

Draft Local Government (Wales) Bill

Regulatory Impact Assessment

Part 1

Introduction	3
Policy Intention 1 – Establishment of new Local Government areas and County Councils	5
Background	5
Options.....	11
Option 1 - Do Nothing	11
COSTS	12
BENEFITS	16
Option 2 - Shared Administrative Service	18
COSTS	19
BENEFITS	27
Option 2: Summary Tables.....	31
Option 3 – Local Authority Mergers.....	32
Option 3a – 12 Local Authorities	32
Option 3b - 8 or 9 Local Authorities.....	32
COSTS	35
BENEFITS	56
Option 3: Summary of Benefits.....	64
Option 3a: Summary Tables	66
Option 3b: Summary Tables	68
Preferred Option	71
List of Tables.....	73

Introduction

The Draft Local Government (Wales) Bill includes a wide range of policy intentions. This draft Regulatory Impact Assessment (RIA) sets out the range of options considered for each policy intention and assesses their potential costs and benefits. It also includes a summary table listing all policy intentions, the preferred options, and a summary of the costs and benefits associated with each of the preferred options. The relevant costs and benefits associated with each policy option are presented within the main draft RIA, however, further detailed calculations and supporting assumptions are provided in Appendix A and B.

The costs and benefits associated with each option have been assessed over a ten year period. As the reform programme includes Local Authority mergers it would not be appropriate to consider the costs and benefits over a shorter planning horizon. A 10 year planning horizon has been used throughout the impact assessment unless there is a clear rationale for an alternative time frame. If such a rationale exists it has been explained within the relevant policy intention.

Where appropriate, the costs and benefits are presented in Net Present Value terms using a discount rate of 3.5 percent. This is in line with the guidance in HM Treasury's Green Book. The base year for all Net Present Value calculations is 2016-17.

This draft RIA estimates the costs and benefits at an all Wales level for each option within the Draft Local Government (Wales) Bill. It does not attempt to predict or quantify the possible decisions existing County and County Borough Councils and Shadow Authorities could make. Newly formed County Councils will be required to undertake further impact assessments on the specific decisions they choose to make once they are established, the impact of these potential decisions are beyond the scope of this draft RIA. This draft has been prepared following a series of engagement events with key stakeholders, technical experts, academics, the Welsh Local Government Association (WLGA) and senior Local Authority officers.

Specific Impact Assessments have also been undertaken which cover the whole of the Draft Local Government (Wales) Bill. All impact assessments have been published and where the impact is directly relevant to a particular provision, it has been identified within the relevant draft RIA. Specific Impact Assessments have been undertaken on the following topics:

- Children's Rights
- Welsh Language
- Equality

All costs and benefits quantified within this draft Regulatory Impact Assessment are based on information and data available to the Welsh Government leading up to publication. Where appropriate it has been noted further data is being sourced or

data will be updated prior to the preparation of the Regulatory Impact Assessment, which will accompany the Bill at introduction into the Assembly.

For the purpose of this draft RIA, assumptions have been made about the future of Local Government funding. These do not reflect the Welsh Government's intentions. The scenarios presented in this draft RIA will be updated once the UK Government has delivered the 2015 Autumn Statement.

Policy Intention 1 – Establishment of new Local Government areas and County Councils

This Regulatory Impact Assessment (RIA) considers the impact of creating new areas and County Councils. The Draft Local Government (Wales) Bill covers a wide range of intended policies, beyond establishing new areas and County Councils, the economic impacts of these policy intentions have been grouped and considered in Part 2 of this draft RIA.

The purpose of this Impact Assessment is to assess the economic impact of establishing a new set of County Councils as proposed in the Draft Local Government (Wales) Bill. It, therefore, evaluates the costs and benefits at a whole Wales level, setting out the high level options and considering the potential costs and benefits associated with each of these options.

BACKGROUND

The Commission on Public Service Governance and Delivery

The Commission on Public Service Governance and Delivery (“the Commission”) set out the need for wide ranging change across the public sector to deliver improved public services in the face of financial austerity and demographic pressures, whilst public expectations are rising.

The Commission’s case was that marginal changes will not be enough and at best would prolong the inevitable. The risks associated with increased austerity pressures and demographic change will result in there being insufficient resources available to meet the growing demand for services in the near future. The systemic problems identified by the Commission are expected to compound and the weaknesses become harder to address. The Commission stated the need for urgent and radical action to create stronger Authorities, better able to meet and overcome those challenges.

The case made by the Commission was that fewer, larger Authorities would be better able to attract, retain and develop leaders, could support stronger and more effective corporate centres, and could ensure a level of scrutiny and engagement with service users which could help drive improvement, reduce demand and create a more preventative approach to service provision. Seeking to achieve this through collaboration and joint working between Authorities adds a layer of complexity and governance which would be a challenge too far for relatively small Local Authorities facing the expected long term reduction in spending and increased demand for services.

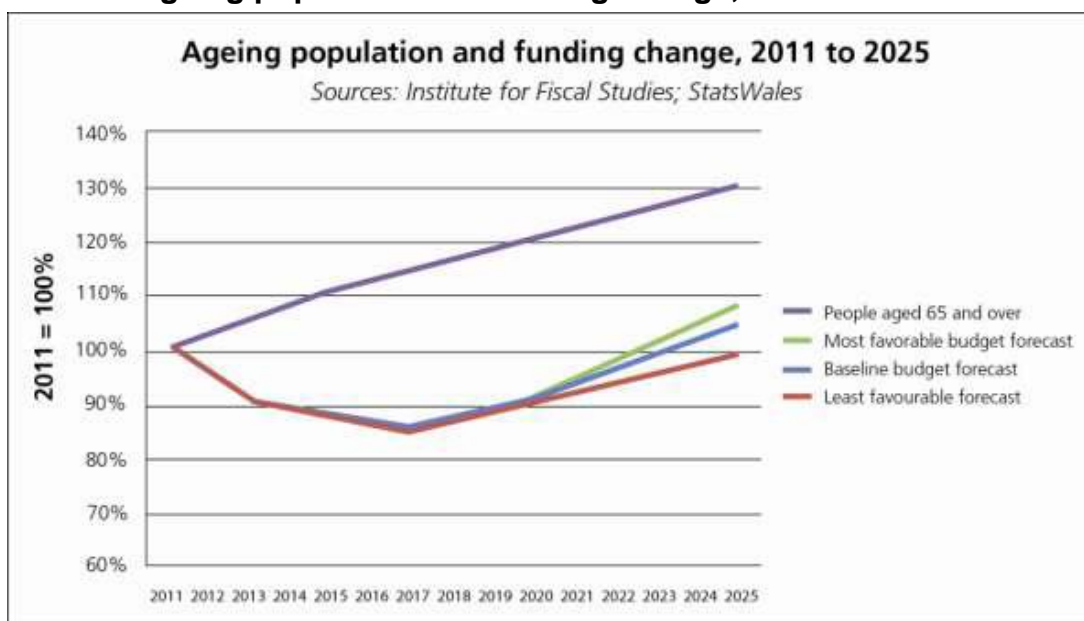
Demographic Challenges

Local Authorities are faced with a range of demographic challenges along with significant increases in demand for some services and higher public expectations in relation to the quality and availability of those services. When placed alongside financial pressures this makes it increasingly difficult to deliver the current range of services in the same way to the standards expected by the public.

Wales' population is increasing. Life expectancy is projected to increase and the dependency ratio for older people will rise as a consequence. With an increasing proportion of the population being made up of older people it is expected the demand for residential and social care services will increase, creating additional pressure on a large part of Local Authority budgets.

The Commission on Public Service Governance and Delivery illustrated the challenges facing Local Authorities by comparing the Institute for Fiscal Studies' (IFS) projections of the changes in Welsh block grant¹ alongside projections of growth in the population aged over 65, from 2011 to 2025.

Chart 1: Ageing population and funding change, 2011 to 2025



Using 2011 as the base year, the chart above shows a year on year increase in population up to 2025, whilst funding forecasts decrease significantly over the short term.

The changing demographic pressures should be considered in an environment where the demand for public services is increasing and expectations of the quality of these services are also rising. The Commission identified demographic change

¹ The assigned element of the DEL is what is commonly referred to as the “block grant”. This is the proportion of the total budget over which the Welsh Ministers have complete discretion regarding its allocation across departments and services in Wales. Welsh Ministers have no discretion, however, over the total level of the assigned DEL.

as perhaps the most significant challenge facing Wales over the medium to long term.

For example, Neath Port Talbot has seen increases in the number of Children Looked After (CLA), from 420 on 31 March 2010 when data was first collected to 500 at 31 March 2014. There were nearly 5,470 adults receiving social services in Neath Port Talbot at 31 March 2015, an increase of almost a-fifth (19 per cent) compared with 31 March 2007.

These increases in different parts of the population have implications across a range of public services and place further strain on the collaboration required between Local Authorities and other public sector bodies to ensure services are working effectively for people in need.

Recent Funding Patterns

Over the five years since 2010-11, Local Authorities in Wales have received a real terms reduction in the core revenue funding they receive from the Welsh Government (AEF). This funding forms the largest single contribution to the total income Authorities receive, although it is not the only source. In the initial three years of this Spending Review the Welsh Government protected Local Government from the level of budget reductions seen in England, ensuring they were not faced with the same level of cuts. However, if austerity measures by the UK Government are set to continue, which seems likely, it is possible that Local Government in Wales could be faced with more sustained funding cuts over the next 5 years as seen by their counterparts in England.

Despite being relatively protected from the level of cuts seen in England, Local Authorities in Wales have still encountered financial challenges. The charts below present Local Authorities' AEF² funding patterns over the last 5 years.

² Aggregate External Finance (AEF) is the general revenue funding provided by the Welsh Government to Local Authorities in Wales. It is equal to the sum of Revenue Support Grant (RSG) and redistributed Non-Domestic Rates (NDR). It is not ring-fenced, meaning Local Authorities have the flexibility to spend this money according to local needs and priorities.

Chart 2: Total Welsh Local Authorities AEF Central Government Support³, in Cash Terms

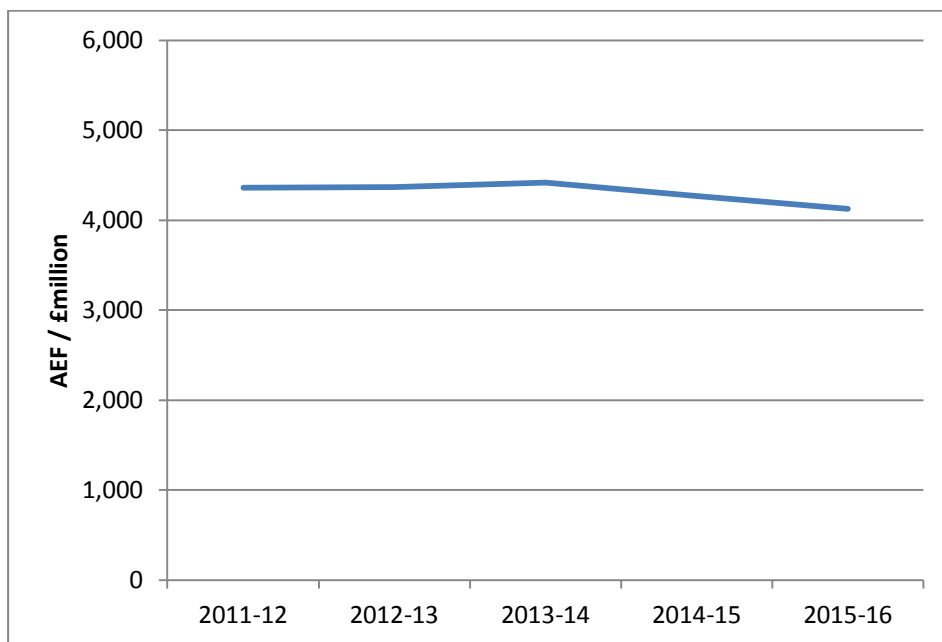
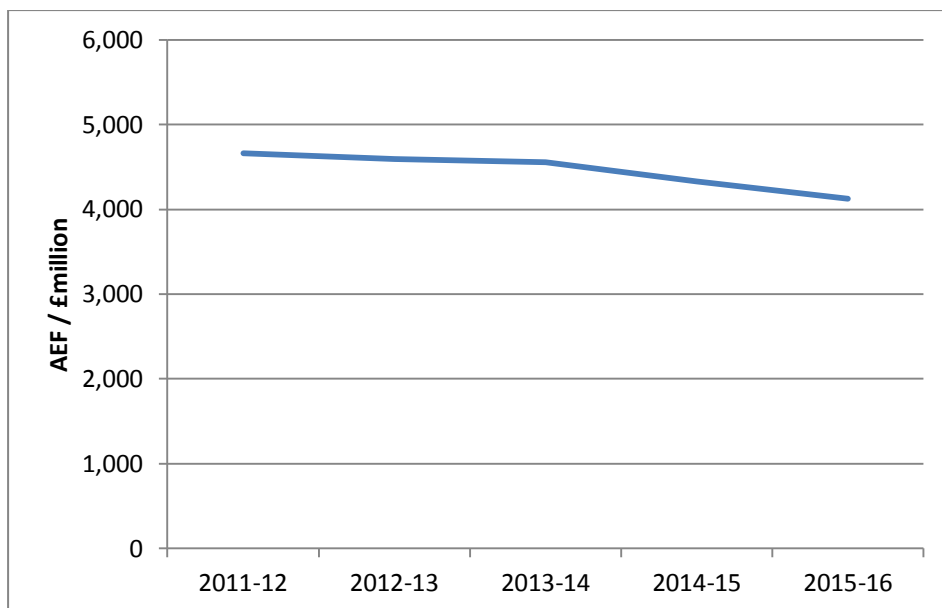


Chart 3: Total Welsh Local Authorities AEF Central Government Support⁴, at 2015-16 Prices



A recent report by the Wales Audit Office (WAO), *Managing early departures across Welsh public bodies*, confirmed that public sector organisations in Wales have faced continued financial pressure and have been required to make significant cost savings following the 2010 and 2013 UK Government spending reviews. Between

³ Cumulatively Adjusted for Transfers to 2015-16

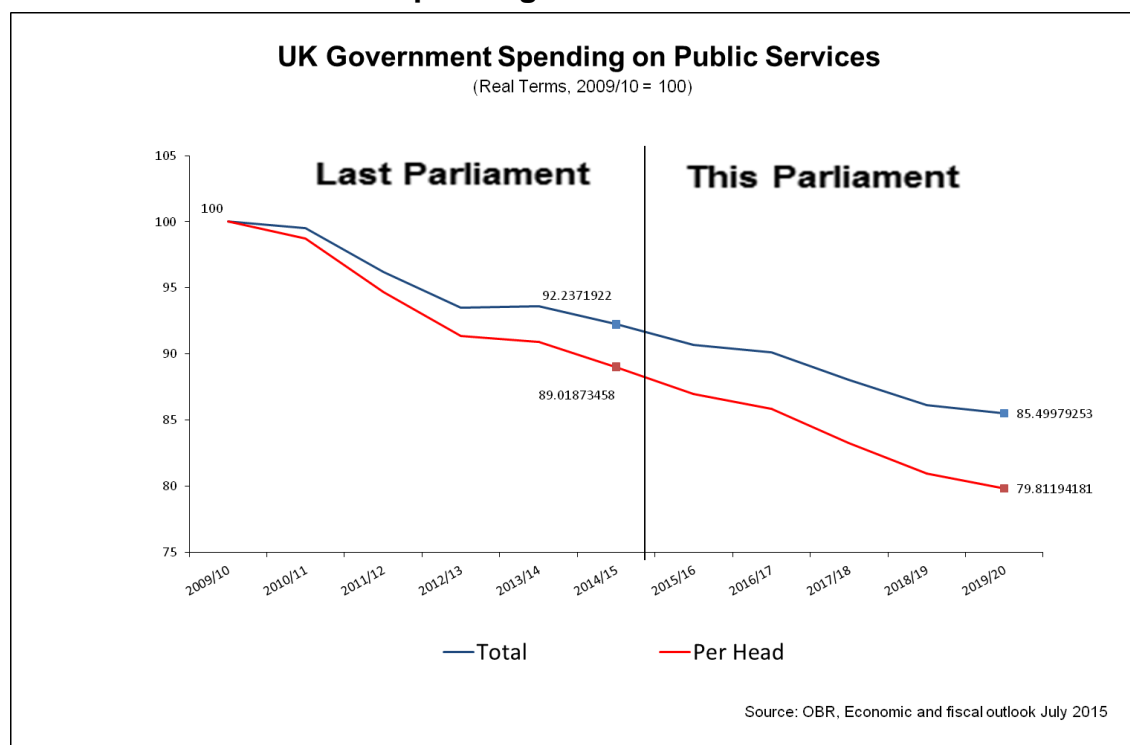
⁴ Cumulatively Adjusted for Transfers to 2015-16

2010-11 and 2015-16 the Welsh Government's budget, allocated from the UK Government, has reduced by £1.3 billion in real terms.

Future Financial Pressures

The Welsh budget in 2015-16 was 8 per cent lower in real terms than it was in 2010-11. Based on OBR projections, budgets could fall at similar rates for the rest of the current decade.

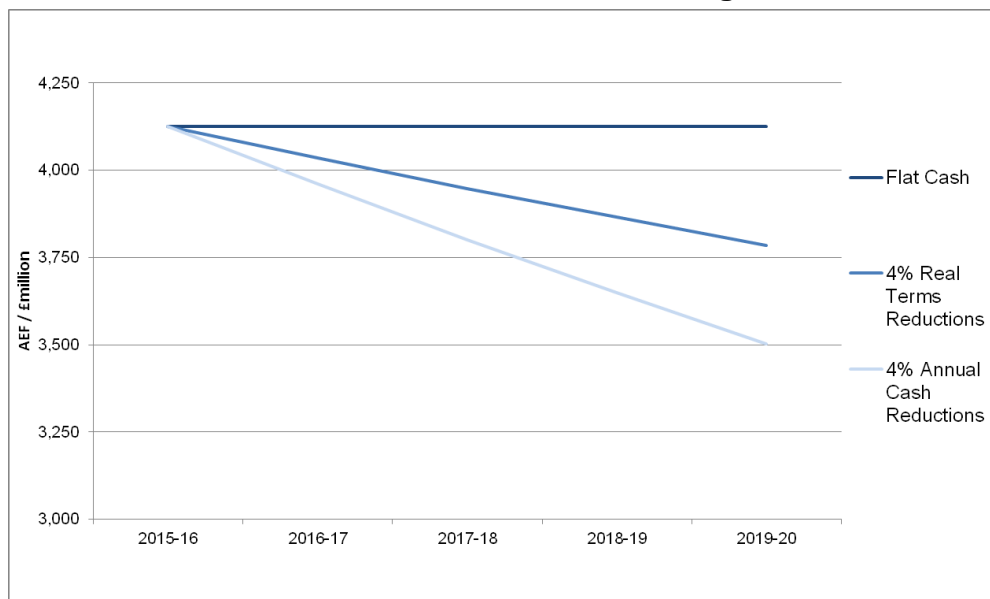
Chart 4: UK Government Spending on Public Services



As a result of the UK Government's continued austerity measures, Local Government in Wales faces considerable financial pressures, alongside an increasing demand for services. Resources are scarce and expected to remain scarce for the foreseeable future as the UK Government continues to reduce public expenditure.

As the UK Government is yet to set out its future spending plans for Government departments, it is not possible to accurately forecast the funding scenarios for Local Government in Wales. A range of scenarios have been considered, based on the information provided by the UK Government and funding patterns over the last 5 years.

Chart 5: Future Local Authorities' AEF⁵ Funding Scenarios



The above chart shows that if funding were to reduce in line with the reductions seen in the last two years of the current spending review period, funding could reduce by over £600 million in cash terms over the next 4 years. This poses a serious challenge to Local Authorities and suggests, as the Commission believed, that marginal change would not be nearly enough to meet this challenge. The Commission also made it clear that Local Government cannot afford to wait until a more favourable financial climate returns before acting.

Even before the Commission's analysis of the risks to capability and capacity in relatively small Local Authorities (against a background of continuing austerity and rising public expectations and demand), Local Authorities have recognised the need to operate at larger scales and have pursued a variety of collaborative or joint projects. Such collaborations, however, pose further challenges around governance and scrutiny, impose additional pressures on management time (especially where authority for decisions is held by participating Authorities rather than delegated to the collaboration) and, therefore, are not always successful and can increase complexity for Councils and other partners.

Reforming Local Government

The Welsh Ministers stated their intention in *Democracy, Devolution and Delivery*⁶ to reform Local Government, to act on the Commission's recommendations and introduce legislation into the National Assembly for Wales. The package of reform includes reducing the number of Local Authorities in Wales by merging existing Local Authority Areas and their Councils to create new Counties and their Councils,

⁵ Aggregate External Finance (AEF) is the general revenue funding, which is not ring-fenced, provided by the Welsh Government to Local Authorities in Wales and is equal to the sum of Revenue Support Grant (RSG) and redistributed Non-Domestic Rates (NDR).

⁶ <http://gov.wales/docs/dpsp/publications/140708-response-to-commission-en.pdf>

creating more openness, transparency and accountability, strengthening scrutiny and creating a more diverse democracy.

The reform programme is extensive and includes the introduction of two Bills before the National Assembly for Wales. The first Local Government (Wales) Bill was introduced in January 2015 and puts in place mechanisms to allow for certain preparatory work for a programme of Local Government mergers and reform and also includes provisions to facilitate the voluntary early merger of two or more Principal Local Authorities by April 2018. The first Local Government (Wales) Bill was agreed by the Assembly on 20 October 2015. At the time of writing, no applications for voluntary early merger have been received.

The scope and content of the Draft Local Government (Wales) Bill (i.e. the second Bill) and this accompanying draft RIA assume no applications for voluntary merger will be received and all mergers will be achieved by way of the second Bill. Accordingly, this draft RIA sets out the potential economic impact of a range of different options to achieve this objective.

Options

Four options have been considered for achieving the policy intention, these are:

- Option 1 - Do Nothing: Continue with the existing Local Authority structure and governance framework.
- Option 2 - Shared Administrative Service: Avoid fully merging Local Authorities but merge the administrative functions at an all Wales level.
- Option 3a - Commission Map (Option 1): Merge some Local Authorities to create 12 Local Authorities.
- Option 3b - Merge some Local Authorities to establish either 8 or 9 Local Authorities.

Option 1 - Do Nothing

This option would not change the current Local Government structure or governance framework. The current 22 Local Authorities would continue to exist unchanged structurally and constitutionally.

Option 1 would require existing Local Authorities to face the growing demand for services against an unavoidable backdrop of decreasing budgets. The 22 Local Authorities would continue to have to attempt to meet such challenges on an individual basis. Whilst some Local Authorities might be able to continue to make efficiencies based on reducing or eliminating the delivery of discretionary services, reducing staff and salami slicing budgets, others with less financial capacity, capability and resilience could find this more difficult.

According to the Wales Audit Office's report *Managing early departures across Welsh public bodies*⁷ there were almost 8,000 staff departures from Local Authorities between April 2010 and December 2013. Based on the latest information from the UK Government, it is expected that Local Government in Wales could be required to find this level of financial savings again over the next spending round period.

Option 1, therefore, does not provide Local Authorities with the means to address future financial challenges and provides no strategic vision for the future of Local Government in the context of these and the other challenges outlined in the background section to this draft RIA. Option 1 ignores the opportunity to establish larger Local Authorities which would have sufficient capacity and resilience to face the future economic and social challenges. This option also does not address the Williams Commission's recommendations to reduce complexity in Local Government and the wider public sector, increase strategic leadership capacity or create better governance.

There is an independent body of evidence which confirms doing nothing is not a viable option. The Williams Commission stated merging Local Authorities could expect to achieve annual savings of between £60 million and £80 million and suggested structural reform was integral to achieving better governance, stronger leadership and democracy and improved performance.

CIPFA also recognised in their report, *The Transitional Costs, Benefits and Risks of Local Government Reorganisation*, that annual savings of almost £65 million could be achieved through the implementation of the Williams Commission's Option 1 of 12 Local Authorities.

These annual savings are critical to ensuring Local Authorities in Wales are able to continue to deliver valuable public services and lead their communities against a backdrop of reducing budgets and continued austerity from the UK Government. There are also a range of non-financial benefits such as reducing partnership complexity, a refocusing of leadership time on managing integrated services rather than managing organisational interfaces and opportunities for the scaling up of good practice which would be missed by doing nothing.

COSTS

Costs to Welsh Government

The 22 Local Authorities would remain in their existing form. The issues identified by the Williams Commission around performance and ensuring there is sufficient resilience, capability and capacity to weather future challenges successfully would

⁷ http://www.audit.wales/system/files/publications/Early_Departures_English_2015.pdf

not be addressed. The Commission's findings suggest this would be increasingly difficult for individual Local Authorities to manage and result in services contracting and ultimately service failure.

Over the last few years there are several cases where Local Authorities have required additional support due to a range of service and governance failures. If the "do nothing" option is selected then it could be assumed this pattern would continue and it is likely there would be an increase in the number of interventions required. Intervention of this kind is a last resort and not only requires financial investment, it also results in Local Authorities suffering reputational damage and potential loss of local democratic control for a period of time. It means services have declined to such a point that remedial action is required to prevent further serious deterioration. This is not a desirable situation from any perspective, people who rely on services, Local Authorities or the Welsh Government.

Costs to Local Government

Doing nothing would be a significant missed opportunity. Not pursuing the preferred option and doing nothing would miss the opportunity for Local Authorities to achieve at least between **£548 and £669 million** in net savings over the next ten years.

There is widespread consensus doing nothing is not a viable option. All of the evidence suggests that on top of the austerity cuts already made by the UK Government, there are more to come.. Cutting base budgets, salami slicing and incremental efficiencies again on top of those already undertaken will not achieve the scale of financial savings required or meet increasing public demand and expectations. Doing nothing means services are likely to fail and people will suffer.

The WLGA's paper *Financial Prospects for Welsh Local Government*⁸ published in June 2014, sets out the financial pressures facing Local Authorities in Wales. The paper describes a future financial scenario where a typical Welsh Local Authority fundamentally fails to change its approach to delivering services over the short to medium term. The paper goes on to extrapolate this situation for all Local Authorities in Wales and concludes that Local Government could be faced with a cumulative estimated shortfall of between £500m and £900m within the next 3 years.

Doing nothing will not prevent this, or a similarly severe scenario, from materialising as it does not provide a platform for the radical transformational change needed to create sustainable, resilient Local Authorities sitting at the heart of their communities whilst playing a strong role in the governance of a Wales with a new devolution settlement..

The evidence set out in the background to this draft RIA suggests Local Authorities need transformational change to survive forecast long-term financial pressures and

⁸ 2014 - 'Council Cymru' | Financial Prospects for Welsh Local Government

demographic demands, by doing more than securing greater efficiencies within the current system.

For example, KPMG's recent report, *Administrative Cost Review*, identified £151 million in administrative savings through creating a standardised and more efficient approach to delivering administrative functions in the existing 22 Local Authorities. These are savings which could be secured in the near future but will still not be sufficient to meet the financial challenge combined with rising public demand and expectations.

Securing these efficiencies is important in the short term to ensure Local Authorities are getting the best value for public money and reducing overheads and maximising spend on front line services. They are also important to ensure a good platform is built to secure further efficiencies upon merger. However, on their own, without further action will not provide a solution to the scale of the challenge faced by Local Authorities.

The evidence suggests the risk of increased austerity pressures, combined with the risk of demographic change, are likely to result in there being insufficient resources available to meet the growing demand for services in the near future. If the 22 Authorities remain and continue to manage themselves in the same way it is likely existing systemic problems will compound and challenges will become harder to address. Pursuing this option would not address these issues and each Local Authority would be left to find its own approach with no overarching strategic direction or support..

As set out in the background there will be no end to financial austerity in the short to medium term. A recent report by the National Audit Office (NAO) *The impact of funding reductions on local authorities* estimates that there has been a 37 per cent real-terms reduction in UK Government funding to English Local Authorities between 2010-11 to 2015-16.

The report goes on to state that ensuring Local Authorities remain financially sustainable, in that they deliver their statutory services to a sufficient standard, has become more difficult. The funding outlook model for England predicts that the amount of money available to deliver some local services will shrink by 66 per cent by the end of the decade. This is likely to result in less money to spend on services such as maintaining roads, libraries, supporting local businesses, providing youth services and funding leisure facilities.

A recent report by the Local Government Association (LGA) concluded that 60 per cent of English Authorities claim under the current circumstances they will not be

able to cover their budget gap with future efficiencies alone in 2015-16.⁹ Almost a third of English Councils mentioned they have very little or no scope to reconfigure services further and that some service cuts are inevitable. Another third believe that while the scope for further efficiency is still available, it is not enough to avoid any consideration of reducing the services offered to local residents.

The LGA report *Future funding outlook for councils from 2010-11 to 2019-20*¹⁰ re-emphasises the challenges facing English Local Authorities, stating there could be a “funding gap” (net expenditure compared to total funding) of up to £14.4 billion by 2020 due to a combination of funding cuts and spending pressures. The report goes on to state over the period from 2010-11 to 2019-20, income is expected to fall by 15 per cent in cash terms, or over 27 per cent in real terms. This is not accounting for the introduction of public health funding which, when added, results in an even more challenging forecast. The LGA’s report also highlights the challenges of increasing social care and waste management funding, in line with the challenges confronting Welsh Local Authorities.

In terms of Welsh Authorities, the Wales Audit Office (WAO) report *Managing early departures across Welsh public bodies* identified staff savings as an inevitable way of cutting costs to meet Local Authorities’ wider financial savings targets. This is not a sustainable position as it leads to loss of knowledge and expertise, low morale and higher sickness absence levels through increased stress on remaining staff. .

A number have approached the financial challenges over the last few years by making incremental cuts to their existing services and finding efficiencies internally; as identified above, whilst this approach may be workable in the short term, it is not a sustainable solution to the future budgetary challenges.

A further issue is that Local Authorities with relatively smaller tax bases have less capacity to generate income through Council Tax, resulting in a higher reliance on other funding streams, including Government grants. They typically have larger administration costs as a proportion of expenditure and higher senior management costs in relation to their population size. These are inherent features of the current size of some of the Authorities, and therefore would not be addressed under the “Do Nothing” scenario.

There are further long-term fundamental changes to service demand due to increasing birth rates, people living longer and dispersed family groups, in addition to an increasing public expectation for quality services which this option would not address. Doing nothing could also result in Local Authorities not being able to deliver the community services which are valued by the public. This is apparent through numerous decisions by Authorities in recent years to close public libraries,

⁹ <http://www.local.gov.uk/documents/10180/5854661/Under+pressure.pdf/0c864f60-8e34-442a-8ed7-9037b9c59b46>

¹⁰ http://www.local.gov.uk/c/document_library/get_file?uuid=b9880109-a1bc-4c9b-84d4-0ec5426ccd26&groupId=10180

theatres, leisure centres and public toilets.

BENEFITS

Benefits to Welsh Government

The Commission on Public Service Governance and Delivery stated that the choice becomes either one of prolonged and ultimately unsustainable cuts to frontline jobs and service, or investing in a reformed structure which will yield significant long-term savings and so mitigate the need for service cuts. Doing nothing is effectively choosing the first of these options. Financial and service cuts become unsustainable and Local Authorities fail, communities and people lose local public services, local representation and local democracy.

This option would not provide any additional benefits to the Welsh Government. It would not do anything to address the performance, structural and capability challenges facing Local Authorities in the short to medium term. The recommendations suggested by the Commission to address the identified challenges would not be implemented and, therefore, the potential benefits would not be realised. The Welsh Government would most likely have to divert funding from elsewhere to bear the cost of further direct interventions as Local Authorities experience corporate and service failure and loss of service delivery. The opportunity is lost to work with resilient, community-connected Local Authorities to improve public services in the context of a reformed devolution settlement for Wales.

Benefits to Local Government

There are no benefits to Local Authorities of the 'do nothing' option. There would be no challenges associated with structural mergers but the challenges of managing increased public demand and expectations against a background of continued financial austerity are likely to result in major internal restructuring of Local Authorities to the point where services and community leadership would be significantly reduced or even fail. , Local Authorities would face these significant challenges in their existing form without any opportunity to strategically transform and without a framework for viable Local Government as a whole across Wales.

Doing nothing would therefore be a significant missed opportunity. Not pursuing the preferred option means Local Authorities would be unable to achieve at least between £548 and £669 million in net savings over the next ten years. These savings are considered essential to ensuring highly valued local services remain and improve. Also to ensure Local Authorities are able to meet the increased demand for services in a world of reducing budgets. Doing nothing would not address the Commission's recommendations to reduce complexity in Local Government, increase strategic leadership capacity of Local Authorities or create better governance.

As stated in the background, if austerity measures by the UK Government continue, which seems likely, it is possible that Local Authorities in Wales could be faced with more sustained funding cuts over the next 5 years as seen by their counterparts in England. Following the UK Government's Spending Review Statement on the 25th November, the future financial challenges will become clearer and the final RIA will be updated to reflect the latest UK Government spending plans.

Option 2 - Shared Administrative Service

This Option involves selected administrative functions currently undertaken separately by each Local Authority to be pooled and shared at an all-Wales level. This approach would not require the full democratic merger of Local Authorities, the existing 22 Local Authorities would continue in their current form, although new joint mechanisms would be needed to oversee and deliver shared services.

There are several possible options for achieving a Shared Administration Service within Wales. For the purpose of this draft RIA an approach has been explored requiring a new organisation to be established and oversee selected administrative functions. This Shared Administration Service centre approach would oversee and implement a common administrative service for the 22 Local Authorities in Wales. The newly formed body would manage the information technology and provide a single point of expertise, overseeing the operations of selected administration functions throughout Local Authorities.

The aim of a Shared Administration Service would be to achieve a common approach, resulting in economies of scale and efficiency savings through managing common administrative services at an all Wales level. To achieve this voluntarily without making legislative changes would require the leadership, agreement and commitment of all 22 Local Authorities. This would be achieved without the structural and democratic change associated with formally merging Local Authorities, but would require the setting in place of suitable governance arrangements to ensure democratic accountability. Alternatively, and if there was no agreement between the Authorities, this approach could be mandated in legislation. However, the costs of this option have not been explored further in this RIA.

A recent report by KPMG, *Welsh Local Authorities, Administrative Cost Review*¹¹, identified that Local Authorities in Wales spend almost £500m a year on administrative activities. This accounts for almost 6per cent of Local Authorities' annual total gross revenue expenditure.

The report found administrative expenditure and activity varies substantially between Local Authorities, both on an absolute and relative basis. A Shared Administration Service would aim to make efficiencies and reduce expenditure on these services. The range of savings, or potential savings, claimed for the delivery of existing shared service operations varies from 20 per cent (Cabinet Office) to private sector examples claiming between 25 and 40 per cent of the running costs of back office functions can be saved.

The Commission suggested there is nothing locally distinctive about administration services and, therefore, no reason why they need to be discharged by organisations

¹¹ <http://gov.wales/docs/dsjlg/publications/localgov/150612-welsh-la-admin-cost-review.pdf>

acting separately. The use of shared service operations has been a feature of large private sector companies for some time and has been developing within Central Government and the public sector since the early 2000s. In England, the LGA estimates that 95 per cent of Councils share at least some services, with nearly 400 examples of shared service operations. These numbers have grown significantly in recent years.

Whilst, there are several examples of small scale local initiatives put in place to manage selected services between a few Local Authorities in Wales. One example is in legal services where six Local Authorities in south-west Wales have shared services since 2006. There are currently no Local Authority led, multi-service, all-Wales shared services.

The Commission identified the achievements of the NHS Wales Shared Service Partnership as a good example of a shared service and recommended a single shared service operation for back-office functions and common services across the public sector should be developed and established.

To extend the NHS Wales Shared Service Partnership to apply to both health and Local Government services is not currently possible. It would require a change to the legislative framework. The functions of an NHS trust (the NHS Wales Shared Service Partnership is currently hosted by Velindre NHS trust) under existing legislation would not extend to the provision of shared services beyond the health service.

Option 2 would create a Shared Administration Service for the 22 Local Authorities which would have the objective of realising savings beyond those identified in the KPMG report through merging administrative services. The main aims of a Shared Administration Service would be to achieve a common approach throughout Wales, increasing resilience and generating cost savings through efficiencies and economies of scale. A single, Local Authority led, arm's-length body would oversee a common administrative approach, significantly reducing the duplication of effort which currently exists. Through a common all-Wales approach there would be a concentration of specialised skills and increased capability.

It should be noted this draft RIA estimates the potential costs and benefits associated with establishing a Shared Administration Service approach. It does not provide a full business case for a Shared Administration Service, and neither does it attempt to provide full details on how this shared administration approach would operate in practice.

COSTS

Costs to Welsh Government

The estimated costs to the Welsh Government associated with this option have been considered below. The level of costs would vary depending on future

decisions relating to the range of administrative functions being centralised into a shared service model.

The Welsh Government is expected to incur costs through providing a team of officials to support the implementation of a shared administrative service. It is expected this would provide a level of strategic input for this approach, to support the new Shared Administration Service body to maximise the opportunities. If the approach considered in this draft RIA, to deliver a shared administrative service through a separate body, was to be implemented successfully then it is expected the Welsh Government would be required to provide guidance and co-ordinate the initial Service Level Agreements needed between the existing 22 Local Authorities and the new shared service body.

Support Team

The aim of the Welsh Government's shared service support team would be to support the implementation of any new Shared Administration Service throughout Wales. This team would also provide guidance material and supporting information. The costs are considered opportunity costs as the work undertaken would displace existing work rather than requiring additional resources.

It is expected there would be a continuous need for a support team if a Shared Administration Service was implemented fully. However, the assumption has been made that the size of this team would reduce after three years, once the new way of working has been established. A Welsh Government shared service team is estimated to cost around **£500,000** per year for the first three years, reducing to **£220,000** per year for following years. Further details of these estimates can be found at Appendix A.

Costs to Local Government

There would be a range of costs to Local Government associated with this option. These would include initial costs connected with establishing a shared administrative service centre, developing common ICT systems and training officials. The initial one-off costs would be followed by additional annual costs required to run a shared administration service.

Any investment would depend on which functions the centre would be required to fulfil. For the purpose of this draft RIA it is assumed the Shared Administration Service would cover the functions below, identified as administrative functions in the KPMG administration review:

- Property Management
- ICT
- Finance
- Revenues and Benefits
- Human Resources

- Legal Services
- Contact Centre
- Procurement

Other potential areas include audit and assurance, counter-fraud, transport and courier services, registers and record management, and training and development. Developing a new Shared Administration Service would involve incurring a range of additional costs. These costs have been presented and estimated under the following headings:

- ICT System Costs
- Contract Termination Costs
- ICT Development Costs
- Consultant Support Costs
- Training Costs
- Additional Travel Costs
- Staff Redundancy and Early Retirement Costs
- Governance Arrangements

ICT System Costs

Currently each of the 22 Authorities determines its own administrative arrangements. This requires Local Authorities to identify the services they require and to separately source a solution to fulfil these functions. The current approach means duplication of effort to procure, manage and evaluate these functions. Option 2 would significantly reduce the amount of duplicated effort and a single approach would be established for the whole of Wales. This would reduce the level of resource required to tender and manage contracts, providing efficiencies and economies of scale where possible.

The KPMG *Administrative Cost Review* report identified that Local Authorities spent almost £85m on ICT in 2013-14. The report goes on to state:

'A pan-Wales ICT strategy has the potential to drive a number of significant benefits through standardisation, mutual investment and encouraging innovation. Lack of collaboration between Authorities will currently drive a level of duplication, especially around hardware utilisation and software development.'

Option 2 would form a shared administration service body and one of the Shared Administration Service's aims would be to establish a shared ICT platform for all 22 Local Authorities. Any common system would need to be sufficiently flexible to facilitate all 22 Local Authorities' specific needs whilst achieving a level of commonality. However, many of the current drivers for ICT investment are related to the administrative services that would be managed by a shared administrative

service (finance, customer contact, HR etc.) so standardisation of these services would be essential.

Contract Termination Costs

If the decision was made to pursue the Shared Administration Service option, Local Authorities would have a significant planning period, therefore it is not expected there would be any significant costs associated with terminating existing ICT contracts.

Each Authority would have the opportunity to assess its current contracts in the period leading up to the implementation of any new Shared Administration Service. As with any new ICT system there would be a level of parallel-running required between the existing and new platforms. It is expected Local Authorities would take this into consideration when planning their future ICT requirements.

It is, therefore, assumed contract termination would be completely avoided through reasonable planning, therefore no costs have been identified under this section.

ICT Development Costs

Further scoping work would be required to identify the exact level of ICT investment required to implement an all Wales Shared Administration Service. This cost would be dependent on the functions the system would be required to provide.

Implementing a new “all Wales” ICT platform is likely to require initial additional investment, beyond the £85 million that Local Authorities annually spend. It has been estimated the implementation of an ICT system of this size could require potential additional investment in the region of between **£50 million and £150 million** over 5 years, depending on the speed of implementation and the complexity of the functions incorporated in the shared administrative service. This estimated range is based on the scaling up of existing shared service examples in the UK (LGSS (a shared services venture wholly owned by Cambridgeshire and Northamptonshire County Councils) and UK SBS).

None of these examples specifically involved the requirement for 22 stakeholders to collaborate and agree a consistent approach. Neither do they deal with the level of complexity of merging a wide range of systems per Local Authority, all of which may be significantly different, into one common approach. In some cases, it would make sense to replace systems rather than merge them, of course. There is considerable risk associated with this option which could increase the level of ICT investment required to achieve the goal of a single administration platform. Several of the case studies have identified these costs as major risks, especially when collaboration is not mandatory or supported by structural change. Once the new ICT platform is in place it is expected the 22 Local Authorities would see reductions in their ICT expenditure through economies of scale, stronger bargaining power and

efficiencies. Any potential cost savings have been considered under the benefits section.

Consultancy Support Costs

It is expected this option would require a certain level of support from external consultants. There would need to be input from industry experts who would be able to help develop the required structures and systems. This would include developing the specification for the new ICT systems, managing the change process and developing a governance and management structure for the shared service function.

There would be a considerable amount of organisational change required for a shared administration service to be successful. This change would require careful management and a new consistent culture and way of working would need to be embedded into the 22 Local Authorities. It has been assumed consultants would be needed to assist in the change process.

It is estimated consultants would be required for between **200 and 150 days** of consultancy time (per Local Authority) in the year leading up to the launch of any new shared administration service, between **150 and 100 days** (per Local Authority) in the year following implementation and between **100 and 50 days** (per Local Authority) in the second year. It is estimated additional consultancy costs of between **£150,000** and **£225,000** per Local Authority would be required over three years.

The total estimated consultancy cost required to support this option is estimated to be between **£3.3 million and £5.0 million**.

Training Costs

To support staff with these changes a range of training would be required. This training would need to be adapted for the different requirements of the administration staff working in Local Government. For example, officials who spend a large proportion of their time working on the ICT system would require significantly more training than an official who uses summary reports on a monthly or annual basis. It has been assumed that all officials working in administrative roles throughout the 22 Local Authorities would all require some level of training.

The level of training individuals require would depend on their role within the Local Authority and their interaction with the Shared Administration Service.

It has been assumed on average every member of staff working in administrative roles would require **10 hours** of specific training. The total training cost associated with Option 2 is estimated to be between **£4.2 million and £4.4million** over 3 years. This varies depending on the number of staff working in administration roles in the future.

Additional Travel Costs

Through the creation of a Shared Administration Service, it is expected there would be a reduction in the number of administration posts required for each Local Authority but it is expected that there would be an increase in demand for such posts for the agreed shared service centre(s).

With any requirement for staff to travel further there are potential costs. However, these costs should be considered in an environment where Local Authorities have fully considered their options for allowing remote working. There are a range of remote working options available and these should significantly reduce or avoid the majority of possible additional travel costs. Local Authorities would continue to undertake a large proportion of their administration tasks locally, but due to efficiencies there should be a reduction in the overall number of posts required in each Local Authority.

For the purpose of this draft RIA it has been assumed, through efficiencies and the reduction in duplication of effort achieved through the Shared Administration Service, that it would be realistic to reduce the overall number of administration posts in Local Authorities by between 5 per cent and 10 per cent. This would result in an overall reduction to the number of administration posts required within Local Authorities by between 500 and 1,000.

The majority of administration posts would continue to be based at their current location or would benefit from flexible working arrangements. It is expected a small number of staff may be required to undertake additional travel, for the purpose of this draft RIA **150 and 250** of the remaining administration posts have been considered eligible for additional travel allowances. Further analysis would be required to accurately estimate additional travel requirements.

Based on the above assumptions, it is estimated additional travel costs are expected to be between **£600,000** and **£1 million** per year for the first 3 years. Further detail around this estimated range can be found at Appendix A.

Staff Redundancy and Early Retirement Costs

Staff redundancy and early retirement costs would depend on the individual Local Authority schemes, age and years of service each individual has served. Local Authorities should look to reduce these costs through sensible planning.

It would be a decision for each Local Authority how to implement its redundancy scheme to minimise costs wherever possible and avoid compulsory redundancies. However, it has been estimated the creation of a Shared Administration Service would reduce the overall number of administration posts required within Local Authorities. It has been assumed that some staff would transfer to work for the newly formed organisation, whilst others will continue in their existing Local

Authorities. As noted above, it has been estimated that there could be an overall reduction of between **500** and **1,000** posts resulting from Option 2.

It has been estimated the total cost of redundancy and early retirement due to the creation of a shared administrative service could be between **£8.1m and £20.0m**, depending on the number of post reductions, age profile of the staff and the redundancy scheme implemented by each Local Authority. This would be a one off cost incurred in the first year. Further information on this estimate can be found in Appendix A.

Governance Arrangements

As part of establishing the Shared Administration Service, Local Authorities would need to consider the governance arrangements for democratic oversight and scrutiny. It has been assumed that a Board for the Shared Administration Service would be developed. This Board is expected to consist of a combination of Local Authority representatives and non-executives. It is estimated that this would result in additional costs of **£19,200** per year. Alongside this it has been assumed a joint overview and scrutiny committee would be established, consisting of a minimum of 22 Elected Members, i.e. one from each of the Authorities. It has been assumed that they would not be in receipt of any additional remuneration but travel and subsistence would be incurred. It has also been assumed this committee would meet 4 times a year and would require additional support for each meeting. It is estimated that this would result in additional costs of **£4,800** per year.

Other Costs

There are also a range of potential non-quantifiable costs to be considered, these have been summarised under the following headings:

- Wider Local Authority pressures
- Central recruitment challenges
- Collaboration challenge
- Further considerations

Wider Local Authority pressures

This approach would focus on the administrative functions within Local Authorities but would not attempt to address the wider pressures facing Local Authorities, for example, demographic pressures.

Local Authorities would continue in their current form and their resilience, capability and capacity would not change. A Shared Administration Service would also increase the complexity of the Local Government environment with a further set of relationships to be managed.

Central recruitment challenges

Option 2 would require one or more shared administration centres. A decision would need to be made on the location model. Central locations and dispersed models both present challenges. A central model would result in a concentration of expertise in one area of Wales. Once a location has been decided, some posts may be required to relocate or adjust their working arrangements to fulfil the increased demand for administration posts within that chosen centre. This approach could reduce the local opportunities for administration staff in parts of Wales. Likewise it could result in difficulty in recruiting staff with the right skills.

A dispersed model could cause challenges in terms of management, co-ordination and quality control. Equally, it would permit the development of expert services in different locations and provide development opportunities for Local Authority staff.

Collaboration challenge

Without legislation, Option 2 would require a significant level of voluntary collaboration to successfully implement a Shared Administration Service. Local Authorities currently have their own ways of working and individual specific processes. These would need to be evaluated and a common approach identified and agreed by all 22 Local Authorities.

A governance structure would need to be developed and agreed by all 22 Local Authorities. A shared administration service would not involve structural or democratic organisational change, and any new function would need to be agreed without changing existing Local Government democratic governance structures. However, an additional level of personnel would need to be put in place to manage the shared service arrangement. This would be a challenge with 22 equal stakeholders seeking to agree a common solution.

There would also need to be a significant culture change throughout Local Government, with all administrative staff working on a common ICT platform and within an agreed framework or procedures and processes. The Commission stated it did not believe collaboration had generally succeeded in its aim so far. Rather than overcoming the complexity of relationships, boundaries and responsibilities, collaboration had in some cases added considerably to it by creating a further set of processes to be followed and relationships to be managed. The WLGA stated these challenges in their evidence to the Commission on Public Service and Delivery:

“A negative by-product of the regional collaboration agenda has been a perception of multiplicities of structures (both in terms of services and governance) existing to oversee joint working and shared services. This has led to concerns about the blurring of democratic accountability, clarity of redress, variable scrutiny and much expense involved.”

Evidence from elsewhere is that the cost of setting up shared services which involve the integration of disparate processes and ICT systems and the transfers of staff prove more costly. In 2012 the National Audit Office looked at whether shared services had delivered value for money for central government, reviewing 5 centres. They found that the 5 centres had cost over £1.4billion and that benefits delivery was patchy, with only one centre demonstrating break-even on investment.

Further considerations

This approach assumes administrative services are easily identifiable and can be isolated from the other functions Local Authorities undertake. This is unlikely to be the case, as administration tasks are likely to be embedded within all areas of Local Authorities' processes. It would, therefore, be a complex and very challenging task to identify and selectively reallocate administrative areas of Local Authority business. If this option was the selected preferred option, a considerable amount of further work would be required to identify which functions should be incorporated in the shared administration service. All of the above changes would need to be implemented without the loss of service quality.

A Shared Administration Service might be a viable option in some form, but on its own it is unlikely to deliver the scale of change needed to meet the financial and demographic challenges set out in the introduction to this draft RIA.

Total Estimated Costs

The total estimated cost to Local Government, identified above for Option 2, range from **£71 million to £186 million**. The corresponding Net Present Values for the estimated costs are between £60 million and £158 million.

BENEFITS

Benefits to Local Government

There is currently limited consistency to the way Local Authorities implement their administrative functions. This has resulted in a wide variation of methods and duplication of costs as identified by the KPMG report.

There are some clear benefits to creating a shared administrative service: reduced expenditure, greater resilience, service improvement for customers, and providing a more consistent joined-up approach to managing administration tasks within Local Government.

The benefits to Local Government associated with a shared administrative service have been considered under the following headings:

- Greater scale, capability and reduced costs
- Consistent approach
- Improved service quality levels

- Avoids structural and democratic governance change
- Optimum sizing of functions
- Estate rationalisation

Greater scale, capability and reduced costs

With a single, larger, administrative centre there would be a more robust approach to running selected functions, with further capability. The increased capacity and capability of a shared administrative service would provide a range of new opportunities to innovate when providing services to Local Authorities. Through the development of a single ICT platform to deliver administrative functions, Local Authorities would be able to take advantage of a wealth of consistent data and information when considering the best way to deliver both administration services and services to the public. The increased scale and capability would allow Local Government to increase their potential to innovate, providing a focused pool of expertise, creating more specialised opportunities resulting in the joint functions being more robust and sustainable.

KPMG's *Administrative Cost Review* states there is significant variability in the cost and performance of administrative activities between Local Authorities. Generally larger Authorities demonstrate greater cost efficiency per transaction than smaller Authorities. The report recommends consideration should be given to the benefits of transitioning transactional activities into larger organisations. The report states this approach would provide an opportunity for transactions to benefit from standardised processes and systems as well as economies of scale. The KPMG report suggests that greater scale and capability could produce savings.

It is expected a large proportion of these efficiencies could be made through reducing the number of posts.). Reducing the requirement for administration posts by between 5 per cent and 10 per cent is estimated to result in annual savings of between **£15.0 million and £29.9 million**.

Consistent approach

Option 2 would ensure 22 Local Authorities have a consistent approach to handling their administrative functions. The aim of this option would be to provide administrative functions which are efficient and sufficiently robust for all Local Authorities.

Reducing differences would create a range of potential efficiencies and opportunities which are not currently possible. For example, common systems and ICT platforms would allow staff to move between Local Authorities more readily as their skills and expertise would be directly transferable. This flexible talent pool would allow quick and easy transfer of staff and could encourage wider collaboration throughout Local Authorities.

This option would require a single shared service body to jointly procure services, share ICT infrastructure and software. All these would reduce the overall administrative costs to Local Government. KPMG's *Administrative Cost Review* identified savings from **£3.2 million** to **£20.5 million** per year through the implementation of a standard ICT strategy. These savings have been identified through a range of ICT collaboration actions, all of which would be expected to form part of the shared administrative service option.

Improved service quality levels

Along with greater consistency, it is expected a Shared Administration Service would increase the quality of overall service delivery by developing common approaches and pooling of expertise. One of the most significant by-products of shared services generally is much richer data and analysis of service delivery and customer behaviour, turning data into intelligence. This can lead to significant opportunities for improving service effectiveness, reducing variability, managing demand and reducing costs. However, this needs to be considered alongside the possible loss of local flexibility.

Avoids structural and democratic governance change

A clear benefit to this approach, compared to merging Local Authorities, is that it avoids the level of change required to establish new, larger Local Authorities. This Shared Administration Service approach would focus on a specific selection of administration functions within Local Authorities and would not involve wider reaching changes.

Avoiding structural mergers would limit the amount of change Local Authorities would be faced with. However, it would also limit the possible benefits.

Optimum sizing of functions

The KPMG Report identifies there is currently significant variation in the way Local Authorities provide administrative functions. Option 2 would provide an opportunity to implement a more efficient, leaner approach to delivering services. KPMG identified a standardised approach and implementing optimum size functions could result in annual savings between **£7.8 and £22.8 million**.

Estate rationalisation

There is an opportunity to consider each Local Authority's property requirements as part of this proposed change. This approach may allow each Local Authority to consolidate and rationalise their administrative buildings, ensuring optimised asset utilisation.

It is not possible at this stage to quantify the benefits associated with this change, but it should be recognised as an opportunity.

Total Estimated Benefits

For **Option 2**, alongside the non-quantifiable benefits, an estimated range of between **£26 million** and **£73 million** savings per year has been identified. The total estimated savings between 2019/20 and 2028/29 are between **£260million** and **£732 million**, with a Net Present Value of between £202 million and £568 million.

OPTION 2: SUMMARY TABLES

Table 1: Shared Administrative Service Option – Costs Summary

	<i>£,000</i>											
	2019/20		2020/21		2021/22		2022/23 to 2028/29		Total		NPV	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
<u>Welsh Government</u>												
Support Team	£495	£495	£495	£495	£495	£495	£1,534	£1,534	£3,017	£3,017	£2,421	£2,421
<u>Local Government</u>												
IT Systems	£10,000	£30,000	£10,000	£30,000	£10,000	£30,000	£20,000	£60,000	£50,000	£150,000	£42,149	£126,446
Consultancy Support	£1,650	£2,200	£1,100	£1,650	£550	£1,100	-	-	£3,300	£4,950	£2,910	£4,348
Training Costs	£1,403	£1,480	£1,403	£1,480	£1,403	£1,480	-	-	£4,208	£4,441	£3,668	£3,872
Additional Travel Costs	£608	£1,013	£608	£1,013	£608	£1,013	-	-	£1,823	£3,038	£1,589	£2,648
Staff Redundancy / Early Retirement Costs	£8,127	£19,995	-	-	-	-	-	-	£8,127	£19,995	£7,330	£18,034
Governance Arrangements	£24	£24	£24	£24	£24	£24	£144	£144	£240	£240	£186	£186
Total	£22,306	£55,206	£13,629	£34,661	£13,079	£34,111	£21,702	£61,702	£70,714	£185,681	£60,067	£157,769

Table 2: Shared Administrative Service Option – Savings Summary

	<i>£,000</i>											
	2019/20		2020/21		2021/22		2022/23 to 2028/29		Total		NPV	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
<u>Local Government</u>												
Reduction in Administrative Posts	£14,960	£29,920	£14,960	£29,920	£14,960	£29,920	£104,720	£209,440	£149,600	£299,200	£116,144	£232,288
Consistent Approach	£3,200	£20,500	£3,200	£20,500	£3,200	£20,500	£22,400	£143,500	£32,000	£205,000	£24,844	£159,155
Greater Scale and Capability	£7,800	£22,800	£7,800	£22,800	£7,800	£22,800	£54,600	£159,600	£78,000	£228,000	£60,556	£177,011
Total	£25,960	£73,220	£25,960	£73,220	£25,960	£73,220	£181,720	£512,540	£259,600	£732,200	£201,544	£568,454

Option 3 – Local Authority Mergers

Option 3a – 12 Local Authorities

Option 3b - 8 or 9 Local Authorities

The Commission recognised structural change is potentially costly and disruptive. However, it concluded the cost of doing nothing would be greater. It identified the current structure of 22 Local Authorities is not sustainable and the long-run savings of merger would quickly outweigh the short-term costs.

The Commission suggested the benefits of merger would extend beyond Local Authorities into the whole of the public sector by reducing complexity and the amount of time spent managing it. The Commission's 'Option 1' suggested 12 Local Authorities. This was the 'least change' option, as it results in the lowest number of mergers. The Commission described it as the option providing the lowest sustainable level of change along with the lowest risk of loss of responsiveness, i.e. the size of the Authority and its relationship with the public it serves. It was also expected to avoid the problem of excess scale or very large disparities in Council Tax

In this draft RIA establishing 9 new Local Authorities, with 3 Authorities, Carmarthenshire, Swansea and Powys, continuing in their current form, is discussed in Option 3a. The Table below sets out the proposals for merger, the population of the existing Local Authorities and the combined population of the newly formed County Councils under this Option.

Table 3: Mergers - Option 3a

Name	Area	Combined Population
County 1	Isle of Anglesey and Gwynedd	192,442
County 2	Conwy and Denbighshire	211,078
County 3	Flintshire and Wrexham	290,518
County 4	Ceredigion and Pembrokeshire	199,091
County 5	Neath Port Talbot and Bridgend	281,704
County 6	Rhondda Cynon Taf and Merthyr Tydfil	295,953
County 7	Cardiff and the Vale of Glamorgan	481,979
County 8	Blaenau Gwent, Caerphilly and Torfaen	341,224
County 9	Monmouthshire and Newport	239,177
Powys	Powys	132,675
Carmarthenshire	Carmarthenshire	184,898
Swansea	Swansea	241,297

Population figures are taken from Local Government mid-year estimates 2014.

The Commission's report presented 4 options, and in June 2015 the Minister for Public Services issued a statement building on these options, setting out the case for establishing either 7 or 8 new Councils, with 1 (Powys) continuing in its existing form. As set out in Tables 4 and 5 this would create 8 or 9 new County Councils. The Consultation Paper accompanying this Draft Bill sets out the rationale for this proposal, including how the proposals set out in Part 2 of this draft RIA are aimed at addressing the issues the Commission identified in respect of reducing the number of Local Authorities below 12.

Mergers – Option 3b- 8 or 9 Local Authorities:

Table 4: 8 Local Authorities

Name	Area	Combined Population
County 1	Isle of Anglesey, Gwynedd and Conwy	308,729
County 2	Denbighshire, Flintshire and Wrexham	385,309
County 3	Ceredigion, Pembrokeshire and Carmarthenshire	383,989
County 4	Swansea and Neath Port Talbot	381,787
County 5	Bridgend, Rhondda Cynon Taf and Merthyr Tydfil	437,167
County 6	Cardiff and the Vale of Glamorgan	481,979
County 7	Blaenau Gwent, Caerphilly, Torfaen, Monmouthshire and Newport	580,401
Powys	Powys	132,675

Table 5: 9 Local Authorities

Name	Area	Combined Population
County 1	Isle of Anglesey and Gwynedd	192,442
County 2	Conwy and Denbighshire	211,078
County 3	Flintshire and Wrexham	290,518
County 4	Ceredigion, Pembrokeshire and Carmarthenshire	383,989
County 5	Swansea and Neath Port Talbot	381,787
County 6	Bridgend, Rhondda Cynon Taf and Merthyr Tydfil	437,167
County 7	Cardiff and the Vale of Glamorgan	481,979
County 8	Blaenau Gwent, Caerphilly, Torfaen, Monmouthshire and Newport	580,401
Powys	Powys	132,675

COSTS

Option 3 (3a and 3b) would involve a structural change to Local Government through merger. This would generate a range of costs as follows. Some estimated costs are not dependent on the number of County Councils and are the same for both Option 3a and 3b. The estimated costs that are dependent on the number of County Councils factor this variable in. The ranges presented for Option 3b factor in the possibility that there could be 8 or 9 County Councils.

Costs to Welsh Government

These have been summarised as follows:

- Public Services Staff Commission
- Establishing and supporting Shadow Authorities
- Welsh Government support team costs

Public Services Staff Commission

A non-statutory Public Services Staff Commission was set up in September 2015 to provide advice and support on workforce matters, including those in respect of the proposed mergers of the existing 22 Local Authorities.

Establishing and running a Public Services Staff Commission on a statutory basis in this Draft Bill has been considered as a policy intention in its own right and full consideration of any costs and benefits associated with this proposal have been assessed in Part 2 of the draft RIA. For completeness it is noted here that no additional costs are identified.

Establishing and supporting Shadow Authorities

Important decisions such as the appointment of senior staff, agreeing initial service delivery plans and, setting the first year's budget and Council Tax would need to be taken in advance of any new Councils coming into being. This is essential to ensure the new County Councils can function effectively and legally from 1 April 2020 when they assume their full functions.

The practice during previous structural changes has been for a Shadow Authority to be in place, through the holding of an election, for the whole of the new Area in the year before the new County Council assumes its full range of responsibilities. The Shadow Authority provides democratically elected leadership across the whole of the new area and is charged with taking key decisions. The Shadow Authority would exercise specified functions and work with support from a joint Transition Committee and the existing Authorities (which would continue to discharge the Council's day to day functions for the Shadow period) to ensure the transition to the new structure is as smooth and effective as possible.

Welsh Government support team costs

The Draft Bill provides the Welsh Ministers with the powers to make regulations in relation to Shadow Authorities and issue guidance, and it has been assumed the Welsh Government would also establish a team to support the newly formed Shadow Authorities leading up to 1 April 2020.

This team would be required in the 3 years leading up to the election of the new County Councils in May 2019 and for the following 'shadow' 11 month period.

Below is the assumed team structure, these costs are based on an estimated requirement for full time equivalent (FTE) officials over the 4 year period. A large proportion of the resources identified would be found from existing staff allocating a proportion of their time.

The opportunity cost of an official's time has been brought together and summarised in the staff structure below. For example, if two existing Deputy

Directors would be required to spend 50 per cent of their time each on the reform agenda over the 4 year period, then they have been identified in the below table as one full time Deputy Director.

Table 6: Welsh Government Support Staff Costs

Staff Grade	Average Annual Cost	Number of Staff Required	2016/17	2017/18	2018/19	2019/20	Total	Total (Present Value)
<u>Programme Team</u>								
Deputy Director	£101,400	3	£304,200	£304,200	£304,200	£304,200	£1,216,800	£1,156,500
Executive Band 1	£85,900	1	£85,900	£85,900	£85,900	£85,900	£343,600	£326,600
Executive Band 2	£69,400	8	£555,200	£555,200	£555,200	£555,200	£2,220,800	£2,110,700
Senior Executive Officer	£51,900	5	£259,500	£259,500	£259,500	£259,500	£1,038,000	£986,500
Higher Executive Officer	£40,600	6	£243,600	£243,600	£243,600	£243,600	£974,400	£926,100
Team Support	£25,700	2	£51,400	£51,400	£51,400	£51,400	£205,600	£195,400
<u>Legal Support</u>								
Deputy Director	£101,400	1	£101,400	£101,400	£101,400	£101,400	£405,600	£385,500
Executive Band 1	£85,900	1	£85,900	£85,900	£85,900	£85,900	£343,600	£326,600
Executive Band 2	£69,400	4	£277,600	£277,600	£277,600	£277,600	£1,110,400	£1,055,300
Total			£1,964,700	£1,964,700	£1,964,700	£1,964,700	£7,858,800	£7,469,100

These estimates are based on the average annual cost of employing each grade of Welsh Government official, including employer's National Insurance Contributions.

It is assumed the team would work full time for the whole four years. In practice this may not be the case. Team structures may evolve as the programme progresses. However, it is not expected that any changes would have a significant impact on the overall annual estimates.

The annual cost to the Welsh Government has been estimated to be almost **£2 million** per year, and therefore almost **£8 million** over the 4 years period (2016-17 to 2019-20).

The level of resource required from the Welsh Government is not seen to be dependant on the number of new Authorities created, therefore these costs apply to Option 3a and both 8 or 9 authorities set out in Option 3b.

Costs to Local Government

The potential costs are:

- Transition Committee costs
- Shadow Authority costs
- Staff costs
- Estates management costs
- ICT service costs
- Change management costs
- Rebranding costs
- Council Tax harmonisation costs

- EU funding

Transition Committee costs

The Local Government reorganisation in Wales in 1996 included the establishment of statutory joint Transition Committees to consider and advise merging Local Authorities on transitional matters.

The first Local Government (Wales) Bill, currently awaiting Royal Assent which is expected by the end of November 2015, will require merging Local Authorities to establish a Transition Committee (one for each proposed new County Council area). The role of the Transition Committee includes providing merging Authorities and Shadow Authorities with advice and recommendations for facilitating the economic, effective and efficient transfer of functions, staff and property rights and liabilities to the new Authorities. The Committees must also provide advice and recommendations for ensuring the new County Council will be able to function effectively from the first day they assume their full functions, 1 April 2020. The costs associated with creating Transition Committees were fully assessed in the RIA accompanying the Local Government (Wales) Bill and are, therefore, not considered further here¹².

Shadow Authority costs

This Draft Bill provides for elections for each of the new County Councils being created to be held in May 2019. It further provides that during the period between their election and 1 April 2020, there will be Shadow Authorities.

As Shadow Authorities, they will exercise certain functions conferred on them by regulations made by the Welsh Ministers. The functions conferred will be those necessary to be undertaken in advance of 1 April 2020. Expenditure will also be incurred by or associated with the Shadow Authority, for example paying salaries to newly appointed Chief Officers, administering Committees of the Shadow Authority, issuing the first Council Tax bills and paying remuneration to Councillors elected to the Shadow Authority. Some of these costs will result in corresponding savings to the existing Local Authorities and, therefore, have not been taken as additional costs resulting from merger.

Any additional costs associated with running the Shadow Authorities would only be incurred in the 11 month period beginning with the elections of new County Councils in May 2019 and ending on 1 April 2020.

These are as follows:

- Election of new County Councils (May 2019)
- Interim officers serving the Shadow Authorities

¹² <http://senedd.assembly.wales/mgIssueHistoryHome.aspx?IId=11809>

- Remuneration of Shadow Authority Councillors
- Cost of advertising and appointing the senior management team

Election of new County Councils (May 2019)

The Councillors elected at these elections would form the new County Councils, existing in shadow form until 1 April 2020. The Shadow Authorities will exercise only certain preparatory functions and will serve alongside the existing Authorities until then. On 1 April 2020, the existing Local Authorities will be abolished, their Councillors will stand down and the Councillors of the new County Councils will then assume the exercise of the full range of Local Government functions.

The existing Local Authorities have to anticipate spending on elections at regular 4-yearly intervals. Without the merger programme, elections to the existing Local Authorities would take place in 2017 and 2021. Elections to the existing Authorities will take place as scheduled in 2017, but with their abolition in 2020 there will be no elections to those Authorities in 2021. The programme for mergers envisages first elections to the new Authorities (then in shadow form) in May 2019, with the second elections to the new Authorities taking place in 2023. As the merger programme results in election costs falling two years earlier than would be the case otherwise, they have been calculated as additional costs directly related to this provision.

Election data has been collected through the Revenue Outturn forms submitted by Local Authorities to the Welsh Government and this data has then been used to estimate the potential costs of Shadow Authority elections. In 2012-13 Local Government spent just over £9 million on its elections (this related to the election of 21 Councils, Anglesey's elections were delayed by a year). It is expected this level of expenditure (uprated for inflation and Anglesey's expenditure in 2013-14) would be required to provide elections for the Shadow Authorities. Option 3a would create 9 new Authorities, leaving 3 existing Authorities as they currently are, while Option 3b would require elections in 7 or 8 Authorities, leaving one continuing Authority. However, continuing Authorities would also hold elections in 2020 as a direct consequence of merger (to avoid a six year term for sitting Councillors)

For **Option 3a**, it is estimated the cost of elections due to mergers in the financial year 2019-20 would be between **£8.3 million** and **£9.1 million** and between **£1.3 million** and **£1.4 million in 2020-21**. For **Option 3b** it has been estimated that between **£9.2 million** and **£10.1 million in 2019-20** and between **£440,000** and **£480,000 in 2020-21**. More detail can be found at Appendix A.

Interim officers serving the Shadow Authority

It is expected much of the work undertaken in the name of the Shadow Authorities will be undertaken by officers of the existing merging Local Authorities as part of the gradual transition of their responsibilities from the existing Local Authority to the new County Council. This would also be the case for senior officers, including the

Chief Executive, until such time as the Shadow Authority appointed its senior officers.

It is also expected the majority of the work undertaken by the Shadow Authority would be similar to the existing forward-looking, strategic and financial planning work Local Authorities must undertake currently, and would replace this work.

However, there could be some additional administrative demand as Shadow Authorities would require interim officer support for 11 months, for example, to support their meetings. After this period the new County Council would officially take over.

It has been assumed, for all options, that between 3 or 4 additional administrative staff would be needed per Shadow Authority. Therefore, an estimated additional cost of between £100,000 and £130,000 per new Shadow Authority has been included. **Option 3a** would require 9 Shadow Authorities to be established with a cost of between **£860,000** and **£1.15 million**. **Option 3b** would require 7 or 8 Shadow Authorities to be established at a cost of between **£670,000** and **£1.02 million**. In both cases, this cost would be incurred in the year leading up to 1 April 2020.

Remuneration of Shadow Authority Councillors

During the 11 months between the election of the new County Councils and 1 April 2020, there will be Councillors for both the Shadow Authorities and the existing Local Authorities (it should be noted that it is likely many of the Councillors elected to the Shadow Authorities will also be Councillors in the existing Local Authorities).

The remuneration of the new Councillors is not currently known and will be determined by the Independent Remuneration Panel in due course. It would also be for the Panel to determine whether Councillors holding dual office would be entitled to two separate sets of remuneration, a reduced additional remuneration for the additional role or no additional remuneration.

Option 3a would require 9 Shadow Authorities while Option 3b would require 7 or 8. The number of Councillors per County Council will be a decision for the Local Democracy and Boundary Commission based on directions to be provided by a future Welsh Government.

Therefore, for the purposes of this draft RIA a possible estimated range has been used for Options 3a and 3b of between 700 and 900 Shadow Authority Councillors in total for the 11 month period leading up to Vesting Day. The same range has been used on the basis that the same population and numbers of electors have to be appropriately represented regardless of the number of County Councils. This range is based on Councillor numbers in Local Authorities with similar populations and numbers of electors across the UK. To recognise the possibility of dual

membership a range of 60 per cent and 75 per cent of dual membership has been included.

Existing Councillors who are elected to Shadow Councils are estimated to receive £5,000¹³ for their work in the Shadow Council, on top of their existing remuneration. New Councillors (not currently in office as Councillors within Local Government in Wales) are expected to receive the average remuneration for an existing Councillor. This is just over £17,000 per year, based on the average total costs for the existing body of Councillors including senior salaries and travel and subsistence.

Councillors may be required to travel further than they currently do during the Shadow Authorities' existence. For the purposes of this draft RIA, it has therefore been assumed each Councillor elected to the Shadow Authority would require an additional £500 in travel expenses. This is based on the assumption that existing Council buildings would continue to be available, combined with the improving ability for Councillors to attend meetings remotely.

Based on these assumptions the range of additional remuneration cost for Councillors of Shadow Authorities would be between **£6.0 million and £9.3 million for both Options 3a and 3b**. More detail on these estimates can be found at Appendix A.

Cost of advertising and appointing senior management teams

A senior management team (the Chief Executive and his/her immediate management team) would need to be put in place by each Shadow Authority at least 4 months before 1 April 2020. For the purposes of this draft RIA it has been assumed each of these senior management posts is recruited through open competition. This reflects current policy where all senior officer posts in Local Authorities attracting a salary of £100,000 and above are required to be advertised externally.¹⁴

It has been assumed other chief officer posts (as defined by the first Local Government (Wales) Bill) will be filled through closed competition and that these posts will then be transitioned through the shadow period. It should be noted that senior management recruitment for the new County Councils may be an issue upon which the Public Services Staff Commission could provide advice, therefore, these assumptions should not be read as a statement of future policy in this area.

There are 2 cost considerations relating to the advertising and appointment of new senior management teams:

- The cost of advertising senior management posts

¹³ For the purpose of this draft RIA a notional figure has been used. The actual level of remuneration will be a matter for the IRP to decide.

¹⁴ This provision is contained within the Local Authorities (Standing Orders) (Wales) Regulations 2006 (S.I. 2006/1275) as amended in 2014.

- The cost of employing additional senior managers for the 4 month period leading up to 1 April 2020.

It is estimated the advertising and recruitment process for each new Authority's senior management team would be between **£60,000** and **£80,000**. This is based on a recent recruitment exercise, of a similar size, undertaken by the National Procurement Service.

As **Option 3a** would require 9 new Shadow Authorities to be established, it is estimated the total cost for advertising and recruiting new senior management for the 4 months leading up to 1 April 2020 would be between **£540,000** and **£720,000**.

Option 3b would require 7 or 8 new Shadow Authorities to be established the associated estimated costs are between **£420,000** and **£640,000**.

The split between senior officers appointed from within existing Welsh Local Authorities and those appointed from elsewhere is dependent on decisions yet to be made. Therefore, for the purposes of this draft RIA it has been assumed between 20 per cent and 30 per cent of senior officials recruited would not currently be employed within the existing merging Authorities.

'New' senior officials would result in additional costs over the 4 months leading up to 1 April 2020. The number of senior officials required per Shadow Authority is estimated to be between 8 and 15. It is assumed that between 20 per cent and 30 per cent of the total required senior officials are new to Local Government in Wales, along with the estimate that they would, on average, be paid the same as the average senior manager in Local Government currently. It has been estimated the cost of new Shadow Authority senior managers for **Option 3a** would be between **£620,000** and **£1.56 million** and for **Option 3b** between **£480,000** and **£1.39million**. This is a one-off cost required in the 6 months leading up to 1 April 2020.

Existing senior managers who are successful in gaining a post within the new Authorities would be expected to absorb the work of the Shadow Authority over the 4 month period leading up to 1 April 2020 as part of business as usual and would, therefore, not generate an additional cost. The work undertaken by the Shadow Authority is expected to replace the work no longer required by the existing Local Authorities, such as medium term corporate and financial planning.

Therefore, no additional costs have been attributed to existing senior officers who are successful at securing a role in the newly established Authorities. It is acknowledged that in some cases the existing Local Authorities may need to backfill through temporary working arrangements, for example to ensure statutory positions are filled but these costs are believed to be marginal and to some extent avoidable through co-operation and planning.

Accommodation for Shadow Authorities and committees

It is expected the existing Local Authority estate would have sufficient capacity to accommodate the Shadow Authorities and their committees. The numbers of additional staff working directly for the Shadow Authorities during the shadow period will be small and it is expected opportunities for remote working for both officers and Councillors will be maximised.

It has, therefore, been assumed there would be no additional costs associated with accommodating the Shadow Authorities.

Total estimated additional cost of Shadow Authorities

The total additional cost of creating and running Shadow Authorities for the 11 months leading up to Vesting Day in **Option 3a** is estimated to be between **£16.3 million and £21.9 million**. A further cost of Council elections has been estimated for 2020/21, between **£1.3 million and £1.4 million**.

Table 7: Option 3a - Estimated Cost of Shadow Authorities

Costs	2019/20		2020/21	
	Min	Max	Min	Max
Council Elections	£8,324,000	£9,117,000	1,314,400	1,439,600
Staff Costs -Administrative	£864,000	£1,152,000	-	-
Staff Costs - Chief Executive and Senior Management	£619,000	£1,558,000	-	-
Additional Councillor Costs	£5,969,000	£9,310,000	-	-
Recruitment Costs	£540,000	£720,000	-	-
Total	£16,316,000	£21,857,000	£1,314,400	£1,439,600

For **Option 3b**, costs are estimated to be between **£16.7 million and £22.4 million in 2019/20** and between **£400,000 and £500,000 in 2020/21**.

Table 8: Option 3b - Estimated Cost of Shadow Authorities

Costs	2019/20		2020/21	
	Min	Max	Min	Max
Council Elections	£9,201,000	£10,077,000	£438,000	£480,000
Staff costs -Administrative	£672,000	£1,024,000	-	-
Staff costs - Chief Executive and Senior Management	£481,000	£1,385,000	-	-
Additional Councillor costs	£5,970,000	£9,310,000	-	-
Recruitment costs	£420,000	£640,000	-	-
Total	£16,743,000	£22,436,000	£438,000	£480,000

Staff Costs

A range of potential staff costs associated with merging Local Authorities have been identified as follows:

- Redundancy and early retirement costs
- Contract termination costs
- Pension costs
- Pay equalisation costs
- Relocation costs
- Recruitment costs
- Benefits in kind
- Additional travel costs

In terms of exit payments, the current system of calculating entitlement has been used. If legislative changes are made the draft RIA will be updated.

Redundancy and early retirement costs

There could be a range of redundancy and early retirement costs associated with merging Local Authorities

- Senior management
- Administrative staff reductions
- Service delivery staff
- Councillors

This draft RIA does not consider redundancy costs or any other costs for possible wider service delivery reorganisation and service efficiency savings; the way new Local Authorities choose to approach delivering their local services should be a decision for each newly created Local Authority on an individual basis.

The newly formed Local Authorities may seek to find efficiency savings and economies of scale in the way they deliver their services, but these are local decisions and the impact of them should be considered in the future by the Authorities themselves.

Senior management redundancy and early retirement costs

It is assumed reducing the number of Local Authorities would reduce the overall number of senior managers. At this point, assumptions must be made on the future shape of senior management structures. Based on these assumptions, the potential redundancy costs associated with changes to senior management structures have

been estimated below. This is an area the Public Services Staff Commission could consider and will ultimately be a decision for the Shadow Authorities.

Regulation 9 of the Accounts and Audit (Wales) Regulations (2014) requires a Local Authority's Statement of Accounts to include a note of the remuneration and the contribution to the person's pension by the body for senior employees, this includes statutory and non-statutory chief officers and any person having responsibility for the management of the Local Government body to the extent that person has the power to direct or control major activities of the body.

Based on the 2014-15 Local Authority Statements of Accounts, there are 22 Chief Executive Officers (CEOs) and 189 senior officials. It has been assumed for the purposes of this draft RIA these posts would be duplicated across the existing Authorities (although it is recognised different Authorities currently package responsibilities in different ways). The range for a typical management team in a new County Council could consist of one CEO and between 8 and 15 senior officials. Option 3a would reduce the total number of CEOs in Local Government to 12 and the total number of senior officials reduced to between 96 and 180.

There would be opportunities to begin to manage reductions in the run-up to mergers, for example by making joint or temporary appointments where vacancies arise through normal turnover. However, assuming such opportunities were not taken, the reductions would lead to potential redundancy or early retirement packages for at least 10, 13 or 14 CEOs and between at least 9 and 93 senior officials for Option 3a and 13 or 14 CEOs and between 54 and 125 senior officials for Option 3b. The possibility of CEOs and senior managers coming from outside existing Local Government employees has been factored in.

To calculate the redundancy costs associated with the above reduction in senior officials the following figures have been used. Cost figures have been calculated from Local Authorities' Statements of Accounts data:

- Average CEO Cost - £154,000
- Median Senior Officer Cost - £100,000

A range of different redundancy terms are currently available in Local Authorities. It has been estimated that the average Statutory Redundancy Payment (SRP) enhanced payment multiplier is 1.5 times the statutory amount.

It is also important to factor in that some staff may choose to take early retirement. Pension strain is an area of potential costs which needs to be considered. This is when an employee is allowed to retire early on efficiency, redundancy or at the employer's consent. Employee and employer pension contributions stop and benefits become payable earlier than assumed in the scheme design and will be paid for longer. The Local Government Pension Scheme (LGPS) sets out an

entitlement to an unreduced pension for employees aged over 55 who leave employment in certain circumstances.

The Public Services Staff Commission will consider redundancy and early redundancy packages fully and it is noted *further actuarial work could be required for the final RIA to more accurately estimate early retirement costs.*

For the draft RIA, it has been estimated a senior official would have between 15 and 20 years of service on average. It has also been assumed, due to the experience required to gain a senior official role, 40 per cent of senior officials are over 55 and, therefore, entitled to early retirement rather than redundancy packages.

Using these assumptions it is expected the redundancy and early retirement costs would be between **£3.6 million** and **£10.0 million for Option 3a** and **£6.6 million and £12.4 million for Option 3b**. This will depend on the senior management structures chosen by the Shadow Authorities. Further details can be found at Appendix A.

These would be one-off costs and only required in the first year of reform. It is expected Local Authorities should actively seek to reduce these costs through effective planning by the Transition Committees and Shadow Authorities.

Administrative staff redundancy and early retirement costs

There are currently over 9,000 staff employed in administrative roles within Local Authorities in Wales. Administration roles cover a wide range of activities including property management, human resources, finance and legal services and procurement. A recent report by KPMG and CIPFA, *Welsh Local Authorities – Administrative Costs Review*,¹⁵ estimated almost £500 million per year or 5.9 per cent of Local Authorities' Gross Revenue Expenditure (GRE) was spent across Wales in 2013-14 on administrative activities. The value varied considerably between Authorities, ranging from 4 per cent to 10 per cent of GRE.

It has also been assumed that Option 3a and 3b would provide a range of opportunities to reduce the number of administration posts in Local Authorities. Reducing the number of Local Authorities provides the opportunity for economies of scale and assumptions have been made to present a range of potential reductions to the number administration posts as a direct result of mergers taking place. This range varies depending on the number of new Local Authorities. For Option 3a, it has been assumed the administrative posts would be reduced by between 10 and 15 per cent. This results in a reduction of between 900 and 1,400 administrative posts. For Option 3b, the assumed range is between 15 and 20 per cent. This reflects the further reduction in the number of Local Authorities and the higher potential for duplicated posts. For Option 3b the estimated range is between 1,400 and 1,900 administration posts.

¹⁵ <http://gov.wales/docs/dsjlg/publications/localgov/150612-welsh-la-admin-cost-review.pdf>

It is expected the recommendations set out in the KPMG report will be taken forward by the existing Local Authorities prior to 1 April 2020 as their implementation is not, in the main, dependent on mergers taking place. The number of administrative posts identified in the KPMG report has been used as the basis for calculating potential administrative post reduction costs and benefits. It is expected that this figure will reduce over the years leading up to 1 April 2020 as the potential efficiency benefits are taken, however it is not possible to forecast how it will change, for example, future developments in digital technology may increase the opportunities for further efficiencies.

The existing redundancy schemes within Local Government have been analysed and there are a range of different schemes in place. These schemes include a range of pension multipliers. A multiplier of 1.5 has been used in these estimates.

It has been assumed that on average an existing employee in Local Government has around **10 years** of service. It has also been estimated the average cost of a Local Government administrative employee, based on data collected by KPMG, is £32,000 per year.

Using these assumptions, the redundancy and early retirement costs due to a reduction in administrative posts are estimated to be between **£14.3 million** and **£30.0 million for Option 3a** and **between £22 million and £40 million for Option 3b**. This would be a one-off cost attributable to 2019-20.

These costs should be managed and reduced through effective planning by Transition Committees and Shadow Authorities, including taking opportunities to redeploy the staff resources freed up from streamlining administrative functions. This cost will vary depending on the numbers of staff eligible for early retirement at the time of the schemes, along with individuals' specific circumstances and the decisions which the new County Councils make about these matters.

Service delivery redundancy and early retirement costs

It will be for the newly established County Councils and their related Transition Committees and Shadow Authorities to decide how to develop and adapt service delivery models. These decisions may or may not directly result in service delivery efficiency savings and redundancy costs. It is expected these decisions will be fully impact assessed by the new County Councils as they are considered.

Staff contract termination costs

Contract termination costs directly related to reducing staff numbers are considered to be avoidable through reasonable planning. These potential costs include smaller contract termination costs such as ending car leases, mobile phone contracts and ICT leases. As Local Authorities will have a significant amount of time to plan for mergers, it is expected that these costs will be completely avoidable and, therefore,

no additional costs have been factored into this draft RIA for small contract terminations.

Pension scheme costs

The Minister for Public Services requested the Auditor General for Wales review the costs, structure and management of Local Government Pension Scheme Funds in Wales. The WAO report contained detailed modelling for each of the existing 22 Local Authorities, based on estimated funding positions at 31 March 2014. This was derived from accounting data (meeting the International Accounting Standard 19) published at that date for each Authority. The modelling in the review covers two purely illustrative possibilities for a reduction to 9 Authorities and a reduction to 12 Authorities and suggests the existing Local Government Pension Schemes could continue through mergers without any additional costs to Local Government in Wales. Therefore no direct pension scheme costs are expected to result from Option 3a or Option 3b.

The WAO report suggests there are opportunities to implement changes to the way Local Government pensions are managed in Wales, with the potential to achieve significant efficiencies, in the region of £45 million per year, through common investment. This is something not directly linked to the merger of Local Authorities but the merger process could provide an opportunity for these efficiencies to be pursued.

Pay harmonisation costs

Each Local Authority in Wales currently uses the nationally negotiated pay scales for the majority of their staff. Although common scales are used throughout Local Government, they are implemented differently by each Authority. An exercise would be required where each of the newly formed Local Authorities adopts a pay policy and harmonises the variations in grade structure and terms and conditions transferred from the old Local Authorities.

This process would require newly formed Local Authorities to establish their own consistent approach to grading and terms and conditions throughout the whole organisation. There are several ways in which Local Authorities could choose to harmonise their approach to pay following mergers. Some of the approaches possible would not result in additional staff costs, e.g. a weighted average approach across the merging Local Authorities.

This draft RIA does not attempt to analyse the wide range of existing pay scales or terms and conditions currently in existence within each Local Authority. This would form part of the pay harmonisation process and a consultation cost has been included in the pay harmonisation estimate.

It has been estimated that around **£500,000 per newly formed Local Authority** might be required in consultancy support for the job evaluation exercise. This figure

is based on an estimated cost provided in the Single Environment Body Business Case. **Option 3a** would result in 9 new County Councils with a total estimated cost of **£4.5million**. The estimated cost for **Option 3b**, with 7 or 8 new County Councils would be between **£3.5 million** and **£4 million**. This cost is expected to be incurred evenly over a 3-year period, with the Shadow Authorities managing the initiation of this process.

Although pay harmonisation is considered unavoidable as a result of mergers, each Local Authority's chosen approach to achieving pay harmonisation will be a local decision. The figures presented within this draft RIA provide a range of possible options but are by no means the full range of available solutions. The approach to pay harmonisation is a matter which will be considered fully by the Public Services Staff Commission.

CIPFA presented an estimated harmonisation cost in their *Benefits and Risks of Local Government Reorganisation* report¹⁶ of **£27 million per year**. This approach was based on harmonisation at the average salary and protection for a period of one to three years. This figure has been used to present a range of harmonisation costs in this draft RIA. An alternative approach would be for newly formed Local Authorities to converge to a weighted average, based on the number of staff in merging Local Authorities and their existing salaries. This approach would not result in any additional costs. The chosen approach to harmonisation will be a vital area of consideration for the Transition Committees, Shadow Authorities and new County Councils.

Further data is being sourced on existing Local Authority pay distributions. This data will be used to update these estimates for the final RIA.

Recruitment Costs

It is not expected the new County Councils will undertake any significant recruitment over and above normal levels, therefore no additional costs would be incurred. Those associated with the recruitment of the senior team have been previously discussed. Prudent planning by existing Authorities, Transition Committees and Shadow Authorities could see a reduction in recruitment costs to administrative posts where vacancies are not filled.

Additional Travel Costs

Under both Options 3a and 3b, existing staff might need to travel further to and from work. However, this will be determined by decisions made locally. For example, if a new Authority decides to maintain the majority of its existing offices then there would be minimal or no additional travel costs. Shadow Authorities should take the opportunity to assess new and improved flexible working arrangements, making it

¹⁶ <http://www.wlga.gov.uk/publications-resources/cipfa-report-the-transitional-costs-benefits-and-risks-of-local-government-reorganisation>

easier and more acceptable for staff to work from a range of locations whilst minimising costs.

For the purpose of this draft RIA, costs have been included and estimated based on a scenario where it is expected travel costs will be minimised wherever possible but recognising some costs may be unavoidable. A range of potential additional travel costs have been included for Option 3a and Option 3b. This assumes between 500 and 1,500 staff throughout Local Government could be required to travel an additional 40 miles per day. If Local Authorities were to fund this additional travel cost at 45p per mile, the cost would range from **£6 million to £18 million** over 3 years. Beyond 3 years it is not expected that Local Authorities would continue to pay for additional travel. Taking into consideration the potential for improved flexible working arrangements and the large property portfolios of Local Government, this range is considered wide enough to cover the potential additional travel costs for both Option 3a and 3b.

Table 9: Estimated Additional Travel Costs

Additional Travel Costs	2019/20		2020/21		2021/22		Total	
	Min	Max	Min	Max	Min	Max	Min	Max
Estimated number of staff required to travel further	500	1,500	500	1,500	500	1,500	500	1,500
Average additional miles per staff member	40	40	40	40	40	40	40	40
Cost per mile	£0.45	£0.45	£0.45	£0.45	£0.45	£0.45	£0.45	£0.45
Total per day	£9,000	£27,000	£9,000	£27,000	£9,000	£27,000	£9,000	£27,000
Working days in a year	225	225	225	225	225	225		
Total Cost	£2,025,000	£6,075,000	£2,025,000	£6,075,000	£2,025,000	£6,075,000	£6,075,000	£18,225,000

Councillor redundancy costs

Councillors serve a fixed term and are not entitled to any severance or redundancy payments. Any reduction to the number of Councillors due to the merger of Local Authorities would, therefore, not result in additional redundancy costs.

Estate Management Costs

The current Local Government property portfolio is vast and ranges in size and quality. Recent data taken from the Welsh Government's e-PIMs database (Electronic Property Information Mapping service) identifies Local Authorities own almost 14,000 different properties. This large portfolio includes land, offices, sports and leisure facilities, clinics, museums, car parks and schools.

Potential estate management costs include:

- New property requirements
- Remodelling and branding costs
- Rental payments, loss in rental income and lease payments

New property requirements

Flexible working arrangements and technological developments have enabled Local Authorities to take a more flexible approach to the way their employees work. This has reduced the need for numerous large offices and the requirement for all staff to travel daily to a central location. The new County Councils would need to consider working arrangements but it is not expected there should be any additional costs relating to the purchase of new properties.

It is expected the wealth of properties currently owned by Local Authorities would deliver sufficient capacity to accommodate the newly formed County Councils.

Remodelling and branding

All Local Authorities in Wales currently have an annual designated budget for branding and marketing.

Newly formed Local Authorities would need to rebrand, for example, signage, websites, correspondence, and Council Tax bills. The pace and extent of these changes would be a decision for the new County Councils and their Shadow Authorities. The approach and focus of existing branding and marketing would transition gradually from the existing Authorities to the new.

However, some one-off branding costs will be incurred as a result of merger, such as replacement signage and website redesign. It is expected Local Authorities would again look to minimise these costs through effective planning but £300,000 per new County Council has been included. This would result in estimated costs of **£2.7 million for Option 3a** and **between £2.1 million and £2.4 million for Option 3b**.

Rental payments, loss of rental income and increased lease payments

This Option should not impact on any of the above as all of the existing Authorities' assets and liabilities will transfer to the new County Councils. These Councils will then be presented with an opportunity to streamline these arrangements with a view to generating savings.

ICT Service Costs

Potential ICT costs are as follows:

- Contract termination costs
- System development costs
- ICT maintenance costs
- Staff training costs

Further work on ICT costs and benefits will be undertaken before the final Regulatory Impact Assessment is published. The estimates provided here are based on information available at the time of publication of the Draft Bill.

Contract termination costs

Local Authorities will have significant planning time and should consider the options for merging ICT systems at the earliest possible date, well in advance of 1 April 2020. ICT contracts and licenses are held on a rolling renewal basis and all are expected to be up for renewal before 1 April 2020. It is expected Local Authorities would make considered strategic decisions when renewing and negotiating new ICT contracts. Through reasonable planning in the transition and shadow periods, it is not expected Local Authorities would incur contract termination costs. Developing ICT solutions will be a key consideration for Transition Committees and Shadow Authorities.

System development costs

Over time, all newly formed Local Authorities would implement common ICT systems throughout the organisation. Although it would be possible to continue to run separate systems in the short term, it is not expected this would be a long term strategy for the new County Councils. Transition Committees and Shadow Authorities will have the opportunity to consider best practice amongst the merging Local Authorities. Whilst there is already considerable investment by the existing 22 Local Authorities in system development, it is expected merger will generate one-off integration costs. However, savings would be anticipated in the longer term (see benefits section).

The pace the newly formed Local Authorities choose to implement any new systems would be a decision for each new County Council. For the purpose of this draft RIA, it has been assumed each new County Council would consolidate systems over a 3-year period. This period would start when the Shadow Authority (2019-20) is initially formed and continue for the following two years (2020-21 and 2021-22), once the new Council has been established.

It has been estimated each new County Council may require specialised expertise to oversee the implementation of any new ICT systems. The level of support will depend on the existing systems, the requirements for the new system and the pace of change.

An estimate has been made through analysing the ICT costs associated with creating Natural Resources Wales and existing shared service models throughout the UK, along with the cost of setting up a shared service centre in SE Wales. On this basis, it has been estimated that additional costs of between £1million and £1.5million could be required per new County Council. Therefore **Option 3a** could require an additional investment of between **£9 million** and **£14 million** per year for

5 years for consultancy and programme teams to manage the implementation of new ICT systems. This would range from **£7 million** to **£12 million** for **Option 3b**.

It is expected County Councils would seek to minimise these costs. Existing Local Authorities are assumed to have sufficient ICT equipment and programmes of replacing equipment to support any new system requirements. Therefore no additional ICT equipment costs are expected.

ICT maintenance costs

No additional costs are expected for the maintenance of new ICT systems. Local Authorities currently incur maintenance costs and it is not anticipated that there would be an increased cost to Local Government directly as a result of merger and, in light of the reduction in the number of Local Authorities, savings could be generated overall.

Staff training costs

Local Authorities would need to provide appropriate training for any new ICT system. It is expected that there would be an increased requirement for ICT training in the year leading up to 1 April 2020 and for the two years following.

Local Authorities currently provide a certain level of ICT training and it is expected the new County Councils will plan well in advance for any additional training requirements resulting from mergers. However, it is recognised some additional training costs will be unavoidable. Using a consistent methodology with Option 2, it is estimated there would be an additional ICT training requirement of **between £4.0 and £4.2 million over 3 years for Option 3a** and **between £3.7 million and £4.0 million over 3 years for Option 3b**.

Change management costs

To support the process of mergers, it is expected a certain level of external consultancy would be needed. This would depend on the approach adopted by the Transition Committees, the Shadow Authorities and the new County Councils. However, as a starting point, it is estimated each merger could require a small team of consultants for the year leading up to mergers and for the 2 years following the creation of new County Councils. This amounts to 230 consultancy days for the 3 year period. This is based upon on what is considered to be a reasonable level of support and an average cost per day for this type of consultancy.

For **Option 3a**, the total change management consultancy cost is estimated to be **£1 million**. This includes £450,000 in 2019-20 and a further £550,000 in 2020-21 & 2021-22. For **Option 3b**, the total cost would be **between £800,000 and £920,000**. This includes between £350,000 and £400,000 in 2019-20 and between £455,000 and £520,000 in 2020-21 and 2021-22.

In both cases, this would be on top of any consultancy costs estimated above for the pay harmonisation process.

Council Tax

One of the core principles of local taxation is that taxpayers living within the same Local Authority area contribute equivalent amounts (relative to their circumstances) for the provision of local services in that area. Each Local Authority has democratic responsibility for deciding on the amount of Council Tax charged within its area. This means when existing Authorities are merged, each new County Council must set its own level of Council Tax. In some cases, this may require a process of harmonisation to move to the same level of Council Tax across the County Council's area. This would not necessarily need to be achieved immediately upon the creation of a new Authority. For example, a period of transition could help to promote stability in tax revenues and to ensure residents are protected from sudden changes in Council Tax liability. Conversely, early harmonisation could result in a fairer system for those taxpayers who would see a reduction in their bills.

The Welsh Government is clear the overall amount of Council Tax collected by Authorities should not need to increase as a consequence of mergers. We will expect each Transition Committee and Shadow Authority to carefully assess the particular characteristics of the new Authority, as well as consider the financial pressures on households, and use this information to inform immediate budgets and medium term plans for Council Tax. At the very least, we expect Transition Committees and Shadow Authorities to safeguard against any divergence in Council Tax levels in the period running up to mergers.

The existing finance legislation contains a broad range of powers which could be used to effect a number of policy approaches to the setting of Council Tax in the future. Any financial impact on the revenue collected locally will vary considerably according to:

- a) the specific approach taken within each Authority, including the length of the transition period;
- b) the changing financial landscape and the extent to which Authorities plan ahead effectively; and
- c) changes in each Authority's tax-base between now and the merger date.

For these reasons the draft Regulatory Impact Assessment does not, at this stage, estimate the potential impact on the Council Tax revenue stream for Local Authorities. The Welsh Government is committed to consulting fully on any proposed future approach to Council Tax when the time is right. As part of this, we will assess the impact of each option available in terms of the costs and benefits to Local Authorities but also in terms of equality and fairness for local people.

European Funding

The Commission identified alignment of Local Authority areas with the 'convergence' area for EU funding was important. The Commission identified an issue of alignment with the West Wales and the Valleys convergence area, which has links to EU funding and state aid allowances.

Option 3 should have no significant impact on the delivery and related eligibility for EU funding during the current 2014-2020 EU funding period. This funding is considered secure. The majority of regions in the West Wales and the Valleys convergence area remain in that area.

The criteria for determining EU funding eligibility post-2020 is yet to be agreed and the Welsh Government will continue to press for the best possible settlement in negotiations for any new EU programmes.

It is possible Options 3b could have some effect on the regional GDP of both East Wales (lowering) and West Wales and the Valleys (rising), but the main determinants of changes to these figures tend to be related to relative prices and the relative performance of the UK economy compared to the EU28.

Based on the information presented above, no additional costs or loss in funding has, therefore, been identified in this draft RIA.

Total Estimated Cost

Options 3a and 3b present a range of possible unavoidable additional costs associated with the merger process, along with a range of areas where costs can be avoided through medium term planning and preparing for the future. There are also a range of areas where actual costs will be determined by the decisions taken by Transition Committees, Shadow Authorities and newly formed County Councils. It is expected Local Authorities will seek to minimise these costs through effective planning.

The total estimated cost to Local Government, identified above for Option 3a, range from **£99 million to £229 million**. The corresponding Net Present Values for the estimated costs are between £86 million and £209 million.

For **Option 3b** the total estimated cost to Local Government ranges from **£97 million to £246 million**, with a Net Present Value of £85 million to £213 million. In both cases the majority of these estimated costs fall in the year leading up to 1 April 2020 and the following year.

Full details of the costs and corresponding Net Present Values can be found in the summary tables.

BENEFITS

Benefits to Welsh Government

For Options 3a and 3b these are as follows:

- Reduced complexity
- Increased resilience and reduced risk of intervention
- Greater opportunities for the devolution of functions
- Reduced administration and regulatory of activity

Reduced complexity

The Commission identified a high level of management and system complexity arising from the existence of 22 Local Authorities and their interactions with the rest of the Welsh Public Sector. The Commission argued this results in considerable senior management time being spent managing relationships and the interfaces between organisations. Reducing the number of interfaces and increasing co-terminosity would reduce this level of complexity and enable more management time to be focused on public service improvement.

Increased resilience and reduced risk of intervention

The Commission argued that creating larger Local Authorities would generate a critical mass of expertise, skills, capability and capacity which would be better placed to successfully manage the growing demographic and financial challenges identified earlier in this draft RIA. This would also decrease the likelihood of service or corporate failure and the requirement for Welsh Government intervention.

Greater opportunities for the devolution of functions

If the creation of larger County Councils realised the benefits of increased capability and capacity argued in the Commission's Report, then there is potential for more functions to be devolved from Welsh Government to the new County Councils, over and above the general power of competence (see Part 2 of the draft RIA). These could include functions already devolved to Wales or could relate to those which may be devolved in the future. This enables the governance of Wales to be grounded in the principle of subsidiarity where functions are devolved to the level of government best placed to exercise them.

Reduced administration and regulatory activity

Fewer Local Authorities would reduce the amount of administration and regulatory activity undertaken by the Welsh Government. It is not possible to estimate the potential savings due to his change but there are benefits. For example, tasks currently undertaken by the Welsh Government 22 times in relation to each Local

Authority would now be required 12 times under Option 3a and 8 or 9 times under Option 3b. These tasks include managing Local Authority grants, producing Local Authority statistics, analysing Local Government accounts, the regulatory activities of Estyn and the Care and Social Services Inspectorate for Wales, as well as those of the Wales Audit Office.

Benefits to Public Services

Reduced complexity

The Commission identified that it would not only be Local Authorities which would benefit from reduced complexity through merger but also their public service partners. Joint working could be streamlined resulting in faster decision-making and better services for the public.

Leadership

The existence of a large number of small organisations increases competition to secure the best leaders, managers and professionals, and overall it means talent within the Welsh Public Services is spread thinly.

It is also possible that larger organisations would offer more attractive career prospects for leaders, managers and professionals compared to smaller ones. This would promote the development of stronger leadership in Local Government.

For example, in smaller organisations it is less likely professionals will be able to develop specialised skills. Fewer, larger Local Authorities would allow a level of specialisation which may not currently be possible.

Benefits to Local Government

Potential benefits are as follows:

- Shadow Authority benefits
- Capacity and capability benefits
- Staff benefits
- Estates management benefits
- ICT service benefits
- Economies of scale in service delivery
- Greater financial resilience

Shadow Authorities

The process of establishing Shadow Authorities (building on the work of Transition Committees) would allow for important strategic decisions to be taken in advance of 1 April 2020, enabling the new Authority to function effectively from its first day. These key decisions include appointment of senior staff, agreeing initial service

delivery plans and, setting the first year's budget and Council Tax. In previous reorganisations in Wales, the Shadow Authority has been elected in the year before the date on which the new Authority has assumed the full range of functions.

There are no quantifiable financial benefits directly associated with creating Shadow Authorities, but they are considered an essential element in ensuring the process of merger is implemented as smoothly as possible, with the costs to the public purse minimised and with full democratic accountability.

Capacity and capability benefits

The Commission identified a number of risks associated with smaller organisations, these included:

- Lack of both depth of strategic and delivery capacity
- Struggle to attract and retain high calibre leaders and professionals
- Incurring high corporate overheads and unit costs

One of the major benefits associated with creating fewer, larger, more robust Local Authorities would be to address these risks.

Senior management

There are currently a variety of senior management structures across Local Authorities. All existing Local Authorities have a CEO (or equivalent) and a team of senior officers. However, the make-up of these senior management teams vary. Information collated and analysed from published Local Authority Statements of Accounts (2014-15) shows senior management costs, including the cost of CEOs, which equate to just under £24 million per year.

Based on existing senior management structures, we have assumed each new Local Authority would require a CEO with between 8 and 15 other senior officers. Option 3a would reduce the total number of senior managers to between 96 and 180, therefore reducing the total number of senior officers by between 9 and 93. Option 3b would reduce the total number of senior managers to between 64 and 135, therefore reducing the total number of senior officers by between 54 and 125.

The average cost for an existing CEO is currently £154,000 per year and the median cost for a senior official is £100,000 per year.

Based on these figures, along with the assumption that a senior management team would range from 8 to 15 senior managers plus a CEO (and there may be arguments for smaller senior teams), the cost of senior officer is estimated to be between £11.4 million and £19.8 million per year a reduction from between **£4.1 million and £12.5 million per year for Option 3a.**

Table 10: Option 3a - Estimated Senior Management Savings

Management structure per LA	Total cost per LA	Number of LAs	Estimated total cost	£ per year
				Estimated savings
1 CEO + 8 Senior Managers	£954,000	12	£11,448,000	£12,536,000
1 CEO + 15 Senior Managers	£1,654,000	12	£19,848,000	£4,136,000

It has been estimated that through reducing the number of Local Authorities to 8 or 9, **Option 3b**, the cost of senior management in Local Government could be reduced from between **£9.1 million and £16.4 million per year**.

Table 11: Option 3b - Estimated Senior Management Savings

Management Structure per LA	Total cost per LA	Number of LAs	Total Cost	£ per year
				Estimated savings
1 CEO + 8 Senior Managers	£954,000	8	£7,632,000	£16,352,000
1 CEO + 15 Senior Managers	£1,654,000	9	£14,886,000	£9,098,000

Reducing the number of administrative posts

Reducing the overall number of administrative posts was discussed in the costs section of this draft RIA. A recent report by KPMG, *Welsh Local Authorities: Administrative Cost Review*, identified a range of potential annual savings through changing the way Local Authorities in Wales currently manage their administrative functions. The savings identified in the report would not be directly attributable to merger. However, it is expected merger would present further opportunities for streamlining administrative systems.

It is not possible to assume how Local Authorities would manage their administrative functions locally but there would be a level of duplication of some existing roles that would no longer be required following merger.

In this draft RIA, it has been estimated the number of posts required to undertake administrative functions could be reduced by between 10 per cent and 15 per cent for Option 3a and between 15 per cent and 20 per cent for Option 3b as part of merger not requiring the duplication of some functions 22 times. This could result in savings of between **£29.9 million and £44.9 million per year for Option 3a**. Over a 10-year period this would amount savings of between **£299 million and £449 million**. For **Option 3b** savings of between **£44.9 million and £59.8 million per year** could be achieved amounting to between **£449 million and £598 million over 10 years**.

Service delivery staff savings

Options 3a and 3b would provide opportunities to share and implement best practice across a larger geographical area, achieve economies of scale and implement new, more efficient ways of working. However, it has not been assumed that reducing the number of Local Authorities would directly reduce the number of service delivery staff. The overall need for senior managers and Councillors would be reduced, but this is not necessarily the case for officers delivering local services.

The merged Authorities would need to consider how to deliver their services and, in particular, how to transition to more efficient alternative delivery models and maximise the use of digital channels. These are decisions for the Shadow Authorities and the new County Councils.

Pension benefits

The merger of Local Authorities would create an opportunity to consider the recommendations set out in the WAO's pension report on Local Government Pension Scheme Funds in Wales. It is possible for the 8 existing Local Government Pension funds to continue to exist (with any necessary legislative modifications) without any negative or positive impact on the new County Councils. The existing Local Government Pension funds predate the creation of the 22 Local Authorities and continued (from the old County based pension funds) without the need for reform as a result of the much more complex restructuring in 1996.

However, mergers could provide a unique opportunity to consider implementing changes to achieve a more efficient and effective approach to managing pensions. The WAO report identified possible efficiencies in the region of £50 million per year; this is not a benefit directly related to Options 3a or 3b, but it could provide an opportunity to seek to achieve these efficiencies.

Policy on the Local Government Pension Scheme is non-devolved. Any changes would be beyond the scope of this draft RIA and should be addressed through a separate process. Therefore no direct benefits associated with reducing the number of Local Authorities have been included.

Reducing the number of Councillors

There are currently 1,253 County Councillors in Wales. The basic remuneration per Councillor is £13,300 per year. This amount increases depending on the Councillor's specific role. The average total cost of a Councillor in Wales is just over £17,000 per year. This average is calculated through taking the total cost of Councillors in Wales, including the cost of senior salaries and expenses, and

dividing it by the number of Councillors. The total cost of all Councillors in Wales was just over £21 million in 2013-14.

Option 3a would reduce the number of Councillors from 1,253 to somewhere between 700 and 900. It is not expected reducing the number of Councillors will result in a proportionate reduction in the total cost because the new Council areas will be larger than their predecessors and Councils will still require a similar senior structure, i.e. a Leader, Cabinet, Committee Chairs etc. Taking account of these factors it is estimated annual savings of between **£6.0 million** and **£9.5 million** should be achieved through both Options 3a and 3b.

Estate management benefits

Option 3 provides a range of opportunities for Local Authorities to reconsider their approach to estate management. These could result in several potential benefits:

- Asset sales
- Increased rental income
- Consolidated office space

Asset sales

Options 3a and 3b would combine merging Local Authorities' property portfolios, creating a wide range of new opportunities to re-evaluate estate requirements and seek efficiencies and savings wherever possible.

Local Authorities identified over £15 billion of property, plant and equipment in their 2014-15 accounts. Around £10 billion of this was classified as Dwellings and Buildings. This would be an area where merged Local Authorities should look to rationalise their estate and seek to find efficiencies. Local Authorities also identify assets held for sale and surplus assets in their accounts, for example, almost **£77 million** of property was classified as "held for sale" in their 2014-15 Statements of Accounts (by example e-PIMS currently hosts almost 200 separate assets as available). Property classified as being "held for sale" represents buildings and facilities which have been considered surplus to requirements and the value of this property has been estimated based at current market values. It is expected that as part of the merger process Local Authorities would press to strategically consolidate their property portfolio and realise capital gains through disposing of surplus assets.

Revenue generated through the disposal of property classified under "held for sale" has not been quantified as a benefit here as it is expected any revenue would be realised with or without mergers. However, the merger process is expected to act as a catalyst for this process and should provide an opportunity for the newly formed Local Authorities to seek to reduce and consolidate their overall portfolio.

Alongside assets held for sale, Local Authorities also identify over **£150 million** of surplus assets. These are assets assumed to not currently be in use, but are not investment properties nor do they fulfil the criteria of being assets held for sale.

Through the creation of fewer, larger Local Authorities there would be opportunity to reduce the level of assets, over and above those already identified as surplus, and to realise capital gains through the sale of these assets.

It is reasonable to expect a large proportion of the current value of assets surplus to requirements could be realised at the earliest point possible.

Councils in England identified the rationalisation of estates as a major benefit associated with combining Authorities, noting it allowed them to significantly rationalise their overall estate portfolio and re-invest capital into other areas¹⁷. The new County Councils will inherit over £150 million of assets currently categorised as surplus to requirements and should be able to identify more.

Increased rental income

The new County Councils should consider their strategic approach to generating revenue through their existing property portfolios, making maximum use of the general power of competence (see Part 2 of the draft RIA). It is expected there would be a range of opportunities to increase revenue income through a more coordinated, larger scale approach. Any level of additional revenue cannot be assumed here as it will depend on the new County Councils' chosen approach, therefore, no figure has been provided in this draft RIA.

Consolidated office space

Local Authorities have numerous offices throughout Wales. The Electronic Property Information Mapping Service (e-PIMS) indicates there are almost 500 office holdings, totalling over 650,000 square meters. These include a diverse portfolio ranging from very small offices all the way up to the main Civic Headquarters. The utilisation of this space varies between Local Authorities. Some offices are currently being used to their full capacity, whilst others are not.

It is for the new County Councils to decide how to manage their estates going forward. However, merger presents the opportunity for the new County Councils to consolidate their existing office space. Initiatives such as flexible and agile working and advances in ICT for home working have seen a great deal of progress by Authorities when seeking to reduce the amount of administrative space required.

It is, therefore, considered reasonable that Local Authorities should seek to increase the average utilisation percentage across their portfolio and optimise the use of technology to reduce the overall size of the Local Authority estate. This draft RIA

¹⁷ <http://gov.wales/docs/dsjlg/publications/localgov/151118-costs-and-benefits-en.pdf>

identified a possible reduction to the number of administration posts required by Local Authorities. This should lead to a reduction in office requirements. It has been estimated there would be a directly related reduction in premises related expenditure of between **£2.9 million** and **£4.4 million** per year for **Option 3a** and between **£4.4 million** and **£5.9 million** per year for **Option 3b**. An estimate of how much it costs to provide a full time member of staff with accommodation has been used.

This range only represents one area of where savings and reduced requirements could be identified. For example, further savings would also be expected due to the reduction in senior posts and Councillors. The above range should be considered the minimum level of possible savings.

ICT service benefits

There would be opportunities for the new County Councils to rationalise their existing systems, implement more efficient ways of working and achieve savings through fewer, larger contracts and reduced hardware costs. This would provide the opportunity to consider efficiencies and savings associated with fewer separate contracts with different providers, implementing a consistent approach across a larger organisation with the aim of achieving increased functionality and more cost effective ICT systems.

Merger would provide an opportunity to identify high performing existing ICT systems, roll them out on a larger scale, sharing best practice and efficiencies with other merging Authorities. The opportunity to select the best performing systems within each new County Council is a benefit and should result in financial efficiencies along with increased performance.

There will be a wide range of new ICT opportunities available and it will be for new County Council to ensure it achieves a solution that delivers the best value for money.

There would, of course, also be an opportunity to implement, as part of a mergers option, a shared administration services approach, as identified under Option 2 above, for the benefit of the merging Authorities. This could deliver significant further benefits to the new County Councils.

Other Local Government Benefits

Increased financial resilience and treasury management

The creation of merged authorities with bigger budgets, larger asset portfolios, more diverse tax-bases, greater leverage and purchasing power and so forth should render them more resilient to fluctuations in economic and social conditions and increase their capacity to engage in more strategic investment and financial management opportunities.

For example, the Council Tax tax-base (i.e. the mix of properties and the proportion in each Council Tax band) is not distributed evenly between the existing 22 Local Authorities. Mergers would reduce the current levels of disparity and create authorities with more evenly balanced tax-bases.

The existing 22 Local Authorities all undertake treasury management activities to ensure that where they have short or long term cash surpluses, the income from these surpluses is maximised. Merger would result in a greater critical mass and, therefore, more purchasing power on the investment market. It would also reduce the need for 22 separate contracts with treasury management advisors.

Other Local Government benefits

Evidence from English Local Authorities who have recently been through mergers or similar processes suggests they achieved wider benefits than those identified ahead of mergers. For example, through an outcome focused approach, with 5-year financial plans and reducing duplication of tasks, West Cheshire has managed to address the steep reductions in funding it has faced over recent years and is in a positive place to manage further reductions going forward¹⁷.

Recently merged Authorities in England have also indicated they have exceeded the levels of savings initially identified, with one Authority stating that after 3 years, in some areas they had achieved savings as high as 20 – 25 per cent of overall spend¹⁸. They also record that payback has been achieved in about two years and the scale of savings delivered has been greater than planned¹⁷.

Additional savings have been delivered in different areas to those initially expected, with rationalisation and disposal of surplus assets to fund new infrastructure and investment projects one of the key areas.

As a result of change, English Authorities have been able to more effectively manage demand, deliver services in optimal ways and share best practice. With the benefit of hindsight, English Authorities indicated that the Local Government reorganisation process they went through was easier than expected and more savings were achieved than anticipated.

OPTION 3: SUMMARY OF BENEFITS

Options 3a and 3b present a wide range of opportunities, a proportion of these are not quantifiable but should not be ignored. Some of the key benefits include:

- Increased financial resilience and treasury management
- Reduced complexity
- Service delivery staff savings
- Estate management benefits

¹⁸ <http://gov.wales/docs/dsjlg/publications/localgov/151118-costs-and-benefits-en.pdf>

For **Option 3a**, alongside the non-quantifiable benefits, an estimated range of **between £43 million and £71 million savings per year** have been identified, along potential capital receipts through estate rationalisation. The total estimated savings between 2020-21 and 2029-30 are **between £430 million and £713 million**, with a Net Present Value of between £323 million and £535 million.

For Option 3b, alongside the non-quantifiable benefits, an estimated range of **between £64 million and £92 million savings per year** has also been identified. The total estimated savings between 2020-21 and 2029-30 are between **£644 million and £915 million**, with a Net Present Value range of between £483 million and £687 million.

These figures should be considered the minimal level of benefits achievable, with new County Councils being presented with a wide range of opportunities through which they should seek to achieve further benefits.

OPTION 3A: SUMMARY TABLES

Table 12: Option 3a Savings Summary

	£,000											
	2020/21		2021/22		2022/23		2023/24 to 2029/30		Total		NPV	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
<u>Local Government Savings</u>												
<u>Staff Savings</u>												
Reduction in Chief Executives and senior posts	£4,136	£12,536	£4,136	£12,536	£4,136	£12,536	£28,952	£87,752	£41,360	£125,360	£31,025	£94,034
Reduction in administration posts	£29,920	£44,880	£29,920	£44,880	£29,920	£44,880	£209,440	£314,160	£299,200	£448,800	£224,433	£336,649
Reduction in Councillors	£6,040	£9,463	£6,040	£9,463	£6,040	£9,463	£42,282	£66,238	£60,403	£94,625	£45,309	£70,979
<u>Estate Management</u>												
Reduction in running costs	£2,935	£4,402	£2,935	£4,402	£2,935	£4,402	£20,544	£30,815	£29,348	£44,022	£22,014	£33,021
Total Savings to Local Government	£43,031	£71,281	£43,031	£71,281	£43,031	£71,281	£301,218	£498,965	£430,311	£712,807	£322,781	£534,684

Table 13: Option 3a Costs Summary

	£,000																				
	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		Total		NPV		
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	
Welsh Government Costs																					
Welsh Government Support Team	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	-	-	-	-	-	-	-	-	-	£7,859	£7,859	£7,469	£7,469
Total Cost to Welsh Government	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	-	-	-	-	-	-	-	-	-	£7,859	£7,859	£7,469	£7,469
Local Government Costs																					
<u>Staff Costs</u>																					
Shadow Authority	-	-	-	-	-	-	£16,316	£21,857	£1,314	£1,440	-	-	-	-	-	-	-	£17,630	£23,297	£15,862	£20,968
Redundancy and Early Retirement (Senior Staff and CEOs)	-	-	-	-	-	-	£3,568	£10,042	-	-	-	-	-	-	-	-	-	£3,568	£10,042	£3,218	£9,057
Redundancy and Early Retirement (Administration Posts)	-	-	-	-	-	-	£14,349	£29,992	-	-	-	-	-	-	-	-	-	£14,349	£29,992	£12,942	£27,051
Pay Harmonisation	-	-	-	-	-	-	£2,250	£2,250	£2,250	£29,250	-	£27,000	-	£27,000	-	-	-	£4,500	£85,500	£3,990	£72,217
Additional travel	-	-	-	-	-	-	£2,025	£6,075	£2,025	£6,075	£2,025	£6,075	-	-	-	-	-	£6,075	£18,225	£5,296	£15,888
<u>IT Services</u>																					
System Development	-	-	-	-	-	-	£9,000	£13,500	£9,000	£13,500	£9,000	£13,500	£9,000	£13,500	£9,000	£13,500	-	£45,000	£67,500	£30,860	£46,290
Additional IT Training	-	-	-	-	-	-	£1,325	£1,403	£1,325	£1,403	£1,325	£1,403	-	-	-	-	-	£3,974	£4,208	£3,464	£3,668
<u>Other Costs</u>																					
Remodelling and Branding	-	-	-	-	-	-	£2,700	£2,700	-	-	-	-	-	-	-	-	-	£2,700	£2,700	£2,435	£2,435
Change Management	-	-	-	-	-	-	£450	£450	£360	£360	£225	£225	-	-	-	-	-	£1,035	£1,035	£909	£909
Total Cost to Local Government	-	-	-	-	-	-	£51,983	£88,269	£16,274	£52,027	£12,575	£48,203	£9,000	£40,500	£9,000	£13,500	£98,831	£228,998	£86,050	£209,095	
Total Cost	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£53,947	£90,233	£16,274	£52,027	£12,575	£48,203	£9,000	£40,500	£9,000	£13,500	£106,690	£250,357	£93,519	£216,564	

OPTION 3B: SUMMARY TABLES

Table 14: Option 3b - Summary of estimated savings

	<i>£,000</i>											
	2020/21		2021/22		2022/23		2023/24 to 2029/30		Total		NPV	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
<u>Local Government Savings</u>												
<u>Staff Savings</u>												
Reduction in Chief Executives and senior posts	£9,098	£16,352	£9,098	£16,352	£9,098	£16,352	£63,686	£114,464	£90,980	£163,520	£68,245	£122,658
Reduction in administration posts	£44,880	£59,840	£44,880	£59,840	£44,880	£59,840	£314,160	£418,880	£448,800	£598,400	£336,649	£448,866
Reduction in Councillors	£6,040	£9,463	£6,040	£9,463	£6,040	£9,463	£42,282	£66,238	£60,403	£94,625	£45,309	£70,979
<u>Estate Management</u>												
Reduction in running costs	£4,402	£5,870	£4,402	£5,870	£4,402	£5,870	£30,815	£41,087	£44,022	£58,696	£33,021	£44,029
Total Savings to Local Government	£64,421	£91,524	£64,421	£91,524	£64,421	£91,524	£450,944	£640,669	£644,205	£915,241	£483,225	£686,532

Table 15: Option 3b - Summary of estimated costs

	<i>£,000</i>																				
	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		Total		NPV		
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	
Welsh Government Costs																					
Welsh Government Support Team	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	-	-	-	-	-	-	-	-	-	£7,859	£7,859	£7,469	£7,469
Total Cost to Welsh Government	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	-	-	-	-	-	-	-	-	-	£7,859	£7,859	£7,469	£7,469
Local Government Costs																					
<u>Staff Costs</u>																					
Shadow Authority	-	-	-	-	-	-	£16,743	£22,436	£438	£480	-	-	-	-	-	-	-	£17,181	£22,916	£15,483	£20,654
Redundancy and Early Retirement (Senior Staff and CEOs)	-	-	-	-	-	-	£6,633	£12,392	-	-	-	-	-	-	-	-	-	£6,633	£12,392	£5,983	£11,177
Redundancy and Early Retirement (Administration Posts)	-	-	-	-	-	-	£21,523	£39,989	-	-	-	-	-	-	-	-	-	£21,523	£39,989	£19,413	£36,068
Pay Harmonisation	-	-	-	-	-	-	£1,750	£2,000	£1,750	£29,000	-	£27,000	-	£27,000	-	-	-	£3,500	£85,000	£3,103	£71,774
Additional travel	-	-	-	-	-	-	£2,025	£6,075	£2,025	£6,075	£2,025	£6,075	-	-	-	-	-	£6,075	£18,225	£5,296	£15,888
<u>IT Services</u>																					
System Development	-	-	-	-	-	-	£7,000	£12,000	£7,000	£12,000	£7,000	£12,000	£7,000	£12,000	£7,000	£12,000	-	£35,000	£60,000	£29,504	£50,578
Additional IT Training	-	-	-	-	-	-	£1,247	£1,325	£1,247	£1,325	£1,247	£1,325	-	-	-	-	-	£3,740	£3,974	£3,261	£3,464
<u>Other Costs</u>																					
Remodelling and Branding	-	-	-	-	-	-	£2,100	£2,400	-	-	-	-	-	-	-	-	-	£2,100	£2,400	£1,894	£2,165
Change Management	-	-	-	-	-	-	£350	£400	£280	£320	£175	£200	-	-	-	-	-	£805	£920	£707	£808
Total Cost to Local Government	-	-	-	-	-	-	£59,371	£99,017	£12,740	£49,200	£10,447	£46,600	£7,000	£39,000	£7,000	£12,000	£96,558	£245,816	£84,644	£212,576	
Total Cost	£1,965	£1,965	£1,965	£1,965	£1,965	£1,965	£61,336	£100,982	£12,740	£49,200	£10,447	£46,600	£7,000	£39,000	£7,000	£12,000	£104,416	£253,675	£92,113	£220,046	

Specific Impact Assessments

A series of specific impact assessments have been completed as part of the draft Regulatory Impact Assessment.

Welsh Language

See Welsh Language Impact Assessment

The Welsh Government's Welsh Language Scheme requires that an assessment of the impacts of proposed primary legislation on the Welsh Language be carried out.

Equality

See Equality Impact Assessment (EIA)

Children's Rights

See Children's Rights Impact Assessment (CRIA)

Preferred Option

Doing nothing is not the preferred option because it does not address the recommendations set out by the Commission on Public Service Governance and Delivery. Doing nothing would miss the opportunity to achieve substantial savings, both quantifiable and non-financial, vital to ensuring Local Authorities remain in a position to continue to provide and improve a wide range of valued local services. It misses the opportunity for transformational change which would place Local Authorities at the heart of their communities, playing a vital role in the governance of Wales under a new devolution settlement.

This option carries significant risks in terms of service and organisational failure. Missing the opportunity to achieve over £500 million in net savings over the next 10 years, against a backdrop of continued austerity, is not an option that should be pursued further.

Option 2 is also not the preferred option. Although a Shared Administrative Service would go some way to achieving a range of financial efficiencies, it fails to address the leadership, complexity and service delivery issues facing Local Authorities and their public service partners in Wales. Option 2 would require a considerable amount of collaboration throughout Wales, there are no guarantees that this would be achieved.

Option 3a and 3b would both positively address the recommendations made by the Commission on Public Service Governance and Delivery. Option 3b has been selected as the preferred option as it best addresses the recommendation from the Commission to reduce complexity in Local Government and across the public service as a whole. It also provides the new County Councils with the critical mass and strategic resilience to be able to meet increased service demands, in an environment of increasing economic pressures. The risks of loss of democratic accountability and community links are mitigated by the reforms considered in Part 2 of this RIA.

The remaining policy proposals in this Regulatory Impact Assessment will therefore be considered in the context of this preferred option and all policy considerations will be analysed in an environment where there are 8 or 9 Local Authorities.

This is because the reforms set out in Part 2 of this draft RIA are predicated on the creation of new County Councils. As the Commission indicated, structural and constitutional reform are both needed, implementing one without the other will not be sufficient to enable Local Government to meet the challenges set out in this draft RIA. Some of these proposals, such as community area committees have been specifically designed to address the Commission's concerns about larger Authority's being too distant from the population they serve.

The preferred Option is to see both structural and constitutional change implemented to provide Local Authorities with the best possible framework to be effective in both their community leadership and service delivery roles. Incremental change will not be sufficient to address the systemic, financial, demographic, leadership and performance challenges they will face in the future. Transformational change on an unprecedented scale is the only Option which provides the opportunity to address these challenges.

List of Tables

Chart 1: Aging Population and Funding Change, 2011 to 2025	6
Chart 2: Total Welsh Local Authorities AEF Central Government Support, in Cash Terms.....	8
Chart 3: Total Welsh Local Authorities AEF Central Government Support, at 2015-16 Prices	8
Chart 4: UK Government Spending on Public Services	9
Chart 5: Future Local Authorities' AEF Funding Scenarios	10
Table 1: Shared Administrative Service Option – Costs Summary.....	31
Table 2: Shared Administrative Service Option – Savings Summary	31
Table 3: Mergers - Option 3a	33
Table 4: 8 Local Authorities	34
Table 5: 9 Local Authorities	35
Table 6: Welsh Government Support Staff Costs	37
Table 7: Option 3a - Estimated Cost of Shadow Authorities.....	43
Table 8: Option 3b - Estimated Cost of Shadow Authorities.....	43
Table 9: Estimated Additional Travel Costs.....	50
Table 10: Option 3a - Estimated Senior Management Savings.....	59
Table 11: Option 3b - Estimated Senior Management Savings.....	59
Table 12: Option 3a Savings Summary	66
Table 13: Option 3a Costs Summary	67
Table 14: Option 3b - Summary of estimated savings	68
Table 15: Option 3b - Summary of estimated costs	69