



Local Government Association

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

January 2013

Ernst & Young LLP

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This report is proprietary to Ernst & Young. In carrying out Ernst & Young's work and preparing Ernst & Young's report, we have worked solely on the instructions of the Local Government Association and for the Local Government Association's purposes.

We have completed our engagement to review the potential for the aggregation of Whole Place Community Budgets. Our engagement was performed in accordance with our engagement agreement dated 1 August 2012, and our procedures were limited to those described in that agreement.

During the period 1 August 2012 to 10 January 2013, Ernst & Young's carried out work to review the potential for the aggregation of Whole Place Community Budgets. The report resulting from our work is provided.

The scope of the work performed includes the financial analysis and modeling of the short, medium and long-term cashable benefits deriving from Whole Place Community Budgets.

As outlined in our engagement agreement to you, our review of the potential for aggregation of Whole Place Community Budgets is based on inquiries of, and discussions with yourselves and the Community Budgets pilots. We have not sought to confirm the accuracy of the data or the information and explanations provided by the pilots.

Our work has been limited in scope and time and we stress that more detailed procedures may reveal issues that this engagement has not. The procedures summarised in our report do not constitute an audit, a review or other form of assurance in accordance with generally accepted auditing, review or other assurance standards, and accordingly does not express any form of assurance.

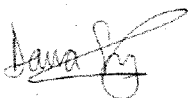
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Ernst & Young's report may not have considered issues relevant to any third parties, any use such third parties may choose to make of Ernst & Young's report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use.

The information in this report will have been supplemented by matters arising from any oral presentation by us, and should be considered in the light of this additional information.

Our review of the potential for the aggregation of Whole Place Community Budgets is intended solely for the information and use of the Local Government Association and is not intended to be and should not be used by anyone other than the Local Government Association.

We appreciate the cooperation and assistance provided to us during the course of our work.

A handwritten signature in dark ink, appearing to read 'Darra Singh'.

Darra Singh, Ernst & Young

1. Executive summary

1.1 Headline findings

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

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

Theme	Net Annual Benefit ¹ (£bn)	Annual Addressable Spend 2011-12 ² (£bn)	Addressable Spend (%)	5 Year Net Benefit ³ (£bn)
Health and Social Care	2.8-5.0	56.7	5%-9%	5.8-12.0
Families with Complex Needs	0.4-1.2	9.0	4%-13%	0.5-2.7
Work and Skills	1.0-1.7	41.4	2%-4%	3.1-5.9
Total⁴	4.2-7.9	107.1	4%-8%	9.4-20.6

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

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

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

It will not be easy to realise savings to the extent and scale that has been demonstrated through the results of aggregation. Not all places will be capable of achieving and delivering savings by releasing money out of the system through Community Budgets.

¹ The net annual benefit represents the full potential when the programme is up and running and delivering benefit.

² The scope of the review was to conduct an aggregation exercise built up from basic details. The purpose for the inclusion of annual addressable spend is to illustrate the potential for aggregation as a proportion.

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

⁴ It has been necessary to round figures where these have been included in the report. Therefore any perceived summation errors are the impact of rounding. The stated totals are accurately represented.

Later in the report we have set out local factors and national pre-conditions that will be required to implement the principles of Community Budgets. Some localities will be unable to deliver against the outcomes and any new delivery and investment models will need to account for regional variation.

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

1.2 How better outcomes can be achieved

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

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

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

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

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

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

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

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

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

1.3 Local factors

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

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

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

- ▶ Data and information;
 - ▶ Willingness to share data and information across organisational boundaries;
- ▶ Financial context;
 - ▶ Totality of spending cuts that have and are still to be applied now and in the future;

1.4 National pre-conditions

If Community Budgets are to be successful and be a significant part of genuine Public Service Reform then the joined up approaches set out in the pilot site business cases will need buy-in from Whitehall departments.

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

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

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

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

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

1.5 Next steps for Community Budgets

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

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

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

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

