

Review of unitary financial savings proposal for Leicestershire

July 2019

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1. Executive summary

This report presents the findings of a review of the savings contained within the Financial Options Appraisal¹ undertaken by Leicestershire County Council of a potential move to a unitary local government structure in the County (excluding the City Council). The County Council has appraised the potential annual financial savings arising from both a single unitary council and a dual unitary arrangement.

The overall finding is that the County Council's work represents a sound basis for presenting potential savings to members and for planning next steps. Based on PwC's experience, it covers the expected areas of potential saving and the level of the savings is within the range that we would expect.

This analysis reviews the approach taken in each of five broad areas of saving: members' allowances; elections; senior management; back office and service management and administration. It also reviews the approach suggested by the County Council to take account of the need to harmonise council tax across the seven existing district areas.

The County Council's Options Appraisal is not intended to be a complete business case for unitary local government and we understand from discussion with officers that its scope is deliberately confined to the savings anticipated to be most directly attributable to restructuring. Other business case factors including implementation costs will be set out in a separate document. Our assessment therefore does not look at costs, payback period, management of change or outcome benefits, which are important factors in consideration of the overall proposal.

Our overall findings are set out below against the scope agreed for this analysis.

Methods and assumptions used to calculate the value and phasing of the savings.

We have reviewed the methods used to calculate savings for both the single and dual unitary options with reference to the spreadsheets created by the County Council for this purpose. The methods are logical, assumptions are documented and form a sound basis for planning. Different councils take different approaches to undertaking this type of analysis and in some cases we have set out some alternative ways that the calculation could be made or highlighted differences in assumptions (for example percentage savings applied) from other authorities' cases. We suggest one principal area where there is potential to increase the proposed saving (senior management for the single unitary). We have identified that the back office savings appear at the higher end of savings in other reports, but agree that the calculation undertaken is reasonable for the local context.

The phasing of the build up to full realisation of annual savings appears to be prudent for the areas where moving to unitary structures would require the most reconfiguration of services.

Selection of data sources and whether they accurately reflect the current position of the eight organisations within the scope of the proposed reorganisation.

The Options Appraisal has used public data sources for baseline cost figures for the district and borough councils, as it has not had at this stage direct participation of the district and borough councils. The analysis has referred to the districts' and boroughs' published Revenue Outturn data, Statements of Accounts and Budget Books, which is the best approach for this context. We have highlighted how this creates some risks (for example in the difficulty of finding like for like data from authority to authority). However, actual data has been used for the County Council, which accounts for 80% of total expenditure for the authorities in scope of the Options Appraisal. The data was the latest available at the time of preparation of the Options Appraisal, but has now been superseded by later material. We do not believe that this will make a material difference to the results, but understand (and agree) that if the proposal proceeds, it would be refreshed.

¹ *The development of a unitary structure for local government in Leicestershire: Financial Options Appraisal*. This paper was presented to the County Council's Scrutiny Commission on 15th January 2019.

Reasonableness of the total savings proposed, through comparison with other similar projects.

The order of magnitude of the savings identified is reasonable and our analysis shows that the County Council's analysis is within the range of other cases. In some areas we have applied alternative methods to savings calculations – if taken together, these would still produce a result that is close to the County Council's analysis (£30m for single unitary and £17.7m for dual).

To outline any suggestions for improvements

We have highlighted four main areas to consider for developing the Options Appraisal in a further iteration, if the proposals are progressed:

1. Savings range. The County Council's analysis has included a reduction in the savings calculated as a "contingency" to recognise the early stage of development of thinking. This is a prudent measure at this stage. However, as proposals develop it may be more informative to create an upper and lower range for the different savings areas, with the breadth of the range reflecting the extent of potential variables. This would provide a more informative view of where the contingency is most relevant.
2. The assumptions and narrative about council tax harmonisation present a simplified view of this aspect of change. It is recommended that the Options Appraisal is expanded to ensure that the reader is aware that this is a political choice for the new unitary, although subject to agreement with Government. Further narrative could explain the potential range of options, for example the phasing of reductions over five years, which would provide additional short term funding to the new council(s) in its/their critical early years when reorganisation is becoming established.
3. The analysis could draw out more clearly the potential for additional *transformation* savings above the *transition* based ones currently considered. The administrative changes associated with reorganisation will create the potential for material savings, and this is the focus of what the County Council's Options Appraisal has identified. However, reorganisation will also act as a platform for transformation to an extent that is difficult to realise within the current two-tier structure. Discussion with Members about the level of ambition and potential for further savings would be beneficial as the project progresses. Additional work could be to quantify some of the potential for transformation saving (for example using reorganisation to reduce the effort that staff in service teams spend on administrative or enquiry handling activities).
4. The nature of the County Council's work has necessarily required use of public data sources only for the district and borough councils. This is reasonable for this stage of the proposal's development, but does create some risks in terms of interpretation and comparability of data. When the political agreement allows, the analysis could be improved by undertaking a joint exercise with the district and borough councils. This would allow a greater level of detail to be produced regarding where the savings would be targeted.

This report presents comments on all of the savings areas – these are summarised in the table below:

Figure 1: summary of comments on the County Council's savings analysis

Saving area	LCC proposed saving		Assessment		Alternative view of saving potential	
	Single unitary	Dual unitary	LCC proposed saving	Assessment	Single unitary	Dual unitary
Member allowances	0.5		0.3	→	0.5	0.3
Elections	0.9		0.9	↓	0.7	0.5
Senior management	5.6		3.5	↑	6.6	3.2
Back office	17.4		10.5	→	17.4	10.5
Service management and administration	8.5		5.4	→	8.5	5.3
Contingency	-2.9		-2.9	→	-3.0	-2.8
Total	30		17.7		30.7	17.1

Key	
→	Proposed saving is reasonable
↑	Potential to increase proposed saving
↓	Proposed saving appears slightly high

This assessment² is based on a review of the validity of the County Council's calculations rather than development of our own comprehensive model of all the savings drivers and interdependencies. As stated in the improvement suggestion in point 1 above, we consider that it would be helpful in a further iteration to move to an upper and lower range for the different savings areas. However, the key conclusion is that the calculations in the County Council's Options Appraisal are reasonable for a proposal at this stage of development.

² We have included a contingency reduction at the same percentage rates proposed by the County Council.

2. Introduction

Context

Leicestershire County Council has identified significant challenges in maintaining financial sustainability in the face of ongoing reduction in central government funding and increasing demand for services. As part of its response to this, the council leader has commissioned work to assess the benefits of a move to a unitary form of local government in Leicestershire. At this stage, the County Council has completed an initial Financial Options Appraisal assessing the potential savings that a move could bring, both from a single unitary authority and from a two unitary authority arrangement (referred to as “dual unitary”).

This analysis is based only on a change to the two tier part of Leicestershire – the proposals would not involve Leicester City Council which is already a unitary authority.

Scope of this piece of work

PwC has been commissioned to undertake an external review of the potential savings identified by the County Council. External review means:

- Comparing the total savings the County Council has identified in both the single and dual unitary models against analogous published cases for other two tier areas.
- Reviewing the scope of savings areas identified and checking for gaps and coherent logic of the benefits case.
- Assessing the assumptions that underpin the financial case.
- Outlining any suggestions for improvements.

The requirement is for a short review to provide an assessment that can support elected member discussions of the Options Appraisal that has been developed.

It is important to state that the review is not an audit. It is an assessment based on PwC’s experience and review of other published unitary material.

To guide our comments, we have referred to several published unitary local government cases for change or national studies. These are:

- [Dorset Councils: Potential options for the reconfiguration of local authorities](#), Local Partnerships, August 2016. This is a financial options appraisal, and covers a single unitary and three dual unitary options. However, it is important to recognise that two already existing unitary authorities, Bournemouth and Poole Councils, were part of the analysis.
- [Case for Change: Local government reorganisation in Dorset](#), PwC, December 2016. This builds on the Local Partnerships analysis, and considers the potential for further savings through transformation.
- [Northamptonshire area local government reform – outline approach](#), PwC, August 2018. A study into the potential savings that would be achieved by a dual unitary arrangement in Northamptonshire and used as the basis of a response by seven of the eight councils to the Secretary of State’s invitation to submit a unitary proposal.
- [Strategic Financial Case for Local Government Re-organisation in Cumbria](#), EY, January 2015.
- [Strategic Options Appraisal: Reorganising Local Government in Buckinghamshire](#), Buckinghamshire County Council, September 2016.
- [Independent Analysis of Governance Scenarios and Public Service Reform in County Areas](#), EY, September 2016. A report commissioned by the County Councils’ Network. It reviews several scenarios, including single and dual unitary arrangements. Figures are presented at a national scale with impacts shown for large, medium and small county areas.
- [Oxfordshire Unitary Government Study](#), PwC, July 2016. This was an appraisal of different options for unitary local government, including single county and different configurations of dual unitary.

These are all publicly available reports³.

³ We have used these as reference sources which have been read at face value. Our reference to them implies no judgment about the validity of the methods used.

3. Overall approach and coverage of the case

Data sources

The Leicestershire analysis has been based on the County Council's own data for the cost of its own services and public sources for the district and borough councils. Public sources principally means Revenue Outturn data for 2016/17, Statements of Accounts for 2016/17 and Budget Books for 2018/19. The use of public sources for the districts and boroughs is unavoidable without commissioning a joint project, to which the districts and boroughs would contribute data. This creates some risks in terms of finding comparable data from authority to authority and in interpreting it. However, we consider that the sources used represent the best approach for the context of a single authority initiated Options Appraisal.

The data was the latest available at the time of preparation of the Options Appraisal, but has now been superseded by later versions. We do not believe that this will make a material difference to the results, but understand that if the unitary proposal proceeds, the intention will be to refresh it.

High level comparison with other unitary financial cases

A comparison of the savings areas identified in the Leicestershire analysis with a range of other published cases is shown below. The first table compares the appraisals for a single county unitary authority:

Figure 2: overall savings comparison with other unitary financial cases (single unitary)

Savings category	Dorset (Local Partnerships) (£m)	Cumbria (£m)	Buckinghamshire (£m)	EY national study (£m) ⁴	Leicestershire proposal (£m)
Total estimated saving	36.4	25.1	18.2	26	30
Authorities that would be "abolished"	8	6	4	7.4	7
Saving per authority "abolished"	4.6	3.8	4.55	3.5	4.3

The next table compares the Leicestershire appraisal of the dual unitary option with other published studies.

Figure 3: overall savings comparison with other unitary financial cases (dual unitary)

Savings category	Dorset (Local Partnerships) (£m) ⁵	Cumbria (£m)	Buckinghamshire (£m)	Northamptonshire ⁶ (£m)	EY national study (£m)	Leicestershire proposal (£m)
Total estimated saving	27.8	13.7	10.3	12.1	16	17.7
Authorities that would be "abolished"	7	6	3	6	6.4	6
Saving per authority abolished	4	2.3	3.4	2	2.7	2.9

⁴ These are the midpoint figures given for a medium sized county area (population 800,000). The presentation of savings in this report gives a total annual saving once savings have been fully realised (£26m). However, for the individual components, the report shows the total saving over five years, but not the annual saving. The component figures shown here have been extrapolated from their relative proportions over the five years and the £26m total figure.

⁵ Estimates match the configuration of Bournemouth, Christchurch and Poole that came into being on 1 April 2019.

⁶ The savings shown are just those for "reorganisation". Considerable further savings are shown assuming there is transformation in service delivery, using the administrative reorganisation as a platform.

The comparison here must be treated with care:

- The Dorset and Northamptonshire studies had access to data to non-public data sources for all authorities and assumptions were agreed with all the section 151 officers.
- The Dorset report includes two areas, Bournemouth and Poole, that were already unitary, which will have changed the character of its baseline. The report also notes that the savings potential would be affected by anticipated savings in relevant areas between the date of the report and launch of new authorities two and a half years later, so may be considered to overstate the savings that would be available at the time of reorganisation.

The Leicestershire projected savings sit within the range of the findings of the other studies. This is evidence that the order of magnitude of the Leicestershire County Council analysis is a sound basis on which to develop the unitary proposal. However, in order to comment further, it is necessary to look in detail at the calculations and assumptions used in each category of savings. This is covered in the next section of the report.

4. Detailed comments on components of the financial case

This section of the report looks in more detail at the five areas of savings identified in the County Council's analysis. The approach is to comment on the calculations and method used, including the assumptions. We have reviewed the spreadsheets used by the County Council to make the calculations. The overall message is that the methods are logical, assumptions are documented and represent a sound basis for planning.

There is no single method for undertaking this analysis in each savings area and in some cases we have set out an alternative way that the calculation could be made or highlighted differences in assumptions (for example percentage savings applied) from other authorities' cases. We do not consider that the difference that these comparisons would make is material to the overall level of saving.

Member allowance related savings

Commentary on Leicestershire calculations and method.

The approach taken has been to compare the cost of an envisaged future member structure with the cost of current arrangements. This is a strong approach – there is a clear trail for the current costs and a rationale for what future costs, and therefore, savings would be.

We have not validated the current costings. We have, however, reviewed the assumptions about future structures and allowances.

Number of members

The assumption of 110 members for both single and dual unitary arrangements is reasonable as a planning assumption and produces a ratio of one elected member per 4,750 electors, based on the most recently available Electoral Commission figures. It is very difficult to predict what the Local Government Boundary Commission for England (LGBCE) would recommend, but recent examples include:

- Dorset Council. The LGBCE's recommendation for the recently created Dorset Council was for 82 members covering 52 wards (a ratio of wards to members of 1: 1.58, or one elected member per 3,600 electors⁷).
- Cornwall Council. The Cornwall unitary authority was launched in 2009 with 123 members. The Boundary Commission published recommendations in December 2018 to reduce this to 87 in single councillor divisions. That would produce a ratio of one elected member per 4,856 electors.⁸

The Best Value report published last year for Northamptonshire⁹ suggested that 45 members in each of the two proposed unitary authorities would be appropriate. Northamptonshire covers a similar electorate size to Leicestershire, so while this is not LGBCE guidance, it would result in a higher ratio of one elected member per 6,054 electors. This suggests that the Leicestershire assumptions are sound, but probably at the upper end of what will be acceptable. It is worth noting that any reduction in the assumption about the number of elected members would increase the saving.

Member structure

The member structure proposed for the unitary council is in keeping with arrangements for other unitary authorities in terms of cabinet size, and number of other committee chairs. There are differences – for example the number of Leicestershire opposition group members in receipt of special responsibility allowance (SRA) is comparatively high and the concept of cabinet support members is not seen in the other structures we have examined. Equally Leicestershire proposals do not include area committee chairs, whereas others, such as Wiltshire do. However, as a working assumption, the proposed structure is consistent with analogous unitary authorities.

⁷ *New Electoral Arrangements for Dorset Council: Final Recommendations*, LGBCE, October 2018

⁸ Based on Electoral Commission *Electoral Data 2018*

⁹ *Northamptonshire County Council Best Value Inspection*, January to March 2018

Member allowances

We have also reviewed the proposed levels of member allowances in comparison with other comparable unitary authorities. Comparisons are shown in the table below. Most comparisons are with single county unitary authorities, but Leeds has been included for its size, which is the closest existing unitary to the population that a single Leicestershire unitary would have (though as an urban authority comparisons must be made cautiously):

Figure 4: comparison with other unitary case member allowances (single unitary)

	Cornwall	Durham	Leeds	Wiltshire	Average Leicestershire	LCC as % of proposal	LCC as % of average
Basic allowance (£)	12,489	13,300	15,153	13,999	13,735	15,000	109
Basic allowance per head of population (£)	2.73	3.19	1.88	2.75	2.64	2.39	91
Total SRA (£)	296,907	308,889	682,065	597,675	471,384	426,408	90
SRA per head of population (£)	0.53	0.59	0.86	1.20	0.79	0.62	78

Figure 5: comparison with other unitary case member allowances (dual unitary)

	Bedford	Bristol	Central Beds	Cheshire East	Cheshire West & Chester	Average Leicestershire	LCC as % of proposal	LCC as % of average
Basic allowance	10,425	12,261	10,996	11,872	11,689	11,562	15,000	130
Basic allowance per head of population	2.41	2.59	2.28	2.57	2.59	2.35	2.35	102
Total SRA	243,285	356,455	305,000	248,545	212,174	265,115	298,774	113
SRA per head of population	1.41	0.76	1.07	0.66	0.63	0.86	0.87	100

When adjusted to a per head of population basis, both the basic allowances and SRA are in keeping with the comparator authorities. In this context, the level of member allowance related savings derived from the figures that are shown in the County Council's papers is a reasonable level of saving to use for options appraisal purposes.

The proposed member allowance savings of £0.5m per annum for the single unitary and £0.3m for the dual unitary are therefore reasonable.

Elections related savings

Commentary on Leicestershire calculations and method

The County Council's analysis has looked at two components to future election related savings: the cost of administering elections and the cost of registering electors.

Election related savings

For election related savings, the approach involves creating a baseline of the cost of running elections per head of population. This has been compared with an average cost per head of population for three other large unitary authorities. Applying the average rate to the Leicestershire population is then used as a basis for calculating a cost for the new unitary authorities where there would only be one set of elections every four years.

This gives a proxy both for the saving through the removal of one tier of elections every four years and for the economy of scale of pooling of the administrative effort.

The calculation in the County Council's spreadsheet is accurate and the data sources and single county unitary authorities chosen as comparators are suitable to give an order of magnitude figure. Ideally for electoral matters,

cost per head should be per head of electorate rather than population. However, this does not have a material impact – Leicestershire and the comparator authorities all have a very similar proportion of the population that are electors (between 75% and 77%).

In order to provide a point of comparison we have undertaken a further calculation. PwC's case for change for the Dorset Councils used a published Democratic Audit average local election cost per vote as the basis for calculating savings – based on 2013 local elections, this figure was £5.99. The Dorset case assumed that in a unitary structure, it is the cost of county elections that ends. Then, by multiplying the cost per vote by the last county election turnout, it calculates a future saving.

If we assume that the first unitary elections would be in 2021/22, we can apply this method as shown in the table below to adjust for future costs and electorate size:

Figure 6: alternative method to calculate election savings

Item	Estimate for 2022
Estimated average votes if district elections held in 2021/22	214,931
Estimated votes if county elections held in 2021/22	174,033
Estimated cost per vote for 2021/22	£7.02 ¹⁰
Estimated cost if county and district elections held in 2021/22	£2,729,839
Estimated cost if county elections not held	£1,508,434
Estimated saving	£1,221,404
Estimated annual saving	£305,351

The level of saving suggested here is close to the £0.36m amount calculated by the comparison method of costs per head with other authorities. The difference could easily be explained by the fact that simply deducting an assumed cost of county elections does not take into account greater economy of scale of election administration in a larger authority. This suggests that the County Council's calculation produces a sound basis for planning.

Electoral registration related savings

We have not seen electoral registration as a category or sub-category in the cases we have reviewed or been involved in. It is likely that it is included in wider service savings. However, it is quite legitimate to include it providing it is not double-counted in other areas.

The County Council's approach has again been to create a baseline cost of registration and to express this per head of population. This has been compared with an average cost per head of population for three other unitary authorities and a saving calculated from the difference in per head rate. The choice of comparator authorities is different from that for electoral costs. Cornwall and Wiltshire have been excluded as they were found to be more expensive per head for electoral registration than Leicestershire, so East Yorkshire and Cheshire East have been included, alongside Durham. This is justified as these are authorities with comparable funding stresses to the Leicestershire ones and provide examples of being able to operate the service at a lower level of cost. If the Leicestershire cost per head reduced to the average of these three authorities, it would reduce by 39%, which is a very large drop and is likely to be at the upper end of what is possible. We suggest that it is prudent to assume a lower saving of 25% for the single unitary and 15% for the dual unitary at this stage. A further saving may then be possible through greater service transformation. 25% would mean a saving of £304,750 on 2016/17 costs and 15% would be £182,850.

Senior management related savings

Savings in senior management are one of the most intuitive areas of reduction that can be expected when moving from two tier structures to unitary. The act of reducing the number of organisations will lead to a saving in the number of senior managers needed to run the organisations. The saving must be viewed in aggregate – depending on the structure chosen, there may need to be some increase in aspects of senior management – most obviously moving to two unitary authorities would require the creation of two sets of statutory roles, such as section 151

¹⁰ Based on applying a 2% rate of inflation each year from the Democratic Audit 2013 £5.99 figure.

officers and directors of adults and children's services, as well as public health, compared with the single county wide roles that exist at present.

Commentary on Leicestershire calculations and method

The approach taken in the County Council's analysis has been to:

- Define senior management as staff earning more than £50,000 in each of the current two tier authorities.
- Within this group, to identify the spend on "corporate management teams" – defined as the Chief Executive and direct reports – in each of the current councils.
- Assumptions for future management requirements for unitary authorities have then been made as follows:
 - Single county unitary: corporate management team to be as for the current County Council (Chief Executive and seven Directors) and at the same levels of pay as currently at the County Council.
 - Dual unitary: each new authority would have corporate management teams of one full time equivalent (FTE) smaller than the current County Council (i.e. Chief Executive and six Directors) and at the same levels of pay as currently at the County Council.
 - The corporate management team saving results from the difference of cost between the proposed structure and the current cost of eight authorities' Chief Executives and direct reports.
- For the remainder of the defined senior management group, the assumption is that service integration will lead to a reduction in the percentage of gross spend devoted to senior management. It is assumed that this can be achieved at the current County Council level (1.6% compared with 2.5% in the districts). A further small saving has then been applied to reflect the overall reduction expected in spending as a result of a move to unitary structures, but an offset factor has been applied to the dual unitary for the additional overhead of two organisations.
- This produces savings of:
 - Single unitary: £5.6m per annum.
 - Dual unitary: £3.5m per annum.

The basic principles of this approach are logical and the calculations appear accurate. In order to provide a point of comparison, however, it is worth noting that other cases and reports that we reviewed or have been involved with use a slightly different definition of senior management – seeing this as the top three tiers of the staffing structure. Such an approach involves estimating the cost of the current tier 1 to 3 structure in all the councils in scope and comparing that with the cost of an assumed future tier 1 to 3 structure.

We have made this calculation for Leicestershire, as follows.

Calculate costs of existing tier 1 to 3 structure

We have estimated the cost of the existing tier 1 to 3 structure based on the source data about job titles and salaries in the County Council's senior management calculations spreadsheet. As this does not identify tiers, we have made the following assumptions:

- Tier 1 – Chief Executive, and this is taken to include both the joint Chief Executive roles for Harborough Council (9 FTE).
- Tier 2 – Director and Strategic Director roles (23 FTE).
- Tier 3 – Rest of those earning more than £50,000 in the districts (55 FTE) and those earning more than £65,000 in the County Council (28 FTE).

We have referred to existing senior officer information in recent statements of accounts or online transparency information to guide these judgements.

We have then looked at tier 1 to 3 structures in other unitary authorities to help to build a notional senior structure for future Leicestershire single unitary and dual unitary options. By costing these notional future structures with reference to salary levels in other unitary authorities, and comparing them with the cost of current Leicestershire arrangements, we have derived potential savings. The comparators chosen for single unitary are Cornwall, Durham and Wiltshire as existing single county unitary authorities and we have also added Leeds. As an urban authority, the validity of comparisons to a shire county are questionable, but it is the only unitary of broadly comparable population size to a Leicestershire county unitary. Comparator averages (and taking account of an FTE per head of

population factor) would suggest a future structure of one Chief Executive, six Executive Directors and 25 Directors of functions. To be cautious, we have assumed slightly higher FTE numbers in the table below, which sets out a savings calculation as follows:

Figure 7: calculation of senior management savings (single unitary)

	Tier	Number of posts	Cost per post	Total cost
Current	1	9		1,389,705
	2	28		2,716,470
	3	79		7,346,174
Total		116		11,438,989
Future	1	1	237,467	237,467
	2	7	179,628	1,257,397
	3	28	121,030	3,388,829
Total		36		4,883,692
Saving				6,555,297

For the dual unitary option, we took as comparator authorities Bedford, Central Bedfordshire, Cheshire East, and Cheshire West and Chester. We have slightly adjusted the average for tier 2 as the Bedford tier 2 figure is higher than the others, and we have then assumed spans of control of four direct reports to each Executive Director. This gives an indicative future structure for each authority of: one Chief Executive, six Executive Directors and 24 Directors of functions. Taking this into account, a savings calculation is as follows:

Figure 8: calculation of senior management savings (dual unitary)

	Tier	Number of posts	Cost per post	Total cost
Current	1	9		1,389,705
	2	28		2,716,470
	3	79		7,346,174
Total		116		11,438,989
Future	1	2	226,050	452,100
	2	12	170,608	2,047,294
	3	48	118,620	5,693,764
Total		62		8,193,158
Saving				3,245,831

These savings cannot be compared directly with the County Council's calculations for senior management as our calculation excludes 79 FTE, earning between £50,000 and £65,000 at a total cost of £6.1m, from the baseline. However, the savings are comparable to those in the Oxfordshire study; are less than those in the national EY study and the number of senior FTE posts saved is comparable to the Dorset study by Local Partnerships.

Back office related savings

Savings in support services are among the most important in considering a move to a unitary structure. This is reflected in the Leicestershire analysis: before contingency is taken into account, back office savings constitute nearly 53% of the single unitary savings and 51% of those for the dual unitary. Consolidating to a single structure should eliminate the overhead of having multiple teams doing similar HR, finance, information technology, legal and internal audit in different organisations.

Commentary on Leicestershire calculations and method

The method used in the Leicestershire projections has been to calculate the percentage of gross expenditure that back office costs constitute for both the County Council and as an average for the district and borough councils. The percentage is higher for the districts and boroughs and the assumption has been made that a move to unitary status would enable the resultant totality of back office costs to operate at the level currently achieved by the County Council. A small further reduction has been applied on the basis that the new council(s) would have a smaller aggregate number of employees, so would need a smaller back office and a very small further percentage added for productivity improvement.

For the dual unitary option, the same method has been used of assuming the current district and borough back office spend would move to the current county level of proportion to gross expenditure. Instead of then applying a further reduction for the smaller overall organisation, the level of reduction has been suppressed by an amount assumed to be for the fixed costs of having two back offices, covering areas such as IT and property costs.

The key calculations appear accurate although we have not attempted to validate the fixed vs variable cost factor for the dual unitary option.

Overall, this would create a 29% reduction in net expenditure in this area for the single unitary and 18% for the dual unitary.

It is difficult to assess by analogy to other authorities' unitary cases whether the overall level of reduction in the County Council's Options Appraisal is reasonable. This is difficult to answer because calculations, and indeed the scope of what has been included in the back office category, vary between the other cases we have reviewed. For example, the County Council has included property costs within the overall back office spending but other reports consider this separately.

There is a similar precedent for the central assumption of building up the costs of a new back office from those of the current county. The EY *Governance Scenarios* report assumes that a unitary back office would require average county level staffing plus a proportion of district employees¹¹. However, the report does not say what this proportion is. It also calculates non staffing cost savings separately, through assumed percentage savings, which again are not stated.

Approaches taken in other reports include:

- Dorset: The Dorset Councils document published by Local Partnerships in 2016 looked at potential staffing savings in corporate functions¹². The analysis reduced the staffing by a percentage factor based on experience elsewhere. Analysis of their report shows that this was a 14% reduction for the single unitary option and 8.7% for the dual unitary. However, this number excluded middle management, which was assessed separately and was assumed to reduce by 48% for a single unitary and 42% for dual.
- Buckinghamshire: this assumed a 10% reduction in back office staffing for both the single and dual unitary but does not indicate whether there is separate treatment for middle management. This takes no account of potential back office contract savings.
- Cumbria: a 2015 report by EY assumed a range of between 25% and 28% reduction in back office staffing (including middle management).

¹¹ *Independent Analysis of Governance Scenarios and Public Service Reform in County Areas*, EY, September 2016, page 26.

¹² The Local Partnerships report has a category for "corporate functions". It does not detail exactly what it includes but it does refer to finance, legal, HR and IT, which would be as per the Leicestershire back office category. A possible difference is the Local Partnerships inclusion of corporate policy officers.

The other reports show property costs decreasing in proportion to reduction of FTE.

The variation in approaches makes it difficult to draw a clear conclusion from this. The savings estimates from the County Council's Options Appraisal are expressed as a percentage of net back office spending. Because the approaches in the other reports are led by staffing reduction, the savings would be better understood as a percentage of gross back office spend. To allow a truer comparison, we have estimated the County Council's savings as a percentage of gross expenditure. This would be a reduction of around 22% for the single unitary and 13% for the dual. This is within the range seen in the other reports, although at the upper end of these estimates. However, we consider that this is justified in the case of Leicestershire. It is acknowledged as a highly productive council and has the one of the lowest net current expenditures of any shire county. It is therefore reasonable to assume that it is more efficient than was the case for the comparator examples and will be able to absorb the extra volume of back office activity as a result of creating a unitary structure. The PwC *Case for Change* written for the Dorset Councils built on Local Partnership's work and identified the potential for further saving through transformation. In Leicestershire's case, it is reasonable to assume that it can effect "transformation" of the back office services it would merge with at some pace, and deliver that in the three years assumed for ramp up to this modelled level of saving.

Since the dual unitary would require disaggregation of the existing county back office services, it is reasonable to assume the lower saving indicated.

The back office category is a case where interpretation of public data imposes constraints. For example inconsistencies in the presentation of back office data in the district and borough budget books have required extrapolation of information for four authorities. While this is an entirely valid approach it does mean that there is some risk in sizing the district baseline. We consider that this is adequately addressed by the £2.9m "contingency" amount the County Council has subtracted from the overall savings total.

Conclusion and recommendation

Because they constitute over 50% of the savings totals for both the single and dual unitary options, the back office calculations will be key to the success of any subsequent implementation. Although the single unitary saving in particular is at the higher end of the range of savings in other unitary reports, we consider that the assumptions used are reasonable in the context of Leicestershire County Council's level of productivity.

Service related savings

Analysing the financial case for a move to unitary local government is primarily about looking for opportunities to reduce the cost of administration of service, but not the level of service delivery itself. This is reflected in the comparator reports we have looked at, for example:

- Dorset Local Partnerships – this looks at a limited range of services, notably excluding social care and education. However, its assessment of staffing reductions explicitly assumes no reduction in operational FTE.
- EY's national study – this also excludes social care and education from savings, and assumes that 100% of frontline service delivery staff will be retained.
- The Northamptonshire study assumes no staffing reduction in social care, education or public health.

Commentary on Leicestershire calculations and method

The Leicestershire assessment takes a similar approach, identifying the potential for savings only in housing, cultural, environmental and regulatory, planning and development, waste and council tax administration services. The savings rationale given focuses on reductions to middle management and running costs.

The approach to calculating the savings varies slightly between the different areas. There are four basic approaches:

Comparison between existing authorities' cost of service – housing, regulatory and planning

The general approach for these services has been to calculate the cost per head of the service for each authority, using published 2016/17 Revenue Outturn data and population for the same year. With the county spending excluded, each district's or borough's cost per head has been compared. Those above average have been assumed to be able to move to the cost of average and any at or below average to move to the level of their immediately lower comparator, with the lowest remaining unchanged. Any high or low "outliers" have also been excluded.

For the three services treated in this way, this produces potential savings as follows for a single county unitary:

- Housing: £1.01m.
- Environmental and regulatory: £1.2m
- Planning and development: £2m.

The assumption of economies of scale is reasonable and it is based on levels of efficiency that have been achieved in parts of the county. Comparator authorities have been used to sense check the saving. In this way, the approach of comparing between authorities in the county and with selected benchmarks is similar to that in the Dorset Local Partnerships report.

For housing, the saving is slightly conservative in relation to the chosen comparator (Northumberland). We have also identified Wiltshire, Cheshire East and Central Bedfordshire as potential comparators, as they have very similar levels of general deprivation to Leicestershire. Their average cost per head is slightly below that of Northumberland, which further supports the view that the saving is conservative. If the Northumberland cost per head were used to calculate the saving it would be £0.6m more. However, these comparator unitary authorities have had several years in which to transform and optimise their services. We recommend that it is worth acknowledging that comparator data suggests further savings are possible if the opportunity is taken to use unitary local government to make a wider transformation in service delivery (see section *Transition and Transformation* below).

The savings given for environmental and regulatory and planning and development services are relatively conservative, in part because the county spend has been excluded from the savings. We consider that a limited potential saving involving the county services may be possible for two of the services:

- Environmental and regulatory: there is the potential for savings from consolidating management in trading standards and environmental health or from bringing together all street scene and grounds maintenance contracts.
- Planning and development. We would expect a small saving to be possible because there will be less overhead for strategic planning and economic strategy services to need to liaise with seven district and borough teams.

We recommend that it is worth acknowledging this potential, but not adjusting the savings estimate at this stage as it would require more detailed consideration of future service design.

Comparison against comparator authorities – council tax

The approach taken here has been to calculate the cost per head of administration of council tax, and where relevant, council tax support and to compare this with large unitary authorities. A saving has been calculated on the basis of achieving the cost per head level of Northumberland, the most expensive of the selected comparator group. This would achieve a saving of £1.8m.

We consider this approach to be reasonable. It sets an ambition that would reduce costs to a level slightly below that of the currently lowest cost district or borough service. This is an area where economies of scale can be expected, but we agree that it is right not to base the saving on the lowest cost comparator – further savings may be possible, but will require more significant transformation, taking into account for example new approaches to council tax debt management.

Assumed general reduction – culture

The County Council's analysis notes the difficulty of making comparisons between authorities, whether in the county or unitary authorities elsewhere in the country, as culture and leisure spend is highly sensitive to the nature of the area – where natural environment, historic interest or local choices about amenity provision. It is also a service where staffing and running costs are influenced by the operational requirements of individual assets and so have less potential for economy of scale. In this context, the assumption of a blanket 5% saving is reasonable. This allows for economy of scale opportunities in management, consolidated marketing or in provision or ticket or annual subscriptions.

Insight from existing savings potential analysis – waste

The County Council's analysis shows a significant level of detail, which reflects engagement with active thinking about the concept of a single waste service in the county. The level of saving proposed (£1.4m) is consistent with published information about savings achieved by waste partnerships in other county areas. Dorset's waste partnership achieved £1.4m in its first year of operation and Somerset achieved £1.7m¹³.

Only a very small (£0.3m) saving has been assumed from better linkage between waste collection and disposal, presumably because, as disposal is a contract at county level, a move to a single unitary authority would not offer economy of scale benefit. This is a reasonable assumption for the short term. In the longer term, a fully integrated waste service, with a consistent approach across the county to frequency of collection and to separation, may be more attractive to the market and therefore lead to better value when the disposal contract is renegotiated. However, this should be seen as future potential transformational saving.

Scope of services included in the analysis

There may be scope for a saving in the delivery of community safety services. This an area to which both county and district councils contribute and a move to unitary local government is an opportunity to reduce any overlaps and to consider how best to deploy the available resource and mix of expertise across the whole county. We note this as a potential further area to explore, but have not quantified a saving.

Savings for dual unitary arrangement

We agree that the savings for the dual unitary structure would be likely to be less. Less economy of scale is likely in the consolidation of district and borough services and, in some cases, county services will need to be split, or area focused services reconfigured. The underlying spreadsheets show changes to the assumptions for the dual unitary savings. We consider that these have been applied in a way that takes reasonable account of the loss of economy of scale for each service area in scope.

The Options Appraisal shows the end result that the dual unitary service management and administration savings would be 38% less than those for the single unitary. This is very close to the difference in the EY national study and seems a reasonable basis for planning. For transparency, we recommend that the differences in assumptions between the two scenarios are documented more clearly in the Options Appraisal document itself.

Conclusion

The approach in this section for the single county unitary savings is logical and reasonable. The reduced level of savings for the dual unitary is also of a scale that is reasonable.

The savings are deliberately conservative and we have identified the potential to stretch these in the planning and development and environmental and regulatory areas.

We consider that it would be reasonable to acknowledge the potential for further saving by linking this to future service transformation, although this would require a higher level of investment. There is further discussion of this in the section "Transition and Transformation".

¹³ The Dorset figure is quoted in the EY national study, page 74; for Somerset, see <https://www.local.gov.uk/join-waste-partnership-case-study>

Phasing of savings

The County Council's analysis sets out assumptions about the rate at which new unitary authority(ies) would realise the savings identified. These assumptions are judicious and generally in keeping with what we have seen in other unitary financial cases.

We set out some comments in the table below against the rate of savings realisation shown in the County Council's Options Appraisal.

Figure 9: comments on phasing of savings realisation

Savings area	Year 1	Year 2	Year 3	Comment
Member allowances	100%	100%	100%	Agree. A new member allowances regime would be developed in transition and would be in place from vesting day.
Elections	100%	100%	100%	Agree. Election activity based on one set of local elections every four years would be in place from year 1. Although full costs can only be seen over the full four year cycle, providing electoral registration is fully integrated from vesting day, there is no organisational ramp up to the realisation of benefits.
Senior management	100%	100%	100%	Agree. Reasonable to assume officer leadership changes made in time for vesting day.
Back office	50%	75%	100%	Reasonable working assumption – exact phasing difficult to predict. Premises and IT savings would be likely to lag behind staffing changes, so spreading over three years is prudent.
Service management and administration	25%	50%	100%	The rationale is clear and links to risk mitigation at a time of major change. Note the Dorset Local Partnerships report assumed 75% of these savings realised in year 1, which is an indicator that the Leicestershire assumptions aim to reduce risk.

Council tax harmonisation

When a unitary authority or authorities are created in a former two tier area, there is a need to bring together the different levels of council tax from the existing districts and boroughs into a single new charge. Depending on the approach taken, this can either decrease or increase the amount of revenue available to the new council(s) compared with the aggregate expected to the predecessor authorities if the two tier system had remained in place. This topic constitutes a significant variable factor with an impact on the overall expected levels of saving.

Comments on Leicestershire calculation

The figures shown in the County Council's Options Appraisal appear reasonable. However, there is scope to extend the narrative to highlight that there would be political choices here (subject to agreement with the Government) which could be very helpful in terms of phasing in the impact of revenue lost in the harmonisation process. This could reduce financial risk during, say, the first five years of the new authority(ies).

The County Council's approach has been to assume harmonisation would take place to the level of the lowest current district or borough band D amount on 2018/19 bills. This produced a difference for each district or borough between potential future and actual bills. This difference has then been multiplied by the tax base in each authority to produce a revised tax amount. Adding the total together gives a total reduction in the aggregate council tax yield for a single year, which for the single unitary option is £8.2m (disregarding the potential impact of creation of new parish councils).

This calculation assumes that harmonisation would take place in a single jump from existing to harmonised rates. However, it may be possible to agree with the Government an approach where council tax harmonisation is phased over several years. While this would delay delivery of the full saving to the tax payer, the offsetting impact is that it would also delay the resultant reduction of income to the new authority(ies). For the single unitary option, a five

year harmonisation would reduce income by around £1.7m in the first year, and build to the £8.2m annual figure after four further harmonisation increments¹⁴.

The Options Appraisal does acknowledge the potential to harmonise over up to five years, but it does not fully explain the impact of this. Harmonisation over a longer period, would be a way to soften the immediate impact of the loss of revenue involved and so reduce risk at a time of major change. From work we have undertaken with authorities preparing for unitary local government, we understand the Government has expressed the view that, in agreeing a harmonisation regime, it will take into consideration the impact on the new authority's revenue, impact on the tax payer position and local preference. The modelling the County Council has undertaken to date does include variables such as whether to harmonise to a higher level of current levy. We recommend that these scenarios are supplemented with some assessment of a gradual harmonisation and harmonisation to an average level, in order to show a wide balance of considerations.

A longer harmonisation period, such as five years, does not reduce the eventual in year impact of harmonisation. However, it is a way to phase in the changes, dampening the effect over the period chosen. This would reduce the short term loss of revenue at a time of significant disruption. This would help to mitigate risk of shocks, such as an unexpected spike in social care demand. A longer harmonisation period would also help to allow investment in a programme of transformation to identify further efficiency changes that would offset the loss of revenue.

¹⁴ In reality this would be a slightly higher figure due to the effect of annual indexation of rates and also tax base growth, but that has been disregarded here as there is no indexation in the annual savings described.

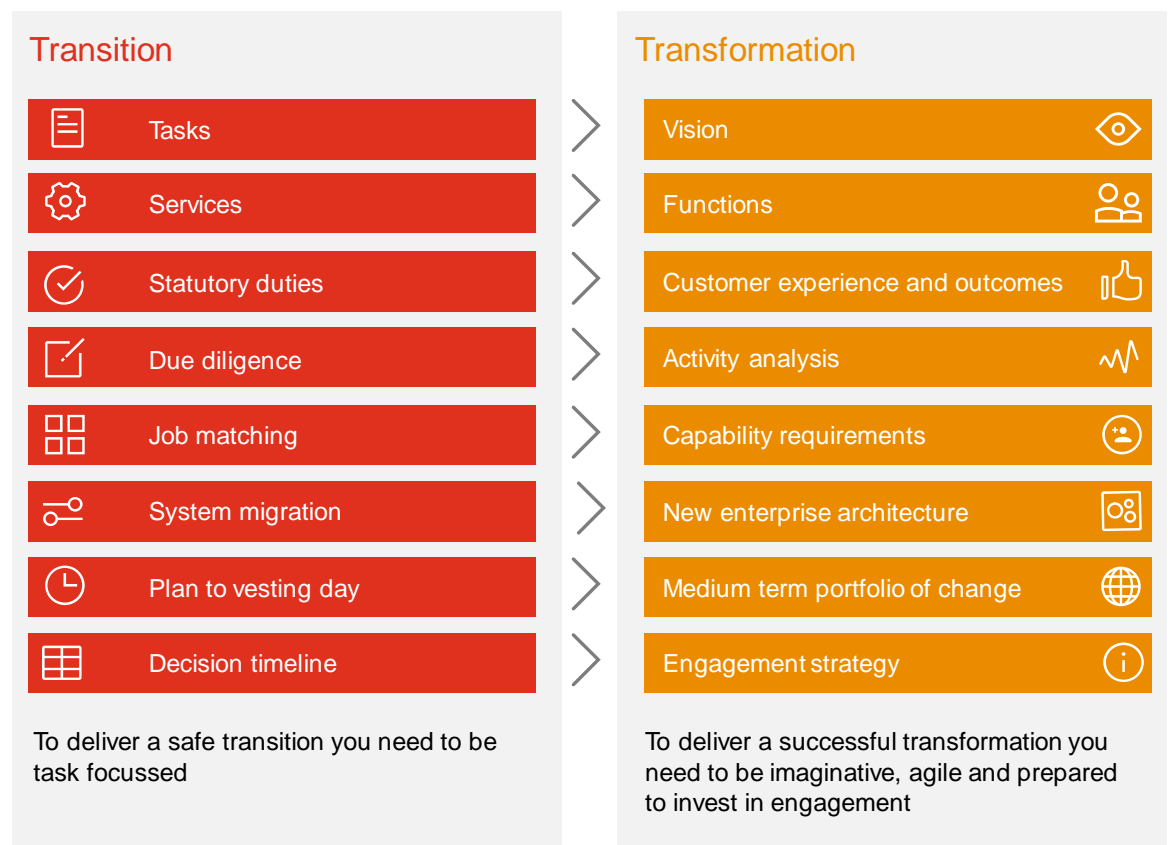
5. Transition and transformation

The unitary case for change documents we have reviewed from other authorities include recognition of the potential for reorganisation to be the start of a process that is expected to provide a platform for benefits beyond the savings associated with restructuring. The Leicestershire Financial Options Appraisal is not intended to be the complete business case for unitary local government and we understand from discussion with officers, that its scope is deliberately confined to the savings anticipated to be most directly attributable to restructuring. In this way, it focuses mainly on “transition” based savings, not “transformation”, other than considering some remodelling in areas such as adoption of the leading practices from the existing councils in the new consolidated teams or improved vehicle, depot and route management for waste.

The distinction between reorganisation and transformation is imprecise. However, we do consider that there is a case for clearer acknowledgement in the Options Appraisal that a move to unitary structures can be a platform for further transformational savings. This would help to highlight that it is reasonable to expect further savings, but also that greater ambition, and hence greater investment, would be needed in order to achieve it. This will help to draw a further distinction between the potential savings from reorganisation and those from shared services (as is discussed in paragraphs 89 to 92 of the Options Appraisal).

The diagram below helps to describe the distinctions between transition and transformation:

Figure 10: illustration of differences between a transition focused reorganisation and one aiming at transformation



PwC's case for change for the Dorset councils included analysis to quantify the potential additional transformational benefit. This cannot be translated directly to Leicestershire without an assessment of what transformational changes have already been made across the two tiers and also because this part of the Dorset work also only quantified the potential for a dual unitary option. However, as a guideline, it estimated a range of additional potential savings resulting from transformation. The lower end of the range represented a 63% increase on the transition savings (an increase from £27.8m to £45.2m). This would also entail 42% more one off investment (an increase from £24.9m to £35.4m).

The central point is that by creating a new organisation(s) there is a unique opportunity to drive a consistent process of transformation through all the county's local government services in a way that would be much harder to achieve within existing structures. This covers factors including:

- Designing ways of working that place residents at the heart of everything the new council(s) does.
- In creating new management structures, processes, policies and information sharing protocols, there is an opportunity to make digital technology, data analytics, common processes and an agile and mobile workforce an integral part of the design, so maximising resources to deliver outcomes on the frontline.
- Reviewing the approach to procurement and commissioning so driving savings through promotion of leading practice as well as contract consolidation.
- Reviewing current activities and roles in a way that allows for a systematic identification of duplication and fragmentation that can be addressed in the redesign.
- A step change in policies for fees and charges to allow the new council(s) to maximise its opportunities for income generation.

The scope of the County Council's Options Appraisal is such that such transformation type savings do not need to be quantified at this stage. However, an area of enhancement, if the proposal progresses, would be to indicate that the transition savings could, with further ambition and investment, be a platform for more.

6. Conclusion and areas for improvement

Main findings

The overall finding is that the County Council's work represents a sound basis for presenting potential savings to members and for planning next steps. Based on PwC's experience, it covers the expected areas of potential saving and the level of the savings is within the range that we would expect.

Methods and assumptions

We have reviewed the spreadsheets used by the County Council to make the calculations. The overall message is that the methods are logical, assumptions are documented and represent a sound basis for planning.

Any assessment of this nature comes with the caveat that there is no single method for calculating the savings, particularly when some of the data is from public sources with no opportunity to ask questions about interpretation. In some cases, we have set out alternative ways that the calculation could be made. While this produces some difference from the County Council's precise figures, we do not consider that these are material to the overall level of saving.

We consider that the County Council has adopted a judicious approach in the assumptions it has made. In some cases, in the service management and administration, we note how potential savings could be argued to be slightly larger, although quantifying this would require more detailed consideration of future service design.

We have noted that the back office savings are at the upper end of estimates we have seen in other post 2009 cases for change for unitary local government. However, the local context factors make this a reasonable assumption for Leicestershire.

Data sources

We consider that the data sources used are appropriate for the stage of consideration that the unitary proposal has reached currently – that it is essentially the County Council's estimate to provide a basis for member assessment of next steps. We consider that the public sources chosen for the district and borough baselines represent the right approach for the context of a single authority initiated Options Appraisal. It is important that members understand that there are some risks associated with the use of public data – notably the difficulty of making genuinely like for like comparisons and aggregations in the absence of interpretation from the authorities themselves. However, the generally judicious nature of assumptions and the subtraction of a "contingency" amount from the overall saving calculated mitigates against these risks.

Overall level of saving and areas for improvement

Our assessment¹⁵ is based on a review of the validity of the County Council's calculations rather than development of our own comprehensive model of all the savings drivers and interdependencies. However, we consider that the levels of saving shown for both the single and dual unitary options are reasonable.

A summary assessment is shown in the table below:

Figure 11: summary of comments on the County Council's savings analysis

Saving area	LCC proposed saving	Assess- ment	LCC proposed saving	Assess- ment	Alternative view of saving potential		Comment
	Single unitary		Dual unitary		Single unitary	Dual unitary	
Member allowances	0.5	→	0.3	→	0.5	0.3	Both proposed savings are a reasonable basis for planning.
Elections	0.9	↓	0.9	↓	0.7	0.5	Minor reduction based on assuming a lower reduction for electoral registration administration (25% rather than 35% saving for single unitary).
Senior management	5.6	↑	3.5	↓	6.6	3.2	Differences reflect an alternative calculation, looking at the difference in expected costs for tier 1 to 3 managers only. This identifies more saving for single unitary but slightly less for dual.
Back office	17.4	→	10.5	→	17.4	10.5	The savings appear at the upper end of those seen in other unitary cases, but reflect the context where if a unitary structure maintained the efficiency of the current county back office this could absorb and improve the efficiency of the additional volume of transactions.
Service management and administration	8.5	→	5.4	→	8.5	5.3	The assumptions are a reasonable basis for planning.
Housing	1.0	→	0.7	→	1.0	0.6	
Culture	1.3	→	0.6	→	1.3	0.8	
Environment and regulatory	1.2	→	1.0	→	1.2	0.7	
Planning and development	2.0	→	1.6	→	2.0	1.2	
Waste management	1.4	→	0.9	→	1.4	0.9	
Council tax administration	1.7	→	0.7	→	1.7	1.1	
Contingency	-2.9	→	-2.9	→	-3.0	-2.8	
Total	30		17.7		30.7	17.1	

Key

- Proposed saving is reasonable
- ↑ Potential to increase proposed saving
- ↓ Proposed saving appears slightly high

¹⁵ We have included a contingency reduction at the same percentage rates proposed by the County Council.

Our suggested areas for improvement are minor, and are enhancements that the County Council may wish to consider for later iterations of the analysis.

1. Savings range. The County Council's analysis has included a reduction in the savings calculated as a "contingency" to recognise the early stage of development of thinking. This is a prudent measure at this stage. However, as proposals develop it may be more informative to create an upper and lower range for the different savings areas, with the breadth of the range reflecting the extent of potential variables. This would provide a more informative view of where the contingency is most relevant.
2. The assumptions and narrative about council tax harmonisation present a simplified view of this aspect of change. It is recommended that the Options Appraisal is expanded to ensure that the reader is aware that this is a political choice for the new unitary, although subject to agreement with Government. Further narrative could explain the potential range of options, for example the phasing of reductions over five years, which would provide additional short term funding to the new council(s) in its/their critical early years when reorganisation is becoming established.
3. The analysis could draw out more clearly the potential for additional *transformation* savings above the *transition* based ones currently considered. The administrative changes associated with reorganisation will create the potential for material savings, and this is the focus of what the County Council's Options Appraisal has identified. However, reorganisation will also act as a platform for transformation to an extent that is difficult to realise within the current two-tier structure. Discussion with Members about the level of ambition and potential for further savings would be beneficial as the project progresses. Additional work could be to quantify some of the potential for transformation saving (for example using reorganisation to reduce the effort that staff in service teams spend on administrative or enquiry handling activities).
4. The nature of the County Council's work has necessarily required use of public data sources only for the district and borough councils. This is reasonable for this stage of the proposal's development, but does create some risks in terms of interpretation and comparability of data. When the political agreement allows, the analysis could be improved by undertaking a joint exercise with the district and borough councils. This would allow a greater level of detail to be produced regarding where the savings would be targeted.

This document has been prepared only for Leicestershire County Council and solely for the purpose and on the terms agreed with Leicestershire County Council in our agreement dated 27 March 2019. We accept no liability (including for negligence) to anyone else in connection with this document.

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