

# Local Government Reform in Warwickshire

A Strategic Case for Change - August 2020

Underpinning Financial Assumptions



# Purpose of this document

This document underpins the financial tables provided within the Strategic Case for Change, summarising the rationale for the proposed gross annual benefits and one-off costs provided within the case.

The following pages include information on the benefits and costs associated with the 'Reorganisation', 'Base Transformation' and 'Stretch Transformation' cases, and provide information pertaining to a move to both one and two unitary authorities in Warwickshire.

**Reorganisation** – This model represents the basic integration of existing organisations to remove duplication and wasted costs, without making any major changes to delivery models and ways of working.

**Base Transformation** – Builds on the basic reorganisation through making reasonable transformational changes to delivery models and the ways in which services operate, looking to redesign services, take advantage of new technology, etc.

**Stretch Transformation** – Goes further still and requires more radical changes to be driven hard around transforming delivery models and the way in which services operate, moving towards best in class levels.

Overall forecast financial benefits and cost levels are informed by assumptions drawn from insights of other similar organisations transformations gathered by PwC.

This document represents the assumptions underpinning a high level strategic financial assessment of the case for change and does not constitute a detailed business case level analysis at this stage for unitarisation.

This document has been prepared by external strategic and finance experts in local public services from PwC, based upon their experience and research into Warwickshire's financial context and other two-tier councils which have undergone transition to Unitary Council models.

# 1

## Benefits of Reorganisation



## Determining potential benefits/savings

There are a number of key areas where unitarisation results in savings:

- Staffing (rationalisation of staff numbers)
- Third Party Spend (reduction in spend with suppliers)
- Property/Estates (reduction in number and therefore cost of buildings)
- Member allowances (reduction in overall number of Council Members across Warwickshire)
- Election Savings (reduction in quantity of elections)

The estimated gross annual savings associated with unitarisation across the above areas are as follows:

Savings Area	Key savings (£'000)	
	1UA	2UA
Staffing	8,399	5,250
Third Party Spend	10,857	5,527
Property/Estates	1,508	1,292
Member Allowances	993	569
Election Savings	303	303
<b>Total included within Strategic Case for Change</b>	<b>22,060</b>	<b>12,941</b>

Further details of the assumptions underpinning the above savings opportunities are provided on the following pages.

Whilst not quantified in the strategic case for change there will also be one-off financial benefits available through the consolidation of balance sheets and a risk-based review of reserves should release a level of one-off resource that will help off-set a proportion of the initial transition costs. This benefit would be of greater financial magnitude in the case of a single unitary as opposed to a two unitary model.

# Calculating the Benefits of Reorganisation

A key area of potential saving is staffing. These savings relate to efficiencies resulting from the removal of any task duplication between Districts/Borough and County Councils, as well as implementing process standardisation.

## Savings Methodology

1. Staffing baseline assumptions are based on publicly available District and Borough Council staffing data and actual Warwickshire County Council staff numbers and average salaries.
2. Percentage reductions outlined below have been applied to the total current number of full time equivalent (FTE) staff. These reductions would be the result of efficiencies from **removing duplicated activity and introducing a single, streamlined management structure** across District/Borough/County Councils. Using a Warwickshire based average staffing cost, the financial benefits of this change have been calculated. Further reductions have been applied in the 'transformation' case, with a breakdown across customer contact, service delivery and support staff.
3. Assumptions are drawn from external professional insight from similar local government reorganisation and transformation.

## Assumptions applied

Area	Key figures	
	1UA	2UA
<b>Total current staffing costs</b>	Baseline staffing figure confirmed through Warwickshire County Council data request and publicly available District/Borough staffing data, with 3,306 Warwickshire County Council FTE and 2,019 District/Borough Council FTE.  Therefore total baseline FTE figure of <b>5,325</b> .  Average staff costs per FTE (£39,434 including on-costs) used to determine savings potential.	
<b>Reduction in FTE</b>	4%	2.5%
<b>Rationale for differences between savings for one and two unitary authorities</b>	A lower level of savings is forecast if the two unitary authority option is chosen, as there would be reduced opportunities to achieve efficiencies through consolidation of staff and management activity, and additional staff would be required in disaggregated County services (e.g. Adult Social Care, Children's Services, Education, Highways).	
<b>Total gross saving (£'000)</b>	<b>8,399</b>	<b>5,250</b>

# Calculating the Benefits of Reorganisation

A key area of identified savings is third party spend. These savings relate to using purchasing economies of scale across Warwickshire to reduce costs paid to suppliers, and utilising standardised approaches to purchasing.

## Savings Methodology

1. The addressable third party spend within the District/Borough and County Councils has been calculated using proportioned net expenditure for District/Borough Councils and actual Warwickshire County Council expenditure figures (where available) to provide a baseline. *Third party spend relating to property has been excluded.*
2. A percentage reduction in third party spend has then been applied to reflect the **greater purchasing economies of scale** that will be gained through unitarisation. The assumptions are drawn from external professional insight of similar transformations.
3. These percentage reductions are higher for a single unitary authority and are revised down for a two unitary authority model to reflect forgone economies of scale.

## Assumptions applied

Area	Key figures	
	1UA	2UA
<b>Expenditure with third parties</b>	Baseline Warwickshire County Council actual spend - <b>£436,059,000</b> (2018 - 2019)  Assumption that around 60% of total spend is third party spend for District/Borough Councils except North Warwickshire, and around 50% of total spend is Third Party Spend for North Warwickshire (which has a larger percentage of in-house services). This is based on external professional insight from other authorities.  Total in-scope spend within the District and Borough Councils is estimated at £177,821,000 (based upon 18-19 Revenue Outturn data - District and Borough Council submissions to central government).	
<b>Proportion of third party spend which is addressable</b>	Baseline Warwickshire County Council actual addressable Third Party Spend figure of <b>£332,371,000 (including property costs)</b> .  Typical addressable spend figures within other local authorities are around 70-75% of third party spend. This suggests District/Borough addressable spend total of <b>£73,178,000</b> including property costs.	
<b>Baseline total addressable third party spend</b>	<b>£394,783,000</b>  Excluding property costs (£10,768,054) and identifiable schools and fire and rescue service expenditure.	
<b>Reduction in baseline total addressable third party spend</b>	2.8%	1.4%
<b>Rationale for differences between savings for one and two unitary authorities</b>	A lower level of savings is forecast if the two unitary authority option is chosen, as there would be reduced opportunities to achieve efficiencies through consolidation of contracts, and each new unitary may need to negotiate new contracts for disaggregated County Council services (which may offer less favourable terms).	
<b>Total gross saving (£'000)</b>	<b>10,857</b>	<b>5,527</b>

# Calculating the Benefits of Reorganisation

A unitary model will offer opportunities to consolidate a range of properties in different locations across the County, which would release savings. Detailed work will ultimately be needed to establish the appropriate property balance in different localities across Warwickshire so a prudent approach has been taken at this stage, as displayed below.

## Savings Methodology

1. The combined expenditure on property was calculated using total expenditure figures for the District and Borough Councils and actual figures for Warwickshire County Council.
2. This is spend relating to consolidating **ongoing running costs of office spaces** such as those used in energy, cleaning and routine repairs, rather than from the one-off sale of rationalised Council office space. In addition, any benefits resulting from the rental of available office space has been excluded.
3. A percentage reduction has then been applied to the property baseline to provide the estimated property benefit. The assumed reductions are drawn from external professional experience of similar transformations.

## Assumptions applied

Area	Key figures	
	1UA	2UA
Baseline total annual property spend - Warwickshire County Council	Taken from baseline Warwickshire County Council property spend data - £7,212,000	
Baseline District/Borough annual property spend	Assumed 2% of total District/Borough expenditure (as per Revenue Outturn data - council submissions to central government) - £3,556,420	
Total current annual property spend (District/Borough and County Councils)	<b>£10,768,000</b>	
Reduction in property spend	14.0%	12.0%
Rationale for differences between savings for one and two unitary authorities	A lower level of savings is forecast if the two unitary authority option is chosen, as there would be reduced opportunities to achieve efficiencies through consolidation of estates. However, the reduction isn't as significant as other areas of savings due to a recognition that retaining a physical local presence is likely to be retained across the County for a range of key services.	
Total gross saving (£'000)	<b>1,508</b>	<b>1,292</b>

# Calculating the Benefits of Reorganisation

These savings relate to reducing the numbers of members across Warwickshire, and thereby reducing associated allowances and also relate to reducing the number of elections across Warwickshire, as there would no longer be two types of election (District/Borough and County Council).

## Savings Methodology

1. Removal of actual current County and District/Borough special responsibilities (SRA) and other allowances and replacement with an alternative allowances structure has been assumed when calculating savings in relation to **allowances**.
2. Consolidating local authorities will also reduce the number of elections required, thus presenting a benefit. Actual costs of conducting relevant elections within Districts/Boroughs have been used as a baseline for savings.

## Assumptions applied

Area	Key figures	
	1 UA	2 UA
<b>Total current annual member allowances</b>	Estimated annual cost (using publicly available information): <ul style="list-style-type: none"> <li>• North Warwickshire - £213,000</li> <li>• Nuneaton and Bedworth - £247,000</li> <li>• Rugby - £355,000</li> <li>• Stratford On Avon - £303,000</li> <li>• Warwick - £306,000</li> <li>• Warwickshire County Council - £750,000</li> </ul> <b>Total annual costs: £2,174,000</b>	
<b>Total current district election costs</b>	Total cost per District/Borough election - from Warwickshire County Council 2017 election costs:: <ul style="list-style-type: none"> <li>• North Warwickshire - £84,000 (1 election)</li> <li>• Nuneaton and Bedworth - £150,000 (2 elections)</li> <li>• Rugby - £132,000 (3 elections)</li> <li>• Stratford On Avon - £186,000 (1 election)</li> <li>• Warwick - £245,000 (1 election)</li> </ul> Number of district elections per four year period - 8 in total <b>Overall district election costs over a four year period - £1,211,000</b>	
<b>Total special responsibility/ other allowances saving</b>	All allowance costs removed, with the exception of members costs for 80 members and the following: Leader, Deputy Leader, nine Cabinet Members and 15 Committee Chairs.  Total future allowances costs: £1,180,000  <b>Total annual saving: £993,000</b>	All allowance costs removed, with the exception of members costs for 80 members in total across both unitaries and the following structures for both authorities: Leader, Deputy Leader, nine Cabinet Members and 15 Committee Chairs.  Total future allowances costs: £1,604,000  <b>Total annual saving: £569,000</b>
<b>Total annual election saving</b>	All District/Borough election costs removed - £1,211,000 over four year period.  <b>This equates to £303,000 per year.</b>	All District/Borough election costs removed - £1,211,000 over four year period.  <b>This equates to £303,000 per year.</b>

# 2

## Costs of Transition



# Reorganisation assumptions - Costs of transition

The following pages outline key transition costs underpinning the cost figures in the Strategic Case for Change - these would be incurred whilst delivering reorganisation.

## Methodology

1. One-off costs will be incurred when re-organising the local authorities through staff rationalisation. These have been calculated in relation to the staffing reductions and therefore are higher in a single unitary model than a two unitary model.
2. There are a number of transition costs that will be incurred when closing down six existing local authorities and creating one or two new authorities. In transitioning to a single unitary authority, these costs will only be incurred once, whereas in a two unitary model, many of these costs will be incurred twice. Therefore a number of costs for two unitary authorities are double those anticipated for one unitary authority.

## Assumptions applied (part 1)

Area	Key costs (£'000)		Rationale
	1 UA	2 UA	
<b>Staffing rationalisation</b>	4,720	2,950	Estimate of total streamlining costs.
<b>External communication, rebranding and implementation</b>	300	600	Promoting changes to the public, developing a new local authority brand and implementing new signage and logos. If two unitary authority option is chosen, additional costs would be incurred as two separate brands could be required.
<b>Public consultation</b>	225	450	Costs for adverts in local media and surveys to consult public on proposed changes.
<b>External transition, design and implementation support costs</b>	3,500	7,000	Costs for external support to ensure effective transformation: change management, benefits realisation, business and technology design authority, process redesign and consolidation, and a review of shared services. Considerable additional costs would be required if moving to two unitary authorities, as additional support may be required to enable effective disaggregation of existing Warwickshire County Council services e.g. Adult Social Care, Children's Services, Education and Highways.
<b>Part 1 Sub-total</b>	<b>8,745</b>	<b>11,000</b>	

# Reorganisation assumptions - Costs of transition

## Assumptions applied (part 2)

Area	Key costs (£'000)		Rationale
	1 UA	2 UA	
<b>Internal programme management</b>	1,755	4,563	Costs incurred for internal programme management and support and enabling services input. This has been calculated as a team of 10 for three years with an average salary of £45.0k and on-costs applied. Considerable additional costs (at least double those of single unitary case) would be required if moving to two unitary authorities, as additional support may be required to enable effective disaggregation of existing Warwickshire County Council services e.g. Children's Services, Adult Social Care, Education and Highways. Due to the scale of resources required the two unitary costs also allow for some additional agency costs to provide the internal programme management capacity or to back-fill key posts.
<b>Creating the new council</b>	500	1,000	Includes legal costs associated with creating new unitaries, developing the constitution, contract novation, setting budgets, and carrying out business as usual in existing councils. Additional costs incurred if moving to two unitary authorities, as two budgets and constitutions would need to be set.
<b>Organisation Closedown</b>	250	500	Costs involved with financially closing down councils and creating sound budgetary control systems, estimated through averages of similar costs for other councils. Additional costs may be incurred as closing down councils if service disaggregation required (within two unitary authority option).
<b>Shadow senior officer &amp; member costs</b>	255	510	Costs for a year of shadowing for senior officer for each unitary authority and 6 members per unitary shadowing and each receiving Special Responsibility Allowances.
<b>ICT costs</b>	2,000	4,000	Assuming costs for changed reporting requirements, system licenses for new users, storage capacity, and data cleansing / migration. Does not include costs associated with purchasing new IT once unitary authority/authorities formed (i.e. Warwickshire-wide Enterprise Resource Planning System). Additional costs incurred within two unitary option, to allow for disaggregation of IT systems.
<b>Contingency</b>	5,000	12,000	Provision for extra expenses incurred through reorganisation e.g. property disposals, etc. There is a further significant additional contingency allowance for disaggregation costs within the two unitary authority option given the extensive work required to either establish alternative delivery models for some County services independent of the new unitaries, or to split all County Council services across the two new unitaries, which is not required under a single unitary model.
<b>Part 2 Sub-total</b>	<b>9,760</b>	<b>22,573</b>	
<b>Part 1 Sub-total (From page 10)</b>	<b>8,745</b>	<b>11,000</b>	
<b>Total Re-Organisation Costs</b>	<b>18,505</b>	<b>33,573</b>	These are the gross one-off costs included within the Strategic Case for Change

# 3

## Additional Costs and Benefits through Transformation



# Transformation Benefits

Additional benefits may arise if Warwickshire chooses to make significant changes to service delivery models and the way in which services operate, whilst moving to unitarised ways of working. Further details of these potential savings are provided over the following pages, and headline figures across key gross savings areas are provided below:

Gross savings (£'000)	Base Transformation		Stretch Transformation	
	1 UA	2UA	1 UA	2UA
Third Party Spend	4,935	2,763	12,830	6,711
Staff consolidation	27,530	18,731	45,735	31,814
<b>Total additional savings (transformation)</b>	<b>32,465</b>	<b>21,494</b>	<b>58,566</b>	<b>38,525</b>

Further information about the calculations underpinning these savings opportunities is provided in this section.

Base transformation represents a 'reasonable' level of benefits deliverable through transformational change, whilst the stretch transformation represents a more strongly driven and radical level of change.

The following examples provide context for the potential types of broader transformation that would offer additional benefits. These are not all solely predicated on Unitary delivery, but transformation success and the scale of benefits are significantly enhanced by a Unitary model:

- **Support Services** – There is an opportunity to integrate and fundamentally redesign a range of support services. This would deliver operational efficiencies and consolidate corporate contracts through investment in corporate systems development to maximise the potential benefits of digitising manual and time-consuming activities at scale, using automation and artificial intelligence where appropriate. Initial analysis suggests that we could collectively save £8.2 million if the median unitary costs per resident are achieved for Central Support Services. There are digital opportunities arising from the foundations laid by recent transformation work that will help accelerate delivery.
- **Customer Facing Services** – Full integration, rationalisation and redesign of customer facing services will streamline points of access to flow seamlessly into operational service delivery. This will be enabled by optimised use of appropriate technology and a 'right first time' mentality that minimises hand-offs and costly 'failure demand'.
- **Waste Management** – A fully integrated waste collection and disposal service would offer significant operational economies of scale and benefits, with aligned commissioning, streamlined contractual arrangements, reengineered services and streamlined recycling arrangements. Initial work prior to this report has already identified the potential for over £8m of savings from a combined waste authority.
- **Regulatory Services** – There is a significant opportunity to redesign, align and streamline the range of regulatory services to better support businesses and strong economic development. High-level analysis suggests that integrating and streamlining planning and development services could save £5.8 million if we achieved median unitary costs per resident.
- **Capital Investment** – Unitarisation would expand the available asset base, capital finance and full range of service areas to target capital investments in priority areas of economic development and housing, while embedding climate change considerations in decision-making. The strengthened balance sheet would also enable a greater level of capital investment to support Council priorities and priorities of Local Place Boards. The removal of two tier government would streamline the development process to reach consensus on local plans, accelerating access to transformational investments that more quickly deliver outcomes, generate capital receipts or create an on-going revenue return.

## Transformation Benefits – Third Party Spend

Additional transformation savings could come from further **reducing third party spend by additional work to review and transform spend with suppliers**. The assumptions are drawn from external professional insight of delivering third party spend transformation savings with a range of Councils in similar situations.

The baseline for total current third party spend is the same as outlined within the reorganisation assumptions (on page 6). The baseline figures have been subjected to additional percentage reductions as per the table below for the different options. These are not all solely predicated on Unitary delivery, but transformation success and the scale of benefits are significantly enhanced by the additional capacity, ability to retain specialist capability (commissioning, procurement, contract management, etc) and economies of scale within a Unitary model. Transformation can focus on different commissioning and service delivery models to impact price point, volumes and rates of consumption to deliver additional savings:

1 UA			
Base Case (% additional reduction)	Base Case (£'000 additional saving)	Stretch Case (% additional reduction)	Stretch Case (£'000 additional saving)
1.2	4,935	3.2	12,830

The additional saving from moving to the base or stretch transformation position for two unitary authorities would be:

2 UA			
Base Case (% additional reduction)	Base Case (£k additional saving)	Stretch Case (% additional reduction)	Stretch Case (£k additional saving)
0.7	2,763	1.7	6,711

As with the basic 're-organisation' case, a lower level of savings is forecast if the two unitary authority option is chosen, as there would still be reduced opportunities to achieve efficiencies through consolidation of contracts, and the loss of economies of scale in two unitary authorities may result in less favourable terms where contracts are renegotiated.

# Transformation Benefits

## Staffing

### Transformation assumptions - Staffing

Additional transformation savings may result from additional work to amend processes, technology and ways of working following unitarization. This will enable a further reduction in FTE figures across different service 'streams' beyond the basic reorganisation savings.

Based on actual Warwickshire County Council activity analysis data, it is assumed that current FTE activity is split across these service streams as follows:

**Customer Contact (30%)**  
**Service Delivery (22%)**  
**Support Services (48%)**

The total baseline FTE numbers across Warwickshire's councils, and average salaries used to inform the savings, are the same as those used within the reorganisation assumptions (on page 5). To determine possible savings, the above 'streams' have been subjected to the following additional percentage reductions, depending on the base or stretch transformation case (for one unitary authority option):

1 UA	Base Case (% additional reduction)	Base Case (£'000 additional saving)	Stretch Case (% additional reduction)	Stretch Case (£'000 additional saving)
<b>Customer Contact</b>	10.50%	6,615	18.00%	11,339
<b>Service Delivery</b>	6.00%	2,772	9.00%	4,158
<b>Support Services</b>	18.00%	18,143	30.00%	30,238
<b>Total</b>		<b>27,530</b>		<b>45,735</b>

The additional saving from moving to the base or stretch transformation position for two unitary authorities would be:

2 UA	Base Case (% additional reduction)	Base Case (£'000 additional saving)	Stretch Case (% additional reduction)	Stretch Case (£'000 additional saving)
<b>Customer Contact</b>	6.00%	3,780	12.50%	7,875
<b>Service Delivery</b>	4.00%	1,848	6.00%	2,772
<b>Support Services</b>	13.00%	13,103	21.00%	21,167
<b>Total</b>		<b>18,731</b>		<b>31,814</b>

A lower level of savings is forecast if the two unitary authority option is chosen, as there would be reduced opportunities to achieve efficiencies through consolidation of staff activity, and additional staff would be required in disaggregated County services (e.g. Adult Social Care Children's Services, Education and Highways).

# Transformation Costs

## Transformation assumptions - Costs

It is anticipated that the following additional costs would be incurred to deliver the base and stretch transformation savings outlined on pages 13-15. Specific transformation costs totals (informing the figures provided in the Strategic Case for Change) are provided at the bottom of each table:

### Transformation Costs - One Unitary Authority

£'000	Base	Stretch	Rationale
<b>Staffing Consolidation</b>	15,469	25,700	Further costs due to staffing rationalisation delivered within the base and stretch transformation cases.
<b>IT</b>	6,000	8,000	Significant investment in IT systems in order to enable more digital ways of working (as well as working as an enabler for further efficiency savings through FTE rationalisation)
<b>Internal project management</b>	1,500	2,000	Costs for internal project management to guide Councils through transformation.
<b>External support costs</b>	4,000	5,000	Costs for external support to ensure effective transformation: change management, benefits realisation, business and technology design authority, process redesign and consolidation, and a review of shared services
<b>Total</b>	<b>26,969</b>	<b>40,700</b>	

### Transformation Costs - Two Unitary Authorities

£'000	Base (North)	Base (South)	Stretch (North)	Stretch (South)	Rationale
<b>Staffing Consolidation</b>	5,944	4,581	10,096	7,780	Further costs due to the staffing rationalisation delivered within the base and stretch transformation cases.
<b>IT</b>	3,500	3,500	4,500	4,500	Significant investment in IT systems in order to enable more digital ways of working (as well as working as an enabler for further efficiency savings through FTE rationalisation). Additional costs would be incurred if moving to two unitary authorities, was there would be additional complexity associated with supporting the transformation of disaggregated services.
<b>Internal project management</b>	2,000	2,000	2,500	2,500	Costs for internal project management to guide Councils through transformation. Additional costs would be incurred if moving to two unitary authorities, was there would be additional complexity associated with supporting the transformation of disaggregated services.
<b>External support costs</b>	4,000	4,000	6,000	6,000	Costs for external support to ensure effective transformation: change management, benefits realisation, business and technology design authority, process redesign and consolidation, and a review of shared services. Additional costs would be incurred if moving to two unitary authorities, was there would be additional complexity associated with supporting the transformation of disaggregated services.
<b>Totals</b>	<b>15,444</b>	<b>14,081</b>	<b>23,096</b>	<b>20,780</b>	
	<b>29,525</b>		<b>43,876</b>		

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