. District Council elections are also held every 4 years, separately for each organisation, with the latest being in 2015. Due to the four yearly cycles local elections do not coincide, although occasionally a benefit is received when there is alignment with a general election or European elections, both 5-yearly.

49. The unitary proposals would result in a single election every 4 years rather than the current 2 elections per district area. This is the significant driver of the savings. Further benefits are to be expected, as the activity can be co-ordinated for the entire unitary area rather than by individual organisations. This will be of a lower order of magnitude, as the certain activities will be unchanged, e.g. the number of votes to be counted, or continue locally, e.g. polling.
50. The cost of conducting local government in Leicestershire, for the most recent 4-year period, is summarised in the table below:

	Cost of conducting elections £ millions	£ per head of population**	£ per member elected
District*	3.6	5.4	14,283
County	0.8	1.3	15,351
Total Leicestershire	4.5	6.6	14,473

* net of recharge to parish councils

** Population has been used as a proxy for electors through this section due to the availability of information

51. The majority of the activity for County Council elections is undertaken by the 7 district councils, hence the similar £ per member elected is not surprising. Using this measure alongside the proposed reduction of 199 elected members would generate an estimated saving approaching £3 million, every 4 years. Intuitively this is higher than expected. The saving should be at least £0.8m, from the elimination of the 'cheapest' election, but to assume costs scale perfectly with the number of elected members does not take into account that factors such as the number of votes cast and polling locations may not change.
52. A comparator set of unitary authorities were identified to help refine the saving calculation. The results are set out in the table below:

	Cost of conducting elections £ millions	£ per head of population	£ per member elected
Total Leicestershire	4.5	6.6	14,473
Unitary Comparators (average)	2.3	4.5	20,061
Difference	2.2	2.1	(5,587)
Calculate saving	-	Difference X population	110 members X Unitary average
Saving Estimate (£ million)	-	1.5	2.3

53. The lower saving generated by the population estimate has been chosen, due to the higher number of members per head of population in the comparator group. This is felt to overstate the benefit.
54. The saving of £1.5 million appears reasonable considering:
 £0.8 million relates to the abolition of the County Council elections
 £0.7 million relates to cost improvements in district election activity
55. The cost improvement equates to 17% of the current cost of district elections. The unitary elections would be for 144 (57%) fewer members and would be co-ordinated by 1 organisation rather than the existing 7.
56. The £1.5 million saving only accrues every four years, hence a quarter of this saving £375,000 has been used to calculate the annual benefit.
57. The dual unitary proposal would be less efficient, due to 2 organisations co-ordinating activity. However, this was not felt to be a material consideration and the same saving value has been used.

Other Factors

58. Elections to unitary councils normally take place in the May after their formation. Depending upon timing this could be in close proximity to a scheduled district or county election. When previous unitary councils have been created there has been the flexibility to vary the terms of both existing two-tier councils and new unitary ones. This avoids members being elected for very short periods.
59. It has been assumed that the new unitary elections continue to coincide with parish council elections. This is an important consideration so that the cost recharge to parish councils does not increase. Due to the flexibility outlined in the paragraph above it is expected that this alignment will be achieved.

Register of Electors

60. The district councils both promote people's entitlement to vote and maintain the electoral register. The County Council benefits from the maintenance of the register but is not involved in the activity.
61. The current cost for Leicestershire is set out in the table below, alongside a comparison to some existing unitary authorities.

	Annual cost £ millions	Cost per head of population
Leicestershire Districts	1.2	1.8
Unitary Comparators (average)	0.5	1.1
Difference	-	0.7

62. Using the population estimates, at the time, combined with the £0.7/head of population from the table above, the annual saving would be £0.5 million. This is

equivalent to a 40% reduction in the base cost. Although public facing the activity is largely administrative and would benefit from standardisation and co-ordination as an activity across a unitary area.

63. Although the gains for a dual unitary would be less this was not considered to be a material factor and the same value has been used for both options.

Senior Management

64. Senior management is defined as all employees earning a basic salary in excess of £50,000 per annum. The operations of each organisation in Leicestershire are managed separately, although some sharing of services does exist. The basic premise of this saving is that with fewer organisations similar activity can be brought together into a unified service. Re-organisation will present opportunities for:

- Horizontal integration, where operations performing similar functions are brought together and
- Vertical integration, where different stage of the same process are brought together.

65. Waste management is a good example of this with the horizontal integration of the disparate collection services and the vertical integration of waste prevention, collection and disposal activity.

66. Reducing the number of similar organisations in Leicestershire and consolidating operations allows the new unitary organisation to operate effectively with a lower level of management.

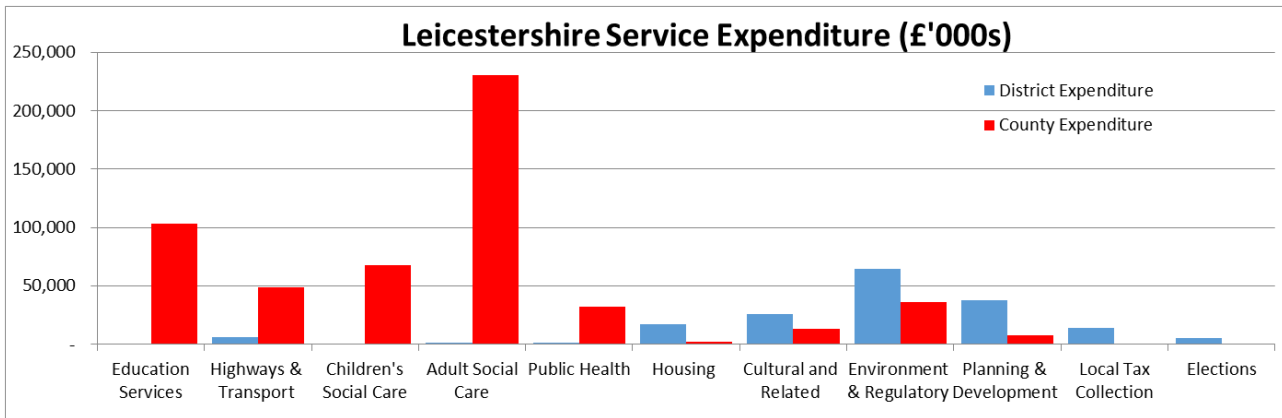
67. A high level analysis (excluding schools) suggests that there is significant potential to make savings from economies of scale.

	Staff earning above £50,000 p.a.		Gross Expenditure	% of Gross Expenditure
	FTE	£ millions	£ millions	
District Councils	80	7.2	173	4%
County Council	114	10.4	587	2%
Difference	34	3.2	414	2%

68. The County Council employs 34 (43%) more senior managers than the combined district councils. However, on a gross expenditure basis the County Council is in excess of 3 times the size of the combined district councils. Hence from a pure organisational efficiency basis the additional number of staff is more than justified. In simple terms more than twice as much is spent, by district councils, on senior management for every £1 of front-line service delivered compared to the County Council. The expectation is that should a single unitary council be adopted the proportion of expenditure on senior management would be even lower. For the dual unitary expenditure would be between the two levels, but would be closer to that of the County Council.
69. The senior management saving has been created by analysing the corporate management teams separately to the other senior managers.
70. The table below summarises the cost of the Chief Executive and Directors for the 8 councils in Leicestershire:

	Corporate Management		Gross Expenditure	
	£ millions	FTE	£ millions	%
County Council	1.2	7	587	0.2%
District Councils	2.9	25	173	1.7%

71. The district councils tend to have smaller teams at a lower salary cost; this reflects the relative size and complexity of the organisations. However, there are 7 district councils with a combined expenditure significantly smaller than the County Council's. Hence the overhead burden, on an expenditure basis, is 9 times higher in district councils.
72. At this very senior level costs are relatively fixed, with significant changes required to alter the structure. Due to the close linkages between the services offered by the different tiers it is a reasonable assumption that services would be integrated in a combined organisation rather than requiring a separate departmental structure. It has been assumed that 7 posts within the Corporate Management Team should be sufficient to manage the new single unitary authority. This has been substantiated through comparison to existing county unitaries.
73. The rates of pay have been assumed to remain at the level of current County Council managers, despite the new unitary being 24% larger on an expenditure basis. Expenditure alone is not a sufficient reason to increase salary levels. The key driver is the ability to attract the right staff, with the Directors of Adult and Children's Social Care the most often cited as difficult to recruit posts. The change to the responsibility of these posts would not be significant compared to the scale of the areas currently managed (see chart below) even if new service categories were integrated within social care. If anything there would be a simplification of operations, as working across multiple organisations would no longer be required.



Note the Director of Children's Social Care is also responsible for Education Services. Similarly the Director of Adult Social Care is responsible for the majority of Cultural services at the County Council.

74. For the dual unitary two management teams, in total, would be required. The assumption is that these teams would be 1 FTE smaller to reflect the significantly smaller organisation size (49%). The rates of pay have not been changed due to the external factors mentioned above. Recruitment of the right leadership will be critical for the dual unitaries success due to the requirement to split key functions with minimal impacting on service users.

75. The saving estimates are shown in the table below:

	Corporate Management		Gross Expenditure		Saving
	£ millions	FTE	£ millions	%	£ millions
Current Leicestershire	4.1	32	761	0.5%	-
Single Unitary	1.2	7	731	0.2%	2.9
Dual Unitary	2.1	12	743	0.3%	2.0

76. The result is one Chief Executive and 6 Directors to manage the new unitary organisation compared to 8 Chief Executives and 24 Directors currently. For the dual unitary two Chief Executives and 10 Directors would be required to manage the same services.

77. Outside of the senior team £13m is spent on staff earning over £50,000, this is summarised in the table below:

	Senior Management	Gross Expenditure

	£ millions	FTE	£ millions	%
County Council	9.1	107	587	1.6%
District Councils	4.3	55	173	2.5%
Current Leicestershire	13.4	162	761	1.8%

78. Due to the overriding assumption that services would be integrated and not managed separately there should be no reason that the new, larger, unitary organisation cannot achieve the same overhead rate for senior management as the existing County Council.

	Senior Management		Gross Expenditure	
	£ millions	FTE	£ millions	%
Current Leicestershire	13.4	162	761	1.8%
Unitary Council at County Council rate	11.8	139	761	1.6%
Change	1.5	30	-	0.2%

79. The saving is further enhanced when the savings from re-organisation are taken into account. Local Government in Leicestershire will be smaller post re-organisation, by £30 million for the single unitary proposal and £17.6 million for the dual unitary. Hence the senior management should reduce reflecting the reduction in staff and contracts.

	Senior Management		Gross Expenditure	
	£ millions	FTE	£ millions	%
Unitary Council at County Council rate	11.8	139	761	1.6%
Single Unitary Council	11.3	133	731	1.6%
Dual Unitary Council	11.5	135	743	1.6%

80. The marginally higher saving for the single unitary (£0.5m) compared to the dual unitary (£0.3) relates to the lower level of total savings achieved, from re-organisation.
81. The final element to be considered is whether the overhead rate for senior managers should be changed to reflect the larger single unitary and smaller dual unitaries. The savings above assume that an organisation approximately 24% bigger than the existing County Council would spend 24% more on senior management. For any organisational 'merger' of this scale this is an overly pessimistic position. Hence a conservative 5% efficiency target has been introduced.
82. For the dual unitaries the opposite situation is true. The new organisations are significantly smaller (37%) than the current County Council. Although the focus of any design activity would be to keep overheads to a minimum the splitting of existing services will inevitably result in an increased overhead rate. An assumed increase of 5% has been made, although it should be noted that this is far more aspirational than that the reduction target for the single unitary. The results are shown in the table below:

	Senior Management		Gross Expenditure		Saving/(Cost)
	£ millions	FTE	£ millions	%	£ millions
Single Unitary Council	10.8	126	731	1.5%	0.6
Dual Unitary Council	11.9	140	372 X 2	1.6%	(0.4)

83. A summary of the savings in this area is shown in the table below:

Savings £ millions	Single Unitary	Dual Unitary
Corporate Management	2.9	2.0
Adopt County Council Overhead Rate	1.6	1.6
Reflect Re-organisation Savings	0.5	0.3
Reflect Unitary organisation size	0.6	(0.4)
Senior Management Saving	2.7	1.5
Total Saving	5.6 (32%)	3.5 (20%)

84. Despite the significant level of savings in terms of absolute numbers the single unitary would still have more senior management than the existing County Council. This equates to £1.6 million (16%). The actual management structure would be designed at the appropriate stage of the proposals development. The example above is simply to illustrate that the assumptions made are reasonable. The key enablers of the reduction are:

- Duplication of posts and services with the existing Local Government arrangements in Leicestershire. For example similar back-office activities (HR, legal etc.) and front line services (waste, cultural etc.)
- Economies of Scale – Managers can look after a larger services, benefiting from combined contracts and unified decision making.
- Simpler working arrangements – District/County interactions would be eliminated

Other considerations

85. Further, unquantified benefits, would be expected in this area. For example:

- Simplified working with other common partners, for example health
- Pooling of expert resource, for example joining up Homelessness and Mental Health
- Retention of talent, through greater opportunities in an enlarged organisation.

Back Office

86. All organisations incur costs that are not directly related to the provision of good or services that the organisation exists to provide. These costs are related to the running of the organisation and are often referred to as the cost of being in business. A common organisational efficiency measure is the proportion of total organisation expenditure (or sales) that is spent on these overhead costs. There is not a common definition of overhead costs for Local Government, but information contained in the statistical returns to MHCLG can provide a useful proxy. For Leicestershire this is summarised in the table below:

£ millions	Overhead proxy	Gross Revenue Budget	%
County Council	8.4	587	1.4%
District Councils	8.0	173	4.6%
Total Leicestershire	16.4	760	2.2%

87. This high level analysis shows that district councils spend a far higher proportion of their budget on overheads, reducing the amount that can be directed to front-line services. Taken on its own this is not a measure of the efficiency of individual processes, but it does demonstrate the significant economy of scale benefits that are possible. All organisations have to undertake certain basic activities regardless of size, although the level of cost can be influenced it cannot be eliminated entirely.

88. The act of bringing services together under common management simplifies back-office support requirements, although local differences in services may persist. Further benefits are gained by only having one set of back office functions rather than one in each organisation. This allows support to converge on common systems, infrastructure, policy and process. Financial benefits are enhanced further by having fewer staff in totality, directly reducing office space requirements.

89. Partnership working, or shared services, do offer the opportunity to make some of the efficiency savings envisaged in the unitary proposal. Aligning processes, pooling expertise, utilising common systems and shared management are the typical benefits quoted for the adoption of a shared service. These benefits will always be lower than what can be achieved through merging organisations.

90. Shared services arrangements do not eliminate the underlying activity; it is just performed more efficiently. For example, in a financial shared service, key transactional processes such as payroll and invoice payment would be performed at a lower cost. However, there would still need to be 8 separate payroll runs performed using 8 different terms and conditions; similarly 8 different service contracts would require 8 different invoices to be paid.

91. Shared services rarely, if ever, achieve the goal of complete standardisation. Individual customers have their own views on what service should be delivered, compromising the ability to maximise efficiency. This is reinforced by the public

sector's preference for equal partner governance models, for shared services, rather than the more streamlined customer-supplier relationship the private sector adopts. To enable this approach a greater investment in governance arrangements are required. Creation of a single organisation, as the recipient of back-office services, instantly resolves these matters.

92. Longevity can also be a difficulty for shared services. Unitary organisations can take a long term view; shared service agreements often have a finite life and can be subject to individual partners changing their mind.
93. The weakness of the proxy overhead calculation above is that it does not cover all of the overhead costs incurred by the councils. Further analysis has been undertaken to broaden the scope of the savings to incorporate the entire back office. Information Technology and Property services are the largest back-office services; Finance, Human Resources and Legal services are also significant undertakings. Taking each in turn the table below contains examples of the type of savings enabled by re-organisation:

Function	Efficiency examples
Property	<p>An immediate benefit will be achieved through the reduction in the total number of back-office and management staff related to the re-organisation savings; this will yield reductions in office space requirements. Further benefits would be possible by forming a single team that can make strategic decisions for the county. This would allow elimination of duplicate sites and estate management activity; this is not predicated on withdrawal from localities.</p>
Information Technology	<p>The use of technology to support the running of back-office and front-line services has become increasingly important and will undoubtedly continue to do so. Even where separate organisations have chosen the same system supplier the total cost of running the system will be lower when the same system is being provided to a single, larger, organisation.</p> <p>Volume discounts for equipment and licenses are a well-established and a significant factor in procurement activity.</p> <p>Activity configuring, maintaining and supporting technology only needs to be undertaken once.</p> <p>Infrastructure can be consolidated and simplified, for example a reduction in the range of interfaces with other systems.</p> <p>The implementation risk can be reduced significantly by the new council adopting the 'best' from the existing set of systems rather than introducing a new system.</p>
Finance	<p>A significant part of the operation of the Finance function relates to activity that must be undertaken. Regulatory requirements such as statistical returns or the annual statement of accounts can be combined and run from one system.</p> <p>Specialist functions such as taxation (local and national) would be combined reducing the total level of activity, but also strengthening expertise.</p> <p>On the discretionary support there would be a significant reduction in the number of Budget Holders to support, through unified management of services.</p> <p>The volume of transactional activity would reduce and there would be greater scope to make automation investments, with the cost-benefit appraisal more likely to succeed.</p>
Human Resources	<p>The operation of the Human Resources function would benefit in a similar way to Finance. Common policies for the new organisation would be created; such as pay and benefits, sickness and performance management.</p> <p>Specialist areas such as Health and Safety would benefit from having to work with one set of operational practices for the same service, not multiple one across organisations.</p> <p>Another benefit would be the greater ability to undertake training courses in-house. Courses would be targeted at a greater number of staff, hence are likely to be run closer to capacity.</p>
Legal	<p>Legal services would benefit from a reduction in the number of interactions with external organisations. There would fewer contracts to agree with suppliers and agreements between different local government organisations, in the unitary area, would be eliminated.</p> <p>The activity to ensure the organisation is compliant with legislation only happens once and a single response to currently joint matters, such as development control, is possible.</p>

94. In summary by bringing support services together the unitary council/s would benefit by:

- Adoption of best practices and systems employed in the county
- Dilution of fixed costs as the organisation size increases
- Reduction in the number of disparate operations, that allows standardised support
- Specialisation of support benefiting the back-office operationally and decision making

95. The proxy above has been expanded to create a comparator for the full back-office costs, as shown in the table below.

	Back-office Expenditure	Gross Expenditure	% of Gross Expenditure
	£ millions	£ millions	
District Councils	25	173	15%
County Council	34	587	6%
Difference	9	414	9%

96. The cost relating to staff earning in excess of £50,000 has been removed from this analysis. This has already been accounted for in the senior management saving calculation above. Income relating to trading activity and investment income has been removed to ensure a like-with-like comparison is made.

97. The level of back-office expenditure is £9 million, or 32% higher, for the County Council than the combined district councils. However, on a gross expenditure basis the County Council is in excess of 3 times the size of the combined district councils. Hence from a pure organisational efficiency basis the additional expenditure is more than justified. In simple terms more than twice as much is spent, by district councils, on back-office functions for every £1 of front-line service delivered compared to the County Council. The expectation is that for a single unitary council the economies of scale would make the proportion of expenditure even lower. For the dual unitary the proportion of expenditure is likely to be higher than for the current County Council, but still lower than the combined district council total.

98. Back-office functions would be integrated in a similar way to the front-line services that they support. There should be no reason that the new, larger, unitary organisation cannot achieve the same overhead rate for back-office functions as the existing County Council.

	Back-office	Gross Expenditure	
	£ millions	£ millions	%
Current Leicestershire	59	761	8%
Unitary Council at County Council rate	43	761	6%
Change	15	-	2%

99. The saving is further enhanced when the savings from re-organisation are taken into account. Local Government in Leicestershire will be smaller post re-organisation, by £30 million for the single unitary proposal and £17.6 million for the dual unitary. Hence the back-office expenditure should reduce reflecting the reductions. For example less people to train or call help-desks for support.

	Back Office	Gross Expenditure	
	£ millions	£ millions	%
Unitary Council at County Council rate	43.5	761	6%
Single Unitary Council	41.8	731	6%
Difference	1.7	30	-

100. The benefit for the dual unitary proposals will be slightly lower due to the lower level of total savings achieved, from re-organisation.
101. The back-office saving calculation so far equates to 29% of the starting overheads. Although this is a significant figure, £42 million of overhead costs are still incurred. The savings calculation above assumes that an organisation approximately 24% bigger than the existing County Council would spend 24% more on back-office functions. The next consideration is whether the overhead rate for the back-office should be reduced to reflect the larger single unitary organisation.
102. For any organisational 'merger' of this scale no improvement would be an overly pessimistic position. For the senior management saving an estimated 5% improvement was assumed. It is reasonable to expect that the senior management of the new organisation would be tasked with achieving a similar improvement for back-office functions. Through combining the back-office function of 8 organisations it is reasonable to expect that the pooling of best practice and selection of the best people allows an improved performance compared to the current County Council.

The single unitary would have greater scale than the existing County Council, providing another reason why a lower back-office rate should be expected.

103. With an organisational merger of this scale it is unlikely that all benefits can be delivered immediately. The phasing of the re-organisation savings have been constructed with back-office reductions largely preceding the service optimisation and administration changes. The back-office functions will combine supporting the organisation with supporting the on-going organisational change. The optimisation of back-office is likely to take place when the other merger activity is nearing completion. To keep the savings activity within a 3 year period only a 'placeholder' saving of 1% has been included in this appraisal. This savings and an illustration of the 5% optimised level are shown in the table below:

	Back Office £ millions	Improvement	Saving £ millions
Single Unitary Council - included	41.3	1%	0.4
Single Unitary Council - optimised	39.7	5%	2.1

104. Further analysis to determine the right target will be conducted, as the proposals progress.
105. For the dual unitaries the opposite situation is true. The new organisations are significantly smaller (37%) than the current County Council. The focus of any design activity would be to keep overheads to minimum and similar benefits to the single unitary relating to shared best practice and selection of the best people would be received. However, the splitting of existing services and limited organisational scale will inevitably result in an increased overhead rate.
106. The current re-organisation proposal makes reference to the establishment of Local Area Committees and Area Development Management Sub Boards. At this early stage of developing these local governance arrangements the additional costs are not certain. It may be possible that costs can be contained within the back-office costs above, but at this early stage of development £0.2m of additional costs have been assumed for prudence.
107. A summary of the savings relating to the back-office is shown in the table below:

Single Unitary	Savings £ millions
Adopt County Council Overhead Rate	15.5
Reflect Re-organisation Savings	1.7
Improve Overhead Rate (1%)	0.4
Local Governance Estimate	(0.2)
Total Saving	17.4 (29%)

108. Despite the significant level of savings in terms of absolute numbers the single unitary would still have more back-office costs than the existing County Council. This equates to £8.0 million (24%). This level of saving results in an overhead rate that is reasonable in comparison to other unitary authorities.
109. To calculate the 2 unitary saving the County Council cost base has been split between fixed and variable costs. Using the back-office estimate created for the single unitary saving as a base the fixed costs were assumed to be equal for all unitary organisations and the variable costs dependent upon total expenditure. This provides an estimated saving of £10.5 million, equivalent to an 18% reduction in back-office expenditure for Leicestershire.

Other considerations

110. Further, unquantified benefits, would be expected in this area. For example:
- Benefits of greater asset investment. The larger organisation could manage a greater degree of volatility allowing the target size of the Corporate Asset Investment Fund to be increased,
 - Joining up the County Council and district councils' trading activity should yield income improvements, for example expanding service to cover the entire county.
 - Improved Treasury Management returns through longer term investments. Larger organisations can manage on lower levels of reserves relative to their size.

Service management and administration

111. Local Government re-organisation in Leicestershire provides the opportunity to improve the efficiency of the front-line services that are provided. The cost of

services can be reduced without reducing the quality of service delivered by being selective in where changes are targeted. Examples of areas delivering true efficiency savings include:

- Reduce service management and administration roles from merging operational activity
- Learn from best practice performed by the currently disparate services
- Service design performed without artificial two-tier boundaries e.g. waste disposal and collection. This enables better end-to-end decision making for cost effectiveness and service provision.
- Greater scale for procurement activity and more focused contract management
- Better utilisation of assets and work patterns
- Greater potential for in-sourcing of services, through greater scale

112. The quantification of these benefits for individual services will not take place until much later in the development of proposals. Instead benchmarking data has been used to estimate the potential for savings.

113. To give a sense of the relative services the tables on the next page show the 2016/17 total Local Government expenditure in Leicestershire.

114. The table below summarises expenditure by major service area, based upon data published by MHCLG (2016/17)

£000s	Education Services	Highways & Transport Services	Children's Social Care	Adult Social Care	Public Health	Housing Services	Cultural & Related Services	Environment & Regulatory Services	Planning & Development Services	Other Services	TOTAL EXPENDITURE
Blaby	0	208	282	220	777	1,439	1,480	4,578	2,446	2,051	13,481
Charnwood	0	691	149	0	0	3,347	4,581	9,598	3,873	3,618	25,857
Harborough	0	755	94	372	221	2,020	1,271	7,017	3,552	1,724	17,026
Hinckley & Bosworth	0	653	0	0	0	969	1,582	5,875	3,408	2,077	14,564
Melton	0	282	0	0	0	1,244	1,301	4,098	2,340	2,025	11,290
N. West Leicestershire	0	827	0	0	0	1,380	5,158	6,581	6,906	2,363	23,215
Oadby & Wigston	0	217	0	0	0	623	1,069	3,033	1,313	1,481	7,736
All Districts	0	3,633	525	592	998	11,022	16,442	40,780	23,838	15,339	113,169
County Council	145,580	46,719	64,938	221,643	30,498	1,698	12,444	34,422	7,361	2,264	567,567
Leicestershire	145,580	50,352	65,463	222,235	31,496	12,720	28,886	75,202	31,199	17,603	680,736

115. To give a sense of relative scale the expenditure has been divided by population. Expenditure per head is not necessarily the best efficiency comparator but for this demonstration of relative organisation size it is helpful.

£/head of population	Education Services	Highways & Transport Services	Children's Social Care	Adult Social Care	Public Health	Housing Services	Cultural & Related Services	Environment & Regulatory Services	Planning & Development Services	Other Services	TOTAL EXPENDITURE
Blaby	0.0	2.1	2.9	2.3	8.0	14.7	15.1	46.9	25.0	21.0	138.0
Charnwood	0.0	3.9	0.8	0.0	0.0	18.7	25.5	53.5	21.6	20.2	144.1
Harborough	0.0	8.4	1.0	4.1	2.4	22.3	14.1	77.6	39.3	19.1	188.3
Hinckley & Bosworth	0.0	5.9	0.0	0.0	0.0	8.8	14.4	53.4	31.0	18.9	132.3
Melton	0.0	5.5	0.0	0.0	0.0	24.4	25.6	80.5	46.0	39.8	221.8
N. West Leicestershire	0.0	8.4	0.0	0.0	0.0	14.0	52.3	66.7	70.0	24.0	235.4
Oadby & Wigston	0.0	3.9	0.0	0.0	0.0	11.2	19.2	54.4	23.5	26.5	138.6
All Districts	0.0	5.3	0.8	0.9	1.5	16.1	24.1	59.7	34.9	22.5	165.7
County Council	213.1	68.4	95.1	324.5	44.7	2.5	18.2	50.4	10.8	3.3	831.0
Leicestershire	213.1	73.7	95.8	325.4	46.1	18.6	42.3	110.1	45.7	25.8	996.7

116. To perform the savings analysis the cost relating to staff earning in excess of £50,000 has been removed from the expenditure, as this has already been accounted for in the Senior Management saving calculation above. Similarly back-office cost allocations have been removed due to their inclusion in the Back Office calculation above.
117. The savings analysis focuses on the services where there is significant overlap. This avoids the scale of the County Council services distorting the potential for savings. To achieve this Education Services, Highways and Transport Services, Children's Social Care, Adult Social Care and Public Health have been removed. These services would be important in any integration of services, but the understatement of savings that their exclusion causes is not expected to be material. Further analysis will be undertaken, as the proposals progress, to quantify the benefit.

Housing Revenue Account

118. Housing services does not include expenditure relating to the Housing Revenue Account (HRA). The HRA is defined as:
 "a local authority statutory account, it contains all the spending and income related to the housing stock owned by the council."
119. Essentially what this means is that funding for the provision of local authority social housing is managed under a national set of rules. The rules require all rent collected at a local level to be pooled and used to fund the management, maintenance and major improvements of the housing stock and to support the borrowing costs. By law the HRA must be kept separate from council's other financial matters. Not all councils have a HRA.
120. For the re-organisation savings the HRA has not been included. There could be potential benefits to housing tenants, both current and prospective, through reduced expenditure on overheads. This would be achieved in a similar way to the re-organisation savings. Any savings would be retained within the HRA to the benefit of current and/or future tenants.

Relative Performance

121. Depending upon the service a different approach has been taken to calculate the savings. The initial set of calculations is based upon the relative expenditure of each of the Leicestershire councils. The services that this approach has been used for are:
- Housing (primarily Administration of Housing Benefit)
 - Environmental & regulatory, excluding waste collection, recycling and disposal (primarily Street Cleaning, Environmental Protection and Trading Standards)
 - Planning & Development (Policy and Development Management activity)

122. For each of these service categories the average expenditure per head of population has been calculated for each district. Where the highest and/or lowest spend councils were significantly different to the average for Leicestershire they were removed to avoid overstating the savings.
123. The saving was then calculated by assuming that under a unitary authority any district areas with above average expenditure would improve to the Leicestershire average. Any districts already below average would improve to the expenditure of the next lowest spending, with no improvement for the lowest spending council.
124. The expenditure made by the County Council has not been included in the savings calculation. This reflects the different services provided between the two tiers, meaning that complete integration is less likely. There are several areas where the services provided are very similar, for example both tiers undertake Planning and Development Management activity; the County Council Trading Standards Service performs similar activity to the district's public protection services. In these cases it is likely that saving can be realised through teams working closer together or even amalgamating certain activity. Further analysis to quantify these savings will be conducted, as the proposals progress.
125. The following savings have been generated:

Service	Service Expenditure £ millions	Saving £ millions	%
Housing (Benefit Administration)	11.1	1.0	9%
Environmental & regulatory	21.8	1.2	5%
Planning & Development	27.5	2.0	7%

126. To verify the savings a reasonableness check with an existing unitary authority has been made.

Cultural Services

127. With cultural services there is a large degree of choice available to the existing authorities regarding what services are provided and how. The main services in this category are:
- Sports Facilities
 - Open Spaces
 - Library Services
 - Museums

- Theatres

128. There are statutory conditions surrounding some of these services, but they do not tend to be overly prescriptive. Hence relative expenditure is not a good indication of the potential for efficiency savings. Similar categories of services are provided by (and within) the different tiers on an overlapping geography. It is therefore reasonable to expect that some savings are possible through adoption of a county-wide approach to service delivery. The savings for cultural services have been set at 5% of expenditure in Leicestershire.

Service	Service Expenditure £ millions	Saving £ millions	%
Cultural	25.8	1.3	5%

129. This would be achieved through combining middle management and administration roles plus seeking reductions in supply contracts.

Waste Collection & Disposal

130. Waste has become one of the significant expenditure areas for Local Government over the past decade. This has been driven by a mixture of service enhancements, for example recycling, and Government deterrents, for example landfill tax. In many two-tier areas waste partnerships have formed to allow closer working between the various collection and disposal authorities. The depth of the partnership working varies from information sharing through to integration of services. In some areas these partnerships have resulted in waste collection activity moving to a single service. Providing governance arrangements are not onerous and partners do not impose conditions that impede good service design then significant efficiencies can be achieved. The existence of this joint working provides a basis for the estimation of savings for the creation of a unitary authority.

131. The key areas of savings expected from establishing a single waste collection service are:

- Better vehicle utilisation, reducing labour costs and vehicle numbers
- Greater purchasing power
- Improved shift management
- Economical insource contracted activity
- Reduce middle management and administration costs
- Improve recycling of dry materials, through aligning collection approach to recycle processing
- Depot rationalisation

132. Using local knowledge and information available on existing partnerships a savings estimate of £1.1 million has been made. Providing the operational approach to the collection service is unified, for example adoption of the same vehicle specification, some local variation in the service will be possible. This may be out of necessity, for example the ability to have different waste receptacles in flats, or choice.
133. Further benefits would be possible through joining together the collection and disposal activity. Examples of this are:
- Design of the collection/recycling services take better account for the resulting disposal/processing costs.
 - Location of disposal points and transfer locations to take better account of the collection activity
 - Alignment of RHWS sites with the other collection activity
134. At this stage of development of the re-organisation proposals, an initial 1% reduction in disposal and collection costs have been assumed. The total estimated Waste savings are summarised in the table below:

	Service Expenditure £ millions	Saving £ millions	%
Single Collection/Recycling Service	21.9*	1.1	5%
Integrate Collections & Disposal Services	33.2**	0.3	1%
Total Waste	45.3***	1.4	3%

*Collection + recycling expenditure

**Collection + disposal expenditure

*** Collection + recycling + disposal expenditure

135. Savings levels published relating to established partnerships that have integrated collection services range from £1.5 to £3.0 million per annum. The savings estimate is at the lower end of the range. Further confidence can be gained by comparisons to existing unitary authorities that have lower costs per dwelling.

Council Tax

136. The collection of Council Tax and administration of the associated support is the smallest of the front-line service categories undertaken by the district councils, although its administrative nature means that significant savings will be possible. Creation of a single service for council tax will allow:

- Combination of management posts

- Greater specialisation of roles building on best practice sharing
- Expansion of volume processes such as billing and reminders

137. The calculation of this saving category has been made by making comparisons to existing unitary authorities of relevant scale. Costs net of income on a per dwelling basis was the comparator chosen to avoid double counting of charges between organisations. From the comparator group chosen the suggested savings range was £1.6 to £3.4 million. The range loosely correlates with savings increasing for a higher number of dwellings being served. The proposed single unitary would have greater scale than all of the comparators; despite this the savings have been assumed at the lower end of the range.

Service	Service Expenditure £ millions	Saving £ millions	%
Council Tax	6.6	1.7	27%

Note the saving calculation was based upon net costs, but figures presented are gross for consistency with other tables.

138. The savings have only considered the district council operations. Further benefits could be delivered by amalgamating operations with similar County Council activity. For example similar activity is undertaken relating to the charging of Adult Social Care service users. This involved making financial assessments, raising invoices and collecting income.
139. Further significant financial benefits would be delivered through the implementation of billing and collection best practices. £300m of council tax is collected each year for Local Government in Leicestershire, even a small improvement in collection performance can have a significant financial benefit.

Total Savings

140. The table below summarises the various savings identified in the Service management and administration category:

Service	Service Expenditure £ millions	Saving £ millions	%
Housing	11.1	1.0	9%
Environmental & regulatory	21.8	1.2	5%
Planning & Development	27.5	2.0	7%
Cultural	25.8	1.3	5%
Waste	45.3	1.4	3%
Council Tax	6.6	1.7	27%
Total	138.1	8.5	6%

141. The total is for the specific services in scope of the savings calculation. It is likely that Public Health, Education and Social Care services would also be involved in any integration further driving down the relative impact on front-line services.
142. Calculation of the dual unitary saving is complicated due to the requirement to split services between two organisations. This extends beyond the activity in scope of saving to all services delivered by the County Council. Design of County Council services is not uniform, with different degrees of locality based provision and specialist county wide teams. To minimise the cost increase it is likely that a different configuration of services will be required to allow sharing of management; this would be to the detriment of some specialisation.
143. For this analysis the savings have been focused on, the relative contingency is higher, but as the proposals develop this is an area that will require significant additional work.
144. The single unitary savings analysis has been repeated for each service category with lower improvement assumption, for example 2.5% cultural saving rather than 5%. In total this has reduced the saving from £8.5 million to £5.3 million or 38%. This is a similar order of magnitude to the difference in the other saving categories, so has been accepted as an estimate at this stage.

Other Considerations

145. Changing how services are delivered is likely to yield additional benefits to those outlined above. Key examples include:

- Improvements in income received by the service, either trading or improved grant bid success.
- Synergies from linking with the large County Council services such as social care
- Improved end to end decision making, for example, bringing together the preventative services (e.g. homelessness) with the beneficiary (e.g. social care)
- Easier to implement new county wide initiatives, for example Lightbulb or Supporting Leicestershire Families
- Deliver a unified capital programme, allowing greater co-location of services
- Council Tax and Business Rates collection rates
- Greater facilitation of investment through mechanism such as Tax Incremental Financing

Conclusion

146. The savings potential offered by re-organisation is significant and likely to be the single biggest efficiency initiative that is available to Local Government and which can be used in part to sustain and develop frontline service provided currently by either tier. The estimate of the different savings possible has been set out in the table below.

Annual Savings	Single Unitary £ million	Reduction %	Dual Unitary £ million	Reduction %
Members Allowances	0.5	19%	0.3	12%
Elections	0.9	36%	0.9	36%
Senior Management	5.6	32%	3.5	20%
Back office	17.4	29%	10.5	18%
Service management and administration	8.5	6%	5.3	4%
Contingency	(2.9)	-	(2.9)	-
Total (services reduced)	30	14%	17.6	8%
Total (total expenditure)	30	4%	17.6	3%

147. By necessity these are high-level estimates. However, a good degree of confidence can be taken from the analysis due to the similar exercises proposed and undertaken across the country. Re-organisation proposals take several years from

initial concept to implementation. During this time the organisation will continue to evolve and new information will become available. This will require re-calculation of potential benefits. Unless a significant amount of service integration activity is undertaken, outside of re-organisation, the order of magnitude of the savings is unlikely to change.

148. Throughout the document several areas have been highlighted that could deliver additional savings. During the establishment of new organisations it is not possible or desirable to change everything, meaning that positive benefits should continue beyond the timescales envisaged for re-organisation. That said whilst the change infrastructure is in place the ambition should be to deliver as much as possible.

Contingency

149. A contingency has been included to allow for flexibility whilst proposals develop, particularly through engagement and consultation phases. This allows unforeseen changes to be dealt with without undermining the financial case. The more developed proposals become and the scope for unforeseen change reduced the aspiration is to reduce the size of the contingency, but some will be required until implementation is complete.
150. The dual unitary contingency is disproportionately higher than the savings proposed. This is required due to the far greater service delivery risk. The requirement to split county-wide services results in all services being impacted, even though changes will result in disruption at a greater on-going cost. Delivery will also require a material increase in implementation costs. The true financial impact of splitting services is very difficult to estimate. As proposals develop this is an area that will require a significant investment of resource. It is expected that factors around service disruption will also need to be taken into account, which are not easily accommodated in a financial assessment.

Recipients of Benefits

151. The recipients of financial benefits will depend upon decisions taken during and post implementation. It is likely that financial benefits will manifest themselves in three ways:
- More resilient organisation, able to offer a higher level of front-line services than would otherwise be the case.
 - Reductions in Council Tax through harmonisation
 - Investment in services, particularly capital due to rapid delivery of savings