

Welsh Local Authorities

Administrative Cost Review

June 2015



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Across Local Government in Wales, twenty-two single-tier Local Authorities are responsible for the provision of a wide range of services, incurring gross revenue expenditure of £8bn in 2013/14. Authorities vary significantly in size, measured by a range of factors such as number of residents, number of employees and value of budget. Importantly, the Welsh Local Authorities are also diverse with respect to their geographies, demographics and socio-economics. In line with pressure across local government, Welsh Local Authorities are challenged by increasing demand and complexity along within an environment of austerity.

Whilst it is difficult to establish a clear distinction as to what activities are deemed to be 'administrative' in nature, analysis suggests that authorities spent £471m in 2013/14 on activities within the scope of this review. This amounts to 5.89% of total gross revenue expenditure. It should be noted that some administrative activities act as a source of income for authorities, with £17m being generated across a range of services in 2013/14. Furthermore, authorities have in place a range of initiatives aimed at delivering savings across the activities in scope, with plans totalling £17m in 2014/15 and £16m in 2015/16 detailed by authorities.

Administrative spend and activity has been found to vary substantially between authorities, both on an absolute and a relative basis. The scale of this variability differs per service, and includes variance in activity, number of FTE's and productivity. This suggests that a range of operating models are in place across the authorities. A comparison of performance (measured on a quantitative basis, and not considering any qualitative measures) suggests the performance of Welsh Local Authorities is below average sector benchmarks.

The findings of this report suggest that there is significant opportunity to improve the performance of administrative functions with Welsh Local Authorities both in the immediate and the longer term. This is categorised into three Phases; the first Phase aims to normalise variability, the second aims to standardise performance in line with sector benchmarks. Phases I and II implemented rapidly assumes benefits would be realised in a one to two year timeframe. Phase III considers more radical transformation, driving performance towards leading practice within a two to three year timeframe. The normalisation of performance in Phase I considers an opportunity in scope (referring to the value of gross administrative expenditure under consideration within the Phase) to the value of £33m. Phase II, aimed at standardising operating models and service levels across the authorities closer towards average sector benchmarks considers an opportunity in scope of a further £45m. Phase III considers a further opportunity in scope of £73m. Combined, all three Phases consider a total opportunity in scope of £151m should full transformation be implemented across all Welsh Local Authorities deliver leading practice administrative performance.

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The conclusions drawn from the data analysis suggest that there is an imperative for authorities to implement initiatives focussed on increasing the efficiency of administrative functions, along with the support of enablers established by the Welsh Government. All of the initiatives and considerations across all three Phases should be aligned to both existing improvement plans as well as considering plans for wider reform across Local Government in Wales and the efficiencies that could be gained by operating pan public sector.

The proposed value of benefits available within Phase III considers authorities spending 4.0% of total gross revenue expenditure on administrative activities, compared to an existing spend of 5.9%. This is achievable through significant transformation of local authority operating models, utilising technology and system-wide collaboration to establish commissioning hubs and regional centres of excellence, tasked at enhancing both efficiency and effectiveness across the region. All benefits should be underpinned by an upward drive across authorities in the use of cost and activity data.

There are evidently risks associated with significant transformation, and the wider impact of change on local employment and markets would need to be carefully considered and consulted on. However, supported by a resolute vision of what can be achieved, Welsh Local Authorities should endeavour to transform, enabling them to deliver leading class administrative activities. This should provide significant opportunity for resources currently engaged in inefficient administrative operations to be reallocated towards maximising outcomes for the residents and communities of Wales.

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Introduction

This report, commissioned by the Welsh Government and delivered by KPMG in partnership with the Chartered Institute of Public Finance and Accountancy (CIPFA), aims to provide an overview of variability in the cost and efficiency of functions deemed to be administrative within Welsh Local Authorities. This analysis has formed the basis for proposed recommendations which could be considered by authorities, aimed at normalising the relative spend of administrative functions, along with establishing proposed opportunities to enhance efficiency across authorities.

Data has been collected across all 22 Welsh Local Authorities in a standardised format, aimed at providing consistent data that could be aligned to CIPFA Benchmark data. All authorities submitted data returns, thereby allowing a collation of 2013/14 cost and activity data for the activities in scope. This data has been validated in an attempt to ensure consistent interpretation although full notice should be made to the 'Data Considerations' referenced on Page 9 which include a number of important clarifications and caveats associated with the data.

In determining what activities should be incorporated within the review, a focus was applied to those activities which are often considered to be 'back office' in nature. This definition is itself considered to be subjective, with no clear distinction readily able to be drawn between these activities and other 'front line' activities undertaken within a local authority. Whilst the term 'administrative' is utilised throughout the report, the activities in scope should be considered far from merely administrative in nature. Many of the activities included within the scope of the report should be viewed as professional support services. Furthermore, when considering the activities undertaken within a local authority, it is erroneous to assume that there is a firm distinction between administrative (or 'back office') and front line activities. In reality, all activities within a local authority should be geared towards the achievement of the organisation's objectives. Any consideration towards the efficiency or effectiveness of allocated resources should be applied to activity regardless of whether it is deemed to be administrative or front line in nature, determining whether value is achieved in the pursuit of the organisation's objectives.

The analysis of the data collated from authorities has focussed on key administrative services. Analysis has been applied to the data in an objective way. The recommendations that have been developed from this analysis consider where authorities have an opportunity to drive efficiencies across administrative functions and provide direction as to where focus should be applied to achieve this. An opportunity in scope has also been provided for each of the recommendations. This should be viewed as an indicative assumption as to the value of administrative expenditure that would be within scope should recommendations be fully implemented, along with a target should performance progress towards leading class.

The findings within the report should be fully aligned with consideration towards wider reform across Local Government, and take into account opportunities to implement solutions that are pan public sector. This should be supported by comprehensive engagement with all relevant stakeholders.

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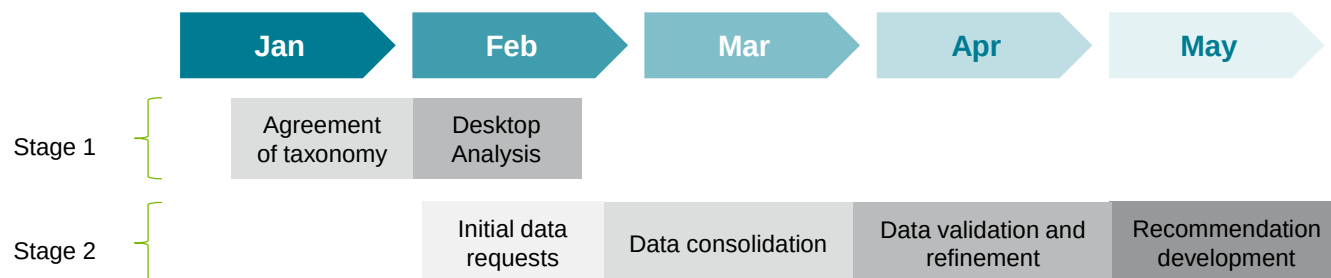
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The engagement focussed around two primary stages; firstly an existing dataset review concluding in February. Stage two focussed on obtaining a new dataset from authorities and analysing the data to support the development of recommendations. A timeline of the project is shown below;



Stage One

Through the assessment of a range of sources including CIPFA Benchmarking Clubs, a taxonomy for activities considered to be administrative in nature was agreed. Using existing datasets provided by the Welsh Government, KPMG and CIPFA, analysis was then performed to get a scale of administrative cost across Local Authorities. Whilst this identified overarching variability between authorities, it also identified a need for the development of a further dataset and analysis at the level of administrative activity agreed through the taxonomy.

Summary Stage One Findings

- Using the 2013/14 revenue outturns, central department support service costs totalled £510m, representing 6.3% of the gross expenditure across Local Authorities in Wales.
- Analysis completed on other datasets suggests this does not fully capture administrative activities across Local Authorities; indicative calculations to identify costs not captured by the RO methodology within Adult directorates totalled £66m and Children's totalled £97m.
- A high level of variability has been found when individual directorates were investigated suggesting administrative services are not provided to, or drawn down in a consistent manner by frontline directorates.
- A high level of variability has been found between authorities, Central Department Support Service (CDSS) costs represent 13.5% of gross expenditure in Blaenau Gwent versus Neath Port Talbot generating 4% income of Gross Revenue Turnover (GRT) providing CDSS services.

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Methodology (cont.)

Opportunities Identified

- More homogenous process and delivery mechanisms would reduce cost variability within similar services.
- Opportunities were noted to improve productivity in a number of administrative functions from the benchmarking clubs.
- Analysis of systems used pointed to efficiencies from shared workings or joint procurement / managed services across Councils.
- A consistent draw down framework is needed to improve understanding within front line services of when administrative support services should be utilised, which would support more standardised service levels.

Further investigation that supported the need for an additional dataset requirement for Stage Two

- Administrative expenditure needs to be split into individual activities; Human Resources, Procurement, Finance, Payroll for example.
- Administrative expenditure needs to be captured on a subjective level; Staff, Premises, Third Party for example.
- Activity data needs to be captured across authorities so productivity and capacity levels can be assessed.
- By capturing relevant activities occurring in the front line directorates a more comprehensive picture of administrative services will be gained.

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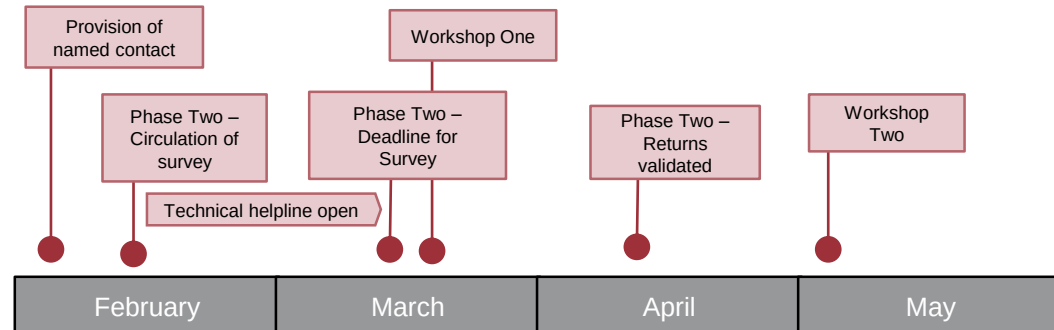
Methodology (cont.)

Stage Two

To gain the granularity of data identified as necessary to support the formulation of effective recommendations, KPMG and CIPFA designed a quantitative survey that was circulated and completed by authorities. Key aspects of the survey were;

- Circulated to authorities in February for an initial 6th March 2015 deadline. A technical helpline was open throughout to resolve queries
- Returned surveys were subsequently put through a quality assurance process, to reduce anomalies and standardise interpretation.
- Data was then returned to authorities, highlighting where specific calculations fell outside of tolerances and providing a further opportunity for context on plans for services in later years and externally generated income.
- Authorities validated returns for a deadline the week ending 10th April 2015.
- Over the period of the data survey two sets of workshops were held with authorities to add a layer of contextual and qualitative information;
 1. **Workshop One** – To capture ongoing initiatives and generate ideas in relation to delivery of administrative services
 2. **Workshop Two** – To share findings and conclusions from the survey work and capture challenges and risks

An illustration of the project plan is shown below;



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Data Considerations

Data has been collated from all 22 Welsh Local Authorities. Whilst comprehensive guidance aimed at consistent interpretation, standardised templates, variance analysis and validation processes have aimed to ensure a robust data set, a number of important caveats and clarifications should be noted when considering the findings drawn from the data.

General Considerations

- **Manual Data Collection**

The process for data collection has been predominantly manual and has placed a reliance on interpretation, some categorisation of data is highly subjective. It is also dependent on the process through which individual authority's systems capture and categorise cost and activity data.

- **Timeliness of Data**

Data and analysis incorporated within this report has predominantly focussed on 2013/14 cost and activity data. At the time of the data collation exercise, 2013/14 cost and activity data was the latest complete set of data available. Whilst efforts have been made to capture initiatives within 2014/15 and 2015/16 that may influence 2013/14 data, findings should be considered in line with the time period to which they relate.

- **Gross Expenditure**

Analysis of data has predominantly focussed on gross administrative expenditure. Whilst this is appropriate for a majority of the metrics utilised within the analysis, a number of authorities incorporate commercial, revenue generating, activities within their administrative functions. This has the potential to detail larger administrative gross cost bases for those authorities engaged in commercial activities.

- **Allocation of Overheads**

A consideration has been made to the allocation of overhead charges to administrative activities. Where individual activities are considered, recharges are included within the figure quoted. This meets CIPFA's Service Code of Practice classification that the total cost of any given service includes any recharges allocated to that service from other functions. The inclusion of recharges ensures any evaluation of Welsh Authorities against CIPFA Benchmarks is done on a comparable basis. Where the quantum of total administrative activity is considered in the report, this is done exclusive of recharges.

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Data Considerations (cont.)

- **Administrative Activities Outside Core Services**

Efforts have been made to collate cost data relating to administrative activities taking place within front line functions. This process has been highly subjective and data has not been incorporated within the detailed service analysis. This presents a risk whereby authorities that have wholly decentralised administrative functions may not have their full administrative cost and activity incorporated within the analysis.

- **Variance in Taxonomies**

The data collation templates utilised attempted to ensure standardisation across the data collected from authorities. Taxonomies utilised across the administrative functions of authorities may not have aligned with the requirements of the template which would have placed an increased onus on the manual interpretation of data.

- **Limited Scrutiny**

The data collected from authorities has undergone no independent scrutiny. Of particular note, assumptions regarding proposed savings initiatives in 2014/15 and 2015/16 have not been considered for their robustness or viability.

- **Qualitative Data**

The data collated and analysed throughout the report has been purely quantitative in nature. Whilst this has allowed findings to determine the cost, activity and efficiency of administrative activity, it has given no insight into the quality or effectiveness of service provision of these functions.

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Specific Considerations

Where data integrity was considered weak or there were unequivocal differences in interpretation between authorities specific approaches were taken in order to increase the comparability across authorities.

- **Premises Costs**

Several authorities submitted data for premises costs that interpreted the guidance between Administrative buildings and Whole Estate incorrectly. Where this has been identified an indication of administrative buildings cost was calculated through using the Welsh authority average for those authorities that submitted appropriate cost levels based on their gross expenditure.

- **Extrapolation of Recharges**

Three Authorities did not submit recharges within their data survey submissions. Average recharges across the 18 authorities who submitted recharges totalled 12.5%. Where appropriate, authorities who did not submit recharges were grossed up accordingly.

- **Pension Administration**

Whilst data on Pension Administration was collected within the data survey, this cost and activity information has not been included in the final dataset presented in this report for analysis. The inclusion of Pension Administration was considered to have unfairly enhanced the cost of Finance for those authorities acting as a sub regional pension fund. A consistent view of income generated by those authorities providing Pension Administration also provided poor data integrity, and given a separate review is being undertaken pan Wales on Pensions, it was reflected as appropriate to remove this dataset.

- **Sub-activity classifications**

In certain circumstances where an authority only entered costs against one subactivity, these costs were allocated across the activities based on authority averages. For example if an authority only allocated costs to ICT service desk, this total was split across both service desk and infrastructure to allow more meaningful comparison to be made.

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Local Authority Reference

On a number of graphs and diagrams throughout the report, a reference system is utilised to identify individual Welsh Local Authorities. The reference code for each authority is provided below.

Authority	Reference
Blaenau Gwent	A
Bridgend	B
Caerphilly	C
Cardiff	D
Carmarthenshire	E
Ceredigion	F
Conwy	G
Denbighshire	H
Flintshire	I
Gwynedd	J
Isle of Anglesey	K
Merthyr Tydfil	L
Monmouthshire	M
Neath Port Talbot	N
Newport	O
Pembrokeshire	P
Powys	Q
Rhondda Cynon Taff	R
Swansea	S
Torfaen	T
The Vale of Glamorgan	U
Wrexham	V

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Overview

Data relating to the cost and activity of administrative activities has been collected across all 22 Welsh Local Authorities. The activities included within the scope of the data collection have been categorised as follows:

- Property Management
- ICT
- Finance
- Revenue and Benefits
- Human Resources
- Strategy and Policy
- Legal Services
- Contact Centre
- Governance
- Procurement
- Other Administrative Services

Key Messages

The data collected provided a foundation from which analysis has determined the relative performance of these activities both across Welsh Local Authorities but also compared to benchmark data. In summary:

- Gross administrative expenditure within back office activities totals £471m across Welsh Local Authorities in 2013/14.
- Gross administrative expenditure accounts for 5.89% of Gross Revenue Expenditure (GRE) across Welsh Local Authorities. This value varies considerably between authorities, ranging from 4% to 10% of GRE.
- Across the population of Wales, gross administrative expenditure amounts to £153 per capita.
- A total of 9,350 FTE's are employed within the administrative activities in scope.
- Of the 22 authorities 18 identified savings plans. These aim to save a total of £17m against administrative expenditure in 2014/15, with a further £16m planned in 2015/16.
- Administrative activity acts as a source of income for a number of authorities, generating £17m, predominantly from providing services to schools and other public bodies.

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Gross Expenditure

Gross administrative expenditure varies significantly across the Welsh Local Authorities. The amount spent varies from £9.3m to £57.5m. Administrative expenditure correlates broadly with the size of the authority as measured by GRE; Cardiff and Swansea both operate the largest administrative functions.

Fig.1 Gross Administrative Expenditure by Authority

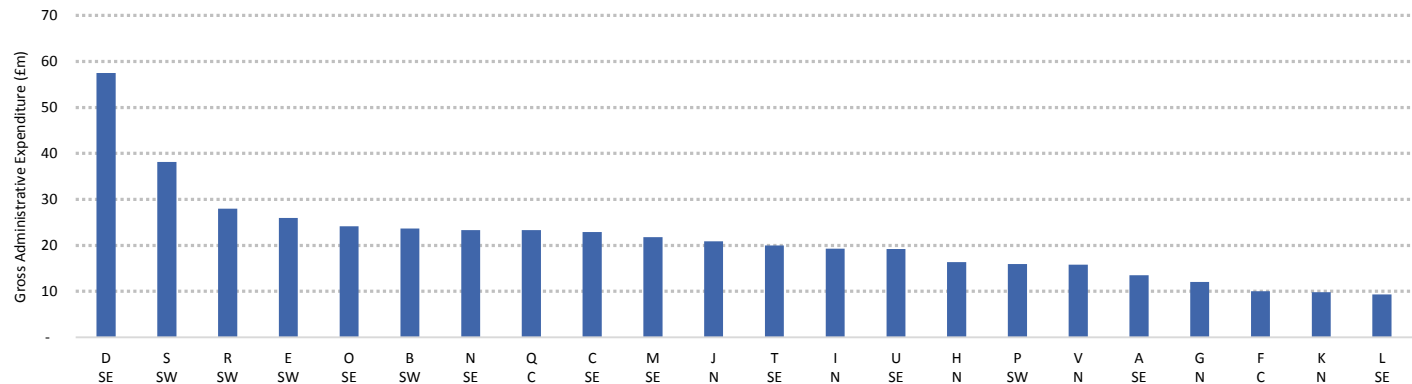
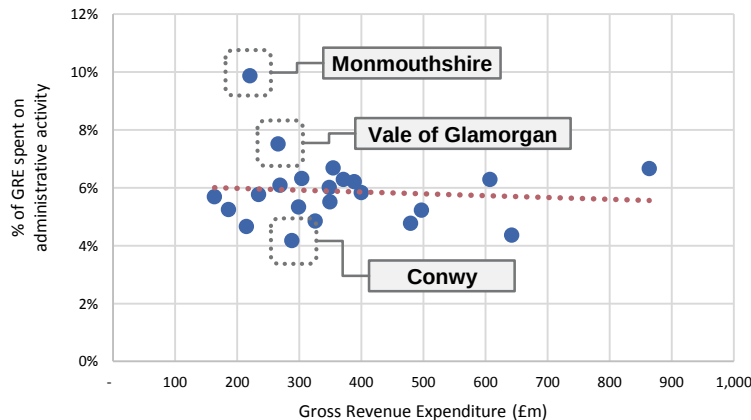


Fig.2 Gross Administrative Expenditure per GRE



Significant variance also exists between expenditure per authority on a relative basis. As a proportion of total Gross Revenue Expenditure (GRE), authorities spend anywhere between 4% and 10% on administrative activity. Furthermore, authorities of comparable size, as measured by GRE, spend significantly different amounts on administrative activity on a relative basis. As an example, Conwy, who incurs GRE of £288m per annum, has an administrative function which accounts for 4% of GRE. Monmouthshire, who incurs GRE of £221m per annum, has an administrative function which accounts for 10% of GRE. This amounts to a difference in spend of over £10m.

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Activity Type

Pan-Wales gross administrative expenditure can be categorised by both activity type and subjective cost.

Gross administrative expenditure categorised per administrative activity indicates that Property Management, ICT and Finance activity account for approximately half of all gross administrative expenditure across Welsh Local Authorities, totalling £231m in 2013/14. Fig.3 illustrates the direct cost of each administrative activity (without the allocation of recharged administrative costs from other activities). As illustrated, spend categorised as 'Other Administration' amounts to £35m; this has not been categorised into any further detail but should be considered to relate to more general administrative activity as well as potentially other administrative tasks that have not been definitively allocated into a core administrative activity.

Fig.3 Gross Direct Expenditure by Administrative Function

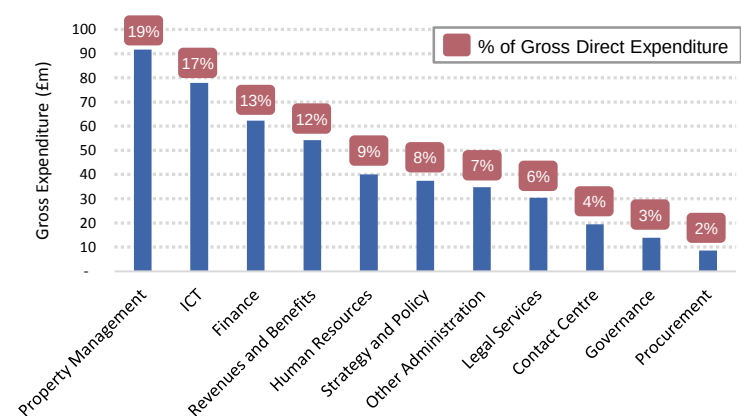
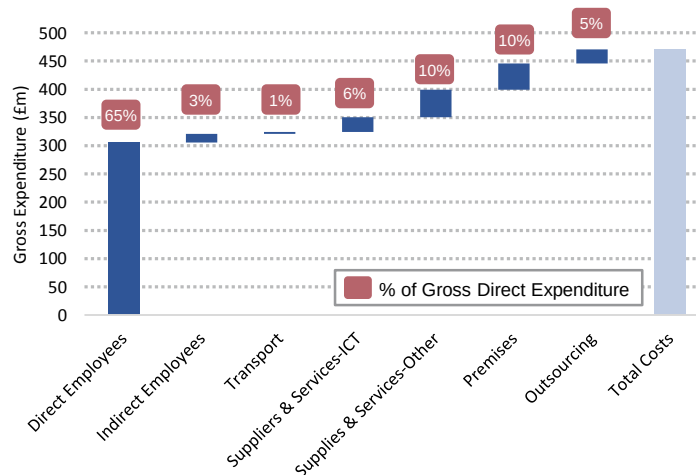


Fig.4 Gross Direct Expenditure by Subjective Cost



Analysing data across subjective type, as displayed in Fig.4, indicates that 65% of gross administrative expenditure is accounted for by direct employee expenditure, totalling £305m. Premises accounts for significant administrative expenditure across these services totalling £46m across all Local Authorities. Expenditure categorised as 'Supplies & Services – Other' amounts to £49m. This incorporates a number of statutory costs such as the external audit, specialist external advice for services such as legal and a range of property repair and maintenance costs. Outsourcing spend on administrative activities across Welsh Local Authorities accounts for only 5% of total administrative expenditure, with only one large contract noted in ICT and one in Facilities Management.

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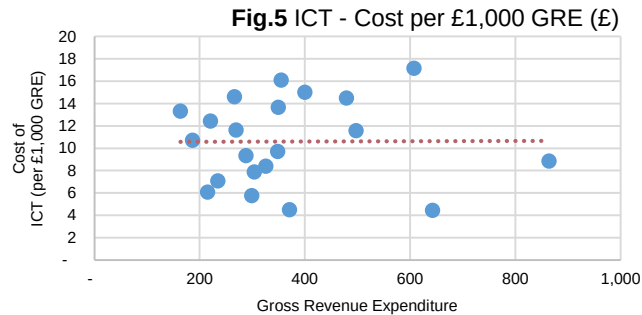
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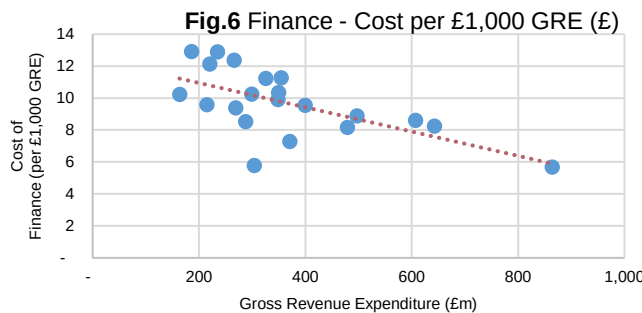
Activity Type (cont.)

The relative cost of core administrative activities vary significantly per authority. Authorities of a comparable size demonstrate a substantial range in expenditure on activities such as ICT, Finance and HR as a proportion of GRE.



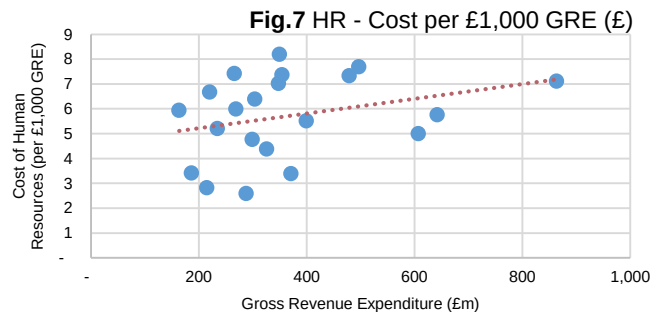
ICT

Authorities spend between £4 and £17 per £1,000 of GRE on ICT functions. This covers both infrastructure and service desk activity. Authorities of a comparable size demonstrate significant variance; focusing on authorities with 2013/14 GRE of between £355m and £371m, spend on their ICT function ranges between £1.7m to £5.7m.



Finance

Authorities spend between £6 and £13 per £1,000 of GRE on Finance activity. There is a clear trend in larger authorities (as measured by GRE) spending relatively less on Finance activity than smaller authorities. Authorities of a comparable size demonstrate significant variance in Finance spend, authorities with 2013/14 GRE of between £266m and £304m range from £1.8m to £3.3m expenditure on their Finance function.



Human Resources

Authorities spend between £3 and £8 per £1,000 of GRE on HR activity. There is a marginal trend in smaller authorities (as measured by GRE) spending relatively less on HR activity than larger authorities. However, the range is considerable, with authorities with 2013/14 GRE of between £288m and £350m ranging from £0.7m to £2.8m on their HR function.

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‘Front Line’ Costs

The data collected also indicated that there are further administrative activities being performed within front line services. Authorities who submitted data within this area totalled £70m, and indicated that a further 2,919 FTE’s are performing administrative activities across these services. It should be noted that the collation of such cost and activity is subjective and that in many examples, administrative activity in front line functions is wholly justified (specialist Children’s Services Payment Teams, as an example). However, decentralised administrative activity must be incorporated when considering any initiatives aimed at driving efficiency and effectiveness, especially considering the quantum of resource identified during the course of this review.

Front line activity takes place predominantly in three main service areas; Adults (£18.7m), Education (£16.2m) and Children’s (£11.1m). Across front line services, ‘Other Admin Spend’ accounts for £42m of the total data collected. This is assumed to be administrator, secretarial or support type roles. Notably, there is significant Finance and Strategy activity taking place in front line functions, accounting for £12.3m and £6.9m respectively.

Fig.8 Front Line Administrative Costs per Directorate

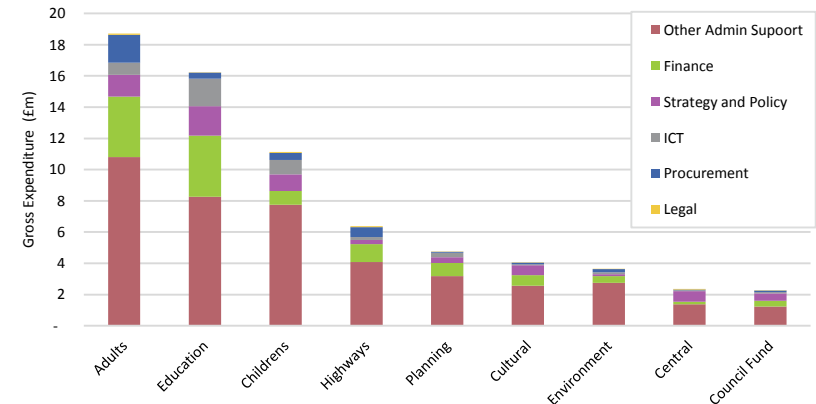
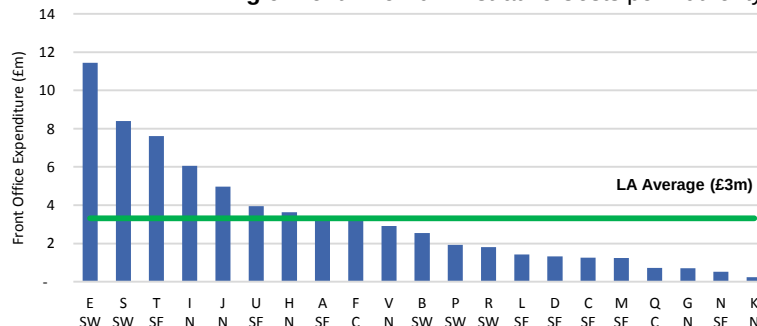


Fig.9 Front Line Administrative Costs per Authority



21 authorities submitted data showing how the £70m of administrative activity taking place in front line services ranges between them. Data collected suggests that between £0.2m and £11.5m of expenditure in front line functions relates to administrative activity. Extrapolation of this figure for authorities and functions where front line administrative data was not collected suggests that expenditure relate to administrative activities in front line functions could amount to nearer £100m.

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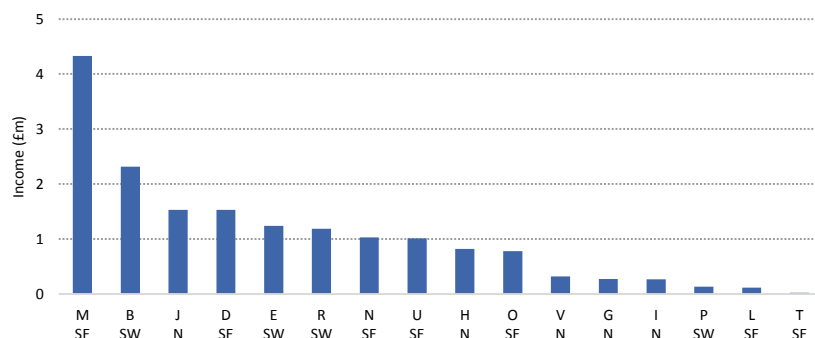
Income

A number of administrative activities undertaken by authorities are a source of stable income for authorities. Whilst analysis has focussed predominantly on gross administrative expenditure, those authorities that incorporate commercial activities within their administrative functions will potentially display larger cost bases than those authorities that undertake no commercial activities. Income displayed here excludes income generated by Revenue and Benefits activity (which is predominantly grant and rebate income from the Department for Work and Pensions) as well as income generated for the provision of pensions administration, for which such activity has been removed from gross administrative expenditure analysis.

Administrative activity generated £16.93m for authorities in 2013/14. Property Management was by far the largest revenue generator for authorities, with nine authorities generating income from the provision of services such as repairs and maintenance to school buildings. Two authorities generated significant income from providing these services, and it should be explored whether all authorities are optimising this source. There are also some innovative sources of income for authorities, such as the Legal Shared Service centre in operation in South West Wales and the provision of services to organisations such as police authorities and road agencies.

Activity	Income (13/14)	Number of Authorities who declared income
Property Management	£5.43m	9
ICT	£2.50m	10
Human Resources	£2.26m	10
Legal Services	£1.65m	14
Finance	£1.55m	15
Strategy and Policy	£1.17m	7
Governance	£1.04m	5
Other Administration	£0.71m	4
Procurement	£0.31m	9
Contact Centre	£0.29m	5
Total	£16.92m	

Fig.10 Administrative Income per Authority



Authorities generate up to £4.5m via a range of administrative activities. Monmouthshire generates by far the highest, generating £2.4m from Property Management services against total gross expenditure of £9.4m in that activity. Whilst income cannot be guaranteed, where authorities identify capacity within administrative functions they should look to generate revenue from this and consider wider public bodies.

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Savings Initiatives

Analysis has predominately focussed on 2013/14 cost and performance data across administrative functions, however consideration has been made to any initiatives delivered or planned that may impact this 2013/14 spend data. Data has been collected that attempts to determine the scale and focus of planned initiatives in 2014/15 and 2015/16 that may have such an impact.

18 authorities submitted information relating to savings initiatives to be undertaken across 2014/15 and 2015/16. This indicates savings initiatives totalling £33.7m are planned across these authorities, broken down across the two years:

- 2014/15 - £17.3m
- 2015/16 - £16.4m

This equates to potential savings worth 12% of the gross administrative expenditure of the 18 authorities that submitted savings initiatives, and 7% of total gross administrative expenditure across all Welsh Local Authorities.

Fig.11 2014/15 and 2015/16 Savings Initiatives per Authority

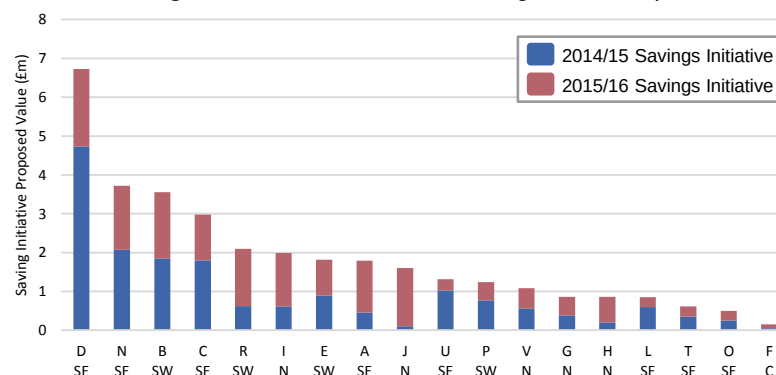
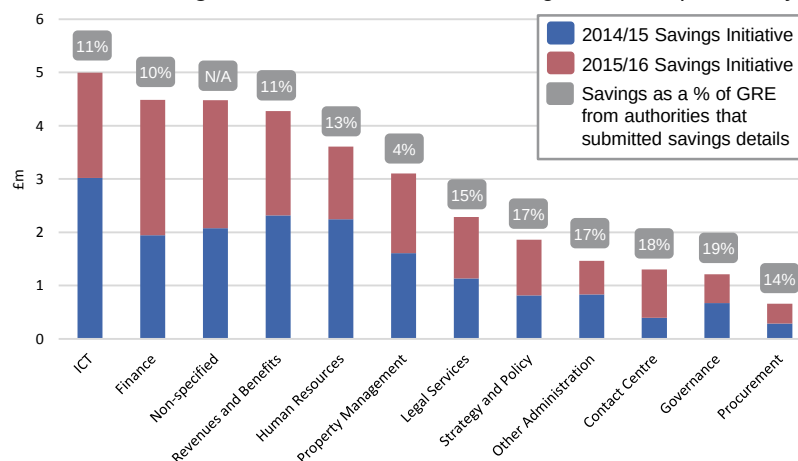


Fig.12 2014/15 and 2015/16 Savings Initiatives per Activity

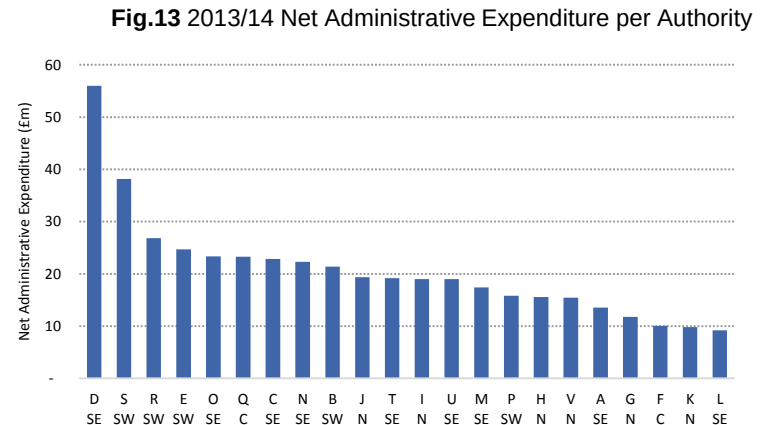


Savings have predominantly been aligned to administrative functions, however £2.5m worth of savings across both years were not classified against a particular service. This identifies that savings initiatives do not fall evenly across functions. Governance activity appears to be the focus of the most intense cost savings, with 19% of the budgets of those authorities that submitted savings initiatives being targeted for savings. However, Property Management has savings initiatives worth only 4% of existing expenditure, notable given this is the largest expenditure of all administrative activities considered. No validation of savings submitted was completed to investigate how they align with recommendations made within the latter stages of this report.

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Net Expenditure

Whilst the analysis incorporated within the report predominantly focuses on gross administrative expenditure, figure 13 considers net administrative expenditure. This incorporates 2013/14 income data generated by the administrative activities in scope. Total net administrative expenditure equates to £454m, compared to gross administrative expenditure of £471m.



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Service Analysis

Analysis has focussed on specific services within the administrative activities in scope. Ten services have been analysed to determine variability, performance and trends within the data. A summary of this analysis per activity can be found below.

Property Management

Gross Expenditure: **£100.9m** (13/14)
FTE's: **1,041** (13/14)
Income: **£5.4m** (13/14)
Savings Initiatives: **£1.9m** (14/15), **£1.5m** (15/16)

Significant variance in relative Property Management expenditure. Authorities of a comparable size demonstrating different sized functions. No readily available performance metrics and limited evidence of existing collaboration.

ICT

Gross Expenditure: **£84.4m** (13/14)
FTE's: **1,124** (13/14)
Income: **£2.5m** (13/14)
Savings initiatives: **£3.0m** (14/15), **£2.0m** (15/16)

Significant variance in relative ICT expenditure. Authorities of a comparable size demonstrating different sized ICT functions. Variance in ratio of spend between infrastructure and service desk. Limited evidence of existing collaboration.

Revenue and Benefits

Gross Expenditure: **£68.0m** (13/14)
FTE's: **1,549** (13/14)
Income: **n/a**
Savings initiatives: **£2.0m** (14/15), **£2.4m** (15/16)
Activity: **826,724 weighted caseloads** (13/14)

Limited correlation between activity and cost per unit. Significant variance in unit cost between comparable authorities. A number of authorities demonstrate performance in line with CIPFA Benchmarking club averages.

Human Resources

Gross Expenditure: **£47.1m** (13/14)
FTE's: **959** (13/14)
Income: **£2.2m** (13/14)
Savings initiatives: **£2.2m** (14/15), **£1.2m** (15/16)
Activity: **112,077 total FTE's across entire workforce**

Significant variance in relative HR expenditure. Unit cost data suggests lower average performance compared to CIPFA Benchmarks. Authorities of a comparable size demonstrate different sized HR functions.

Accountancy

Gross Expenditure: **£45.9m** (13/14)
FTE's: **858** (13/14)
Income: **£1.9m** (13/14)*
Savings initiatives: **£1.6m** (14/15), **£2.5m** (15/16)*

Significant variance in relative Accountancy expenditure. Relative expenditure suggests higher average cost compared to CIPFA Benchmarks. Authorities of a comparable size demonstrate different sized Accountancy functions.

* Accountancy income and savings figures drawn from values assigned to 'Finance' activity

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Service Analysis (cont.)

Strategy and Policy

Gross Expenditure: **£43.0m** (13/14)
FTE's: **695** (13/14)
Income: **£0.8m** (13/14)
Savings initiatives: **£1.2m** (14/15), **£1.0m** (15/16)

Significant variance in relative Strategy and Policy expenditure. Activity categorised into five key activities; substantial difference in size of functions on an FTE basis between comparably sized authorities.

Legal Services

Gross Expenditure: **£34.0m** (13/14)
FTE's: **597** (13/14)
Income: **£1.7m** (13/14)
Savings initiatives: **£1.1m** (14/15), **£1.2m** (15/16)
Activity: **394,000** charged legal hours

Significant variance in relative Legal Services expenditure. Substantial difference in size of functions on an FTE basis between comparably sized authorities. Some examples of existing collaboration between authorities.

Creditors and Debtors

Gross Expenditure: **£13.0m** (13/14)
FTE's: **337** (13/14)
Income: **£1.9m** (13/14)*
Savings initiatives: **£1.6m** (14/15), **£2.5m** (15/16)*
Activity: **4.2m** invoices processed

Broad correlation between activity and unit cost. However, significant variance in relative expenditure between comparable authorities. Larger authorities tend to demonstrate greater efficiency.

Payroll

Gross Expenditure: **£11.7m** (13/14)
FTE's: **268** (13/14)
Income: **£1.9m** (13/14)*
Savings initiatives: **£1.6m** (14/15), **£2.5m** (15/16)*
Activity: **2.4m** payslips produced

Correlation between activity and unit cost, with the most the highest unit costs identified in authorities with the lowest activity. Significant variance in cost between comparable authorities and performance below CIPFA Benchmarks.

Procurement

Gross Expenditure: **£9.7m** (13/14)
FTE's: **187** (13/14)
Income: **£0.3m** (13/14)
Savings initiatives: **£0.3m** (14/15), **£0.4m** (15/16)
Activity: **£2,781m** 2013/14 third party spend

Significant variance in relative spend and function size between authorities. A potential indication towards procurement activity taking place in front line functions.

* Creditors and Debtors and Payroll income and savings figures drawn from values assigned to 'Finance' activity

Welsh Local Authorities;
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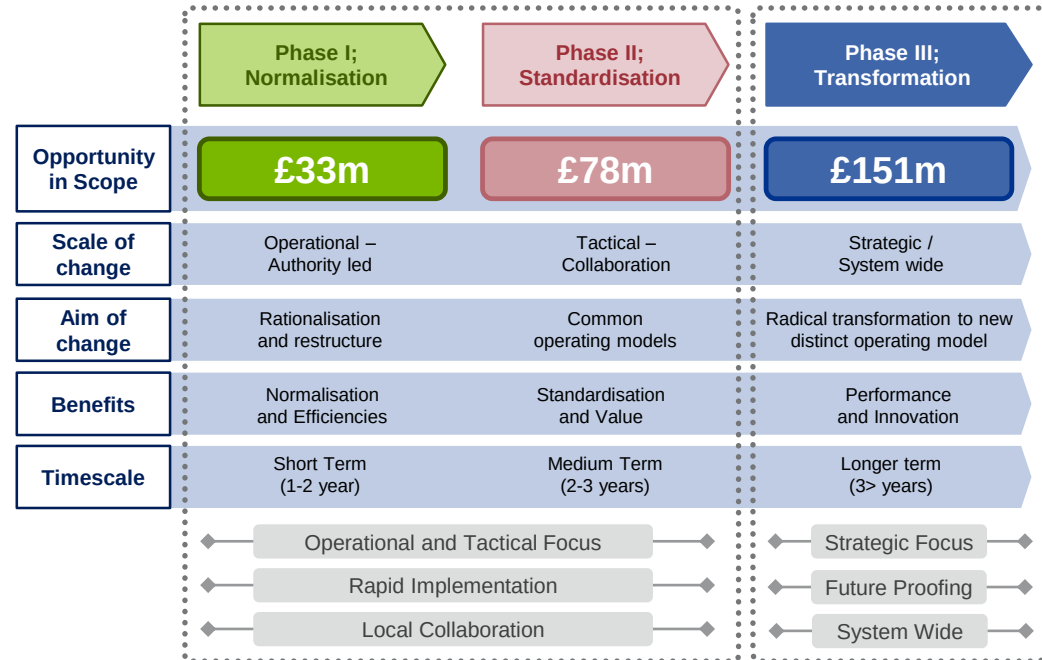
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Summary of Recommendations

Service specific analysis has identified a range of opportunities to drive efficiencies across the administrative functions of Welsh Local Authorities. These should be viewed as a foundation from which authorities can work towards establishing leading class administrative functions.

The recommendations span three phases. Phases I and II are supported by targeted recommendations detailed in this report. Phase III considers further transformation aligned with the wider ambitions for local government reform across Wales.

The scale and focus of change across the three Phases exists on a spectrum, initially requiring just an operational, authority led focus. As the imperative for collaboration increases, initiatives will become more strategic in nature and the timescales along with the scale of opportunity will similar increase. Indicative timescales give a view as to realistic gateways for design and implementation of initiatives.



Opportunity in Scope

The Phases suggest an opportunity in scope that should be considered by authorities. This should be viewed as an indicative assumption as to the value of administrative expenditure that would be within scope should recommendations be fully implemented, along with a target should performance progress towards leading class. The values do not consider the quality or effectiveness of existing administrative activities nor any geographic, socio-economic or service level considerations that may be particular to authorities and influence administrative activity performance. The indicative values are annualised, non-cumulative and do not consider the required investment costs to achieve such benefits. A full business case process should be determined for each of the initiatives to fully evaluate return on investment and payback periods.

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Summary of Recommendations; Phases I, II and III

The three Phases constitute a transformational journey that Welsh Local Authorities should consider in conjunction with existing improvement initiatives and wider reform in the sector.

Phase I - Normalisation

Phase I establishes a process of normalisation where the Welsh Local Authorities implement operational change focussed on reducing cost and performance variability between one another. It should be recognised a number of these recommendations, particularly those pan Wales are likely to be in addition to the existing initiatives implemented in 2014/15 and planned for 2015/16.. Whilst such initiatives should be founded on the establishment of platforms for authorities to more readily compare performance and operating models, they can predominantly be considered at a local level. Having determined the quality and effectiveness of functions, along with establishing where lower performance may be justified due to particular geographic, socio-economic or service considerations, authorities should look to implement initiatives to enhance the performance of authorities currently operating well below the Welsh Local Authority average. Phase I should look to:

- Rationalise and restructure functions deemed to be operating inefficiently
- Mobilise rapidly; the benefits of change should be realisable in under 1 year
- Generate realisable efficiency savings through a reduction in cost bases

Phase II - Standardisation

Building on the initiatives undertaken to normalise performance in Phase I, Phase II focuses on tactical initiatives to augment cost performance towards mean Local Government sector standards. Initiatives will require an element of collaboration and knowledge sharing between Welsh Local Authorities, with a view to standardising taxonomies, operating models and service levels across administrative functions to improve performance and efficiency. Standardisation of this nature will allow for the development of comparable performance frameworks across Welsh Local Authorities, to ensure that collaborative service improvement is embedded into the way authorities operate. Phase II should aim to drive performance to align more closely with sector benchmarks and should look to:

- Determine standardised operating model principles and service levels, ensuring that the quality of service provision is at the heart of improvement initiatives
- Build on Phase I improvement; the benefits of change should be realise in a 1 to 2 year timeframe
- Generate realisable efficiency savings through a further reduction in cost bases

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Summary of Recommendations; Phases I, II and III (cont.)

Phase III - Transformation

Having established the foundations of efficient and standardised administrative functions, Phase III should consider the benefits that could be delivered from a new operating model, delivered by system-wide, strategic transformation. Transformation of this scale must be considered in parallel to wider Local Government reform and pan-Public Sector collaboration and should consider an array of options. These would include concerted efforts to utilise disruptive technology, effective use of the private sector and outsourcing, and the potential for sharing services.

The benefits that could be achievable from Phase III would evidently be longer term in nature than more immediate rationalisation of functions. However, scoping an options analysis should begin immediately to engender a realistic timeframe for implementation. Transformation would require strong central leadership, clarity of vision and extensive engagement to become realisable.

The aims of the transformation should not be solely to deliver efficiency savings, but to enhance performance, introduce innovative practices and ensure sustainability.

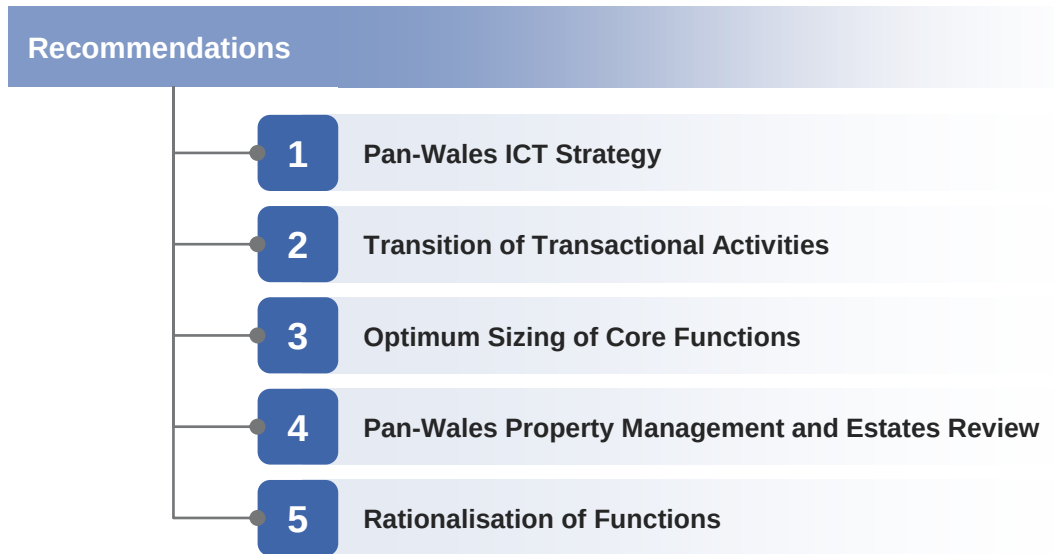
In determining an indicative opportunity in scope, benchmarks have been utilised to determine an aspirational level of administrative spend against GRE to provide a target for leading practice transformation.

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Phase I and II Recommendations

Building on analysis undertaken across administrative services, both through the scrutiny of quantitative data and the more contextual qualitative information gained at workshops held with the Welsh Local Authorities, five targeted recommendations have been developed aimed at driving efficiency and reducing variability across authorities. The recommendations are aimed at supporting the authorities towards progressing through Phases I and II. They provide a view as to where opportunities exist based on data analysis and contextual information but should be considered alongside relevant caveats. Furthermore, supporting these recommendations are a number of supplementary high-level opportunities that should be embedded in any transformation of administrative services.

All recommendations detailed here will require consequential scrutiny to realise the opportunities posed and should be developed with the full engagement of all parties involved. Furthermore, recommendations should be considered in parallel with wider reform across Welsh Local Authorities.



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Recommendation

A pan-Wales ICT strategy should be developed that enhances encourages the use of disruptive technology and considers region wide investment.

Summary

Data collected indicates that Welsh Local Authorities spent a total of £84.4m on ICT in 2013/14. This has been categorised into 'infrastructure', accounting for 60% (£52.3m) of ICT expenditure and 'service desk', accounting for the remaining 40% (£32.1m). ICT spend as a proportion of GRE stands at 1.1% compared to a leading practice benchmarking figure of between 0.7% to 0.9%.

Analysis suggests that there is a reasonable correlation between the size of the authority and spend on ICT. However, as a proportion of GRE, significant variability existed between authorities.

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 degree of duplication, especially around hardware utilisation and software development. Furthermore, targeted investment in opportunities such as shared data-centres has the potential to drive efficiency. Other benefits may flow from the adoption of such a strategy, including the potential of one consistent platform for embracing Cloud and Mobile technologies, and a set of robust, standardised principles in areas such as digital services, disaster recovery and enterprise, allowing for effective service provision.

Key Considerations

- In 2013/14, Welsh Local Authorities spent £84.4m on ICT.
- These activities are a source of income for authorities, generating £2.5m in 2013/14, predominantly from supplying services to schools.
- Authorities have highlighted savings plans and initiatives in place that will influence the 2013/14 spend figure. For 2014/15, 18 authorities highlighted plans that aimed to save £3.0m across ICT, along with further savings of £2.0m in 2015/16.

Opportunity In Scope

The opportunity under Phase I assumes authorities normalise performance before working towards leading practice benchmark performance under Phase II.



Enablers

- Shared pan-Wales software register
- Sharing of ICT contract registers
- Review of existing contracts and focussed market testing
- Consideration towards investment in new or consolidation of existing shared data centre
- Collaboration over ICT procurement
- Strategic ICT alliances between authorities
- Consideration towards Cloud and Mobile technology

Risks

- Several authorities recognised they had protected expenditure in this area as ICT was seen as a key tool for future demand management.
- Significant ICT transformation has the potential to impact other services, especially during implementation, and service continuity plans should be in place.
- Risks around data protection should be considered and mitigated.
- Commercial confidentiality would need to be recognised at all times.

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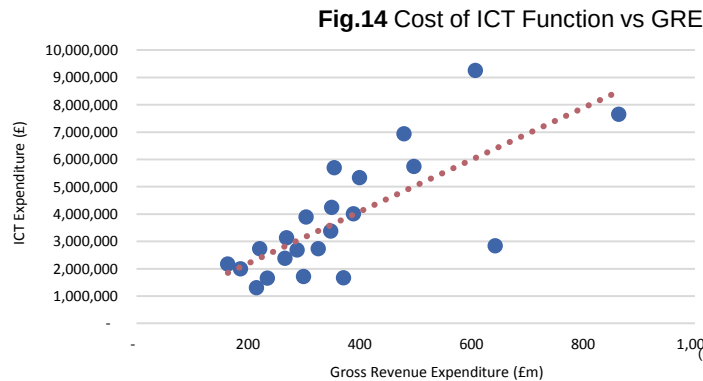
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Supporting Analysis

Analysis of ICT expenditure across Welsh Local Authorities demonstrates significant variance between authorities of comparable size. For example, authorities with 2013/14 GRE of approximately £360m have ICT functions that incur expenditure between £1.7m to £5.7m. Authorities are spending between £4 to £16 per £1,000 GRE on ICT.

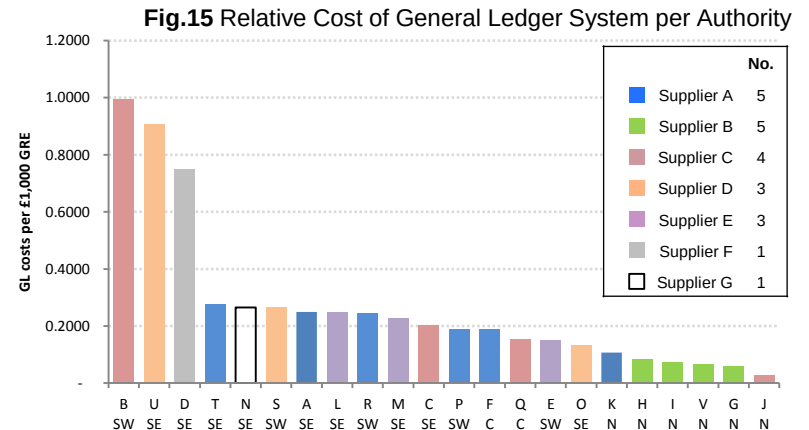


Based on initial analysis, a number of factors could be driving this variability across ICT functions:

- Authorities operate ICT functions with significantly different numbers of FTE's.
- The variance in the ratio of expenditure across Infrastructure and Service Desk suggests different operating models are in place across authorities.
- Comparable systems demonstrate different levels of cost across authorities (see Fig.14).
- Outsourcing arrangements are not demonstrating value for money.

Variability of this nature, underpinned by average expenditure on ICT above benchmarking figures, suggests a number of drivers of inefficiency:

- Contextual evidence suggested that large numbers of bespoke systems are in place across authorities. On a pan-Wales basis, lack of collaboration on bespoke systems is inefficient.
- Varying sized ICT functions suggests variance in demand from front line functions, and differences in how they interact with ICT across authorities. This could be grounded in different operating models or different capability bases across authorities.



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Detail

Currently authorities are incurring significant expenditure on ICT in a discrete manner. Through the development of a pan-Wales ICT strategy, Welsh Government should promote innovative and collaborative practice across authorities. This strategy should have three primary objectives;

1. Sharing of ICT infrastructure and software
2. Enabling joint procurement of systems and hardware such as the potential for shared ERP platforms
3. Providing guiding principles for key areas such as disaster recovery, embracing of digital services and data migration and analytics

The Welsh Government should use a number of mechanisms to support this strategy such as;

- Mandating the use of one shared data centre. Options should be considered as to whether investment is required or whether existing options could provide an appropriate platform.
- Enforcing use of a shared ICT systems and contract register (noting commercial confidentiality rules) to support authorities to identify where ICT infrastructure or capacity might exist already prior to going to market.
- Enforcing a pan-Wales software register. This would avoid duplicate programmes being built and expedite the adoption of innovative ICT solutions when it is engineered by any particular authority.
- Facilitating strategic alliances between larger and smaller ICT functions.

Next Steps

Under Phase I, focus needs to turn towards comprehensive engagement with ICT leads across all Welsh Local Authorities. This should be tasked with gaining an understanding of existing ICT infrastructure, commercial arrangements and capabilities. A view should then be taken to ascertain ICT requirements across all authorities, with a view to bringing together best practice across Wales, jointly developing ICT software to bridge technology gaps and the consideration of a pan-Wales ICT backbone that can operate more efficiently and effectively than disparate individual infrastructure. This initial focus should be supported by comprehensive software analysis and contract review to reduce variability before considering other measures to support Phase II opportunities;

- Development of a mechanism to effectively share appropriate contractual and ICT infrastructure development plans
- An investigation into the wider public sector appetite for collaboration on ICT
- Consideration of ICT requirements and demand in line with potential wider local government reform

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Recommendation

Consideration should be made towards the benefits of transitioning transactional activities into larger organisations.

Summary

Data collected across payroll and creditor/debtor activities indicates that larger authorities demonstrate greater cost efficiency per transaction than smaller authorities. Within revenue and benefits activities there is also significant variability in cost performance across authorities, although less definitive correlation between unit cost performance and authority size.

The relative spend of such functions varies significantly across Welsh Local Authorities and metrics such as cost per invoice and cost per payslip suggest varying degrees of productivity across the authorities. The analysis also indicates a higher cost per transaction compared to CIPFA benchmarking data.

On this basis, consideration should be made towards the benefits of transitioning transactional activities into larger organisations. This would provide an opportunity for transactions to benefit from standardised processes and systems as well as economies of scale. Such a model could exist in a number of forms;

- Moving smaller transaction operations into larger organisations
- Setting up new joint public sector transaction processing centres
- Go to market to investigate private sector transaction processing solutions

Key Considerations

- In 2013/14, Welsh Local Authorities spent £11.7m on payroll activity and £13.0m on creditor/debtor activity. Expenditure on revenue and benefits totalled £68.0m.
- These activities are supported by both a number of revenue and benefit grants from Welsh Government and through generating income Finance activities including Payroll and Creditors generated £1.6m in 2013/14.
- Authorities have highlighted savings plans and initiatives in place that will influence the 2013/14 spend figure. For 2014/15, authorities highlighted plans to save £4.2m across finance and benefits activity, with a further £4.5m in 2015/16.

Opportunity In Scope

The opportunity under Phase I assumes authorities normalise performance before working towards sector benchmark performance under Phase II.



Enablers

- Full organisational and political engagement should be sought.
- Transformation of this nature should also be considered in conjunction with ICT transformation, especially if investment towards a standardised ERP system may be an option.
- Authorities discussed a preference towards a regional model which should be explored at options analysis phase

Risks

- Discussions with authorities highlighted concerns about previous attempts to share services across Welsh Local Authorities.
- Shifting activity away from some authorities has the potential to have a detrimental impact on employment in those areas.
- Some models to support the transitioning of transactional activity require significant expertise and capacity to implement successfully.
- The recommendation should be considered in parallel with wider local government reform across Wales.

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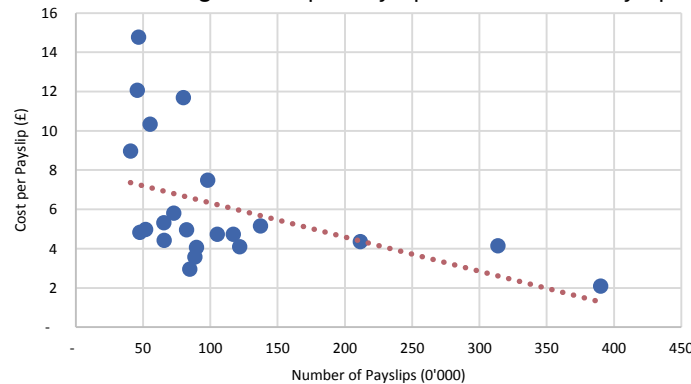
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Supporting Analysis

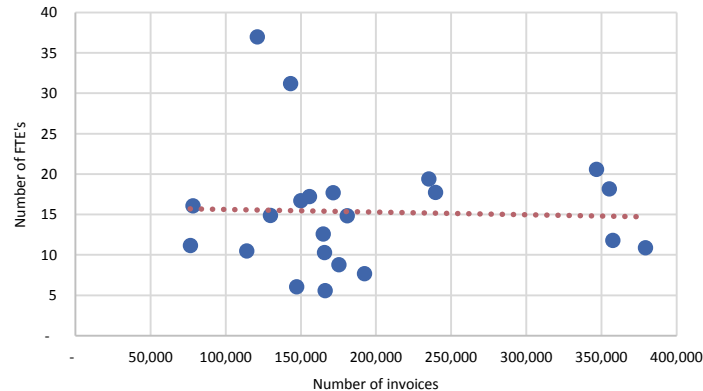
Analysis of transactional activity encompassing payroll, creditors and debtors and revenue and benefits identifies significant variability in efficiency between authorities as well as an indication of greater efficiency in larger organisations. Expenditure across these activities amounted to £92.6m in 2013/14.

Fig.16 Cost per Payslips vs Number of Payslips



A number of metrics indicate greater unit efficiency in authorities supporting greater volumes of transactional activity. For example, the cost per payslip demonstrated by authorities supporting under 100,000 payslips per annum ranges from between £3 and £15. For authorities supporting over 100,000 payslips per annum, the range drops from £2 to £5 per payslip. This trend is present in creditor and debtor activity as well, where the number of FTE's engaged in such activity tends not to exceed 20 (with the exception of two outliers) regardless of whether the authority is processing 75,000 invoices or 380,000 invoices.

Fig.17 Number of Creditor and Debtor FTEs vs Number of Invoices



These activities also appear inefficient when compared to CIPFA Benchmarking data, although this appears not to be the case under Revenue and Benefits activity, where average performance is comparable to authorities within CIPFA Benchmarking clubs.

Under payroll activity, average cost per payslip across Welsh Local Authorities is £6.61, compared to a CIPFA Benchmarking Club average of £3.34. All but two Welsh Local Authorities operate at a more expensive unit cost than the CIPFA Benchmark. Similarly, cost per invoice averages £3.70 across Welsh Local Authorities, compared to a CIPFA Benchmarking average of £2.60 per invoice.

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By running concurrent transactional services independently from one another, authorities are not able to drive down unit costs per process. By providing these services in a centralised manner authorities will be able to realise savings through reaching the processing volumes needed to drive down unit costs. Larger transactional centres will be able to standardise systems, design more efficient processes and have a greater span of control, all helping to maximise staff productivity. It is noted within the dataset some authorities have high invoice volumes which could be managed down in larger transactional centres through regional management of suppliers. Such initiatives could provide other benefits such as a centralised data warehouse and an improved control environment.

Any consideration towards transactional processing hubs should fully evaluate all transactional processes authorities undertake. It is noted that within Revenue and Benefits administrative activity there is no correlation between weighted cost per caseload and size of authority. However, it is assumed a proportion of this activity is administrative in nature and given significant unit cost variability within the service, Revenue and Benefits administration should be included within the scope of services under consideration. Any inclusion of Revenue and Benefits would need to be flexible enough to accommodate upcoming reform and consequent changes in demand.

Any decision on the number and location of larger transactional centres would require significant analysis and consultation with Local Authorities. It was recognised that a regional model would be preferred for the transactional hubs, and should be considered in parallel to wider local government reform across Wales.

Next Steps

To support Phase I opportunities, authorities need to collaborate to evaluate performance and processes to establish the causes of perceived lower efficiency. This process should also endeavour to determine the quality of service provision. This should then progress towards establishing standardised operating models based on leading sector performance, along with:

- Scoping out opportunity for collaboration with wider public sector bodies on transactional services
- Development of design principles for robust options analysis, incorporating commercial considerations, sustainability and decisions in relation to location
- Comprehensive market testing to support options analysis
- Alignment with potential wider Local Government reform across Welsh Local Authorities

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Recommendation

Services need to adopt a best practice operating model and should consider the optimum amount of resources required to deliver.

Summary

A number of core functions have indicated significant variances in the number of FTEs required for the provision of service. This suggests that various operating models are in place, along with varying degrees of productivity. This could be an effect of inadequate or ineffective systems or inefficient processes.

Focus has been applied to Accountancy and HR functions, which spent £45.9m and £46.9m respectively in 2013/14. Some authorities of comparable size highlighted huge variances in the number of FTE's engaged in such activity.

Better collaboration between authorities in these service areas should be sought as a priority. An understanding of different operating models needs to be developed and those authorities deemed to be operating inefficiently need to determine to what degree leaner operating models can be implemented. This should be undertaken with a view to establishing the optimum size of functions and adjustments to staffing levels should be considered where appropriate.

It should be noted that clarity should be sought as to what Accountancy and HR activity is taking place in the 'front line' along with ensuring an understanding of the effectiveness and service quality of differing sized functions.

Key Considerations

- In 2013/14, Welsh Local Authorities spent £45.9m on Accountancy and £46.9m on HR, with a total number of 1,816 FTEs working across these services.
- These activities are a source of income for authorities, with HR generating £2.3m in 2013/14 and Finance (non-specific to Accountancy) generating income of £1.6m.
- Authorities have highlighted savings plans and initiatives in place that will influence the 2013/14 spend figure. For 2014/15, 18 authorities highlighted plans that aimed to save £4.2, with a further £3.9m identified in 2015/16.

Opportunity In Scope

The recommendation assumes that implementation of leaner operating models can drive efficiencies, reducing variability across Welsh Local Authorities.



Enablers

- Platform for sharing operating models and best practice.
- Use of standardised KPI benchmarking framework for analysing performance.
- Process mapping across authorities to identify lean practice and scope for improvements.
- Adopting a 'technology first' approach to repeatable processes

Risks

- Data analysis undertaken does not consider the quality of various operating models. Analysis of quality and effectiveness should be considered.
- As leaner models are implemented, consideration should be made to the capacity of functions to support transformation in the future.
- Reducing resource bases in some authorities has the potential to have a detrimental impact on employment in those areas.

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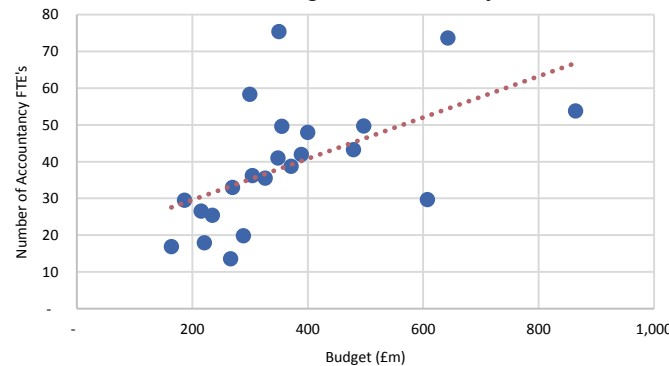
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Supporting Analysis

Analysis of core functions, namely Accountancy and HR, incorporates expenditure that amounts to £92.8m across Welsh Local Authorities in 2013/14, with 1,816 FTE's engaged in such activity. Relative spend on Accountancy varies significantly between authorities, with spending varying between £2.61 and £9.79 per £1,000. There is similar variance within HR activity, with spend varying between £118 and £460 per employee.

Fig.18 Accountancy FTEs vs GRE

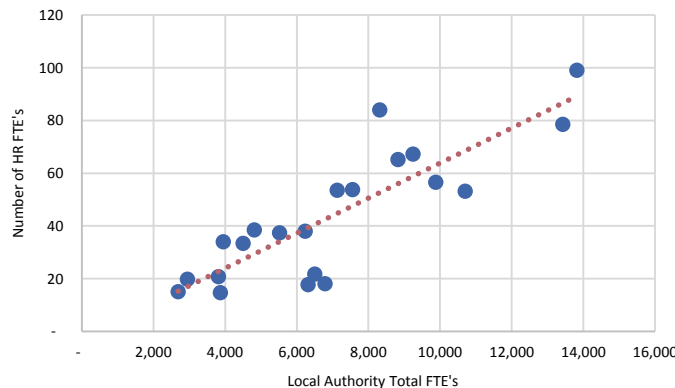


A material driver of this variance appears to be functions of very different size, on an FTE basis, between comparable authorities.

Within Accountancy activity, authorities with 2013/14 GRE of approximately £250m to £350m operate Accountancy functions of between 14 and 75 FTE's. Furthermore, the blend of resource focussed on technical, management and strategic accountancy varies, although it is noted that such categorisation is subjective.

Within HR activity, the trend is comparable. Authorities with between 6,500 and 8,500 employees operate HR functions of between 18 and 84 FTE's. Again, the ratio of resource between transactional and strategic HR activity varies.

Fig.19 Number of HR FTEs vs Total FTEs



Consideration should be made to both the effectiveness of these functions (for which this analysis has not taken into account) along with to what degree Accountancy and HR activity has been decentralised to front line functions (front line administrative activity analysis suggests that authorities have identified £12.3m of 'Finance' activity in front line functions).

The variance in FTE numbers could be driven by a number of factors. Such data suggests very different operating models are in place between authorities along with probable inefficiency driven by ineffective systems.

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Detail

The sharing of best practice and potential lean operating models across Welsh Local Authorities needs to become integral to their operation going forward. Across the core functions of Accountancy and HR, those authorities deemed to be operating below the Welsh average or CIPFA benchmark need to determine the cause of additional cost and implement qualifying strategies. Those authorities that are outperforming the Welsh average need to determine what elements of their operating model are driving efficiency and share these for the benefit of all authorities. Investigations also need to conclude to what degree such activity is taking place within front line functions, with efficiency analysed accordingly. Identifying an optimum size for core administrative functions, that balances efficiency with high quality service provision should be sought and a clear timescale to realise this should be developed.

Refinement of core functions such as Accountancy and HR should also be seen as an opportunity to develop centres of excellence, ensuring that functions are designed around the services that meet customer needs as opposed to being determined by incumbent employee structures. Lean process design can be supplemented with the full utilisation of technology to drive savings across functions whilst maintaining high quality service provision. Furthermore, any consideration towards a new target operating model should fully assess opportunities for income generation external to the authority, where a review identifies surplus capacity or elements of unique expertise.

Next Steps

Authorities should look to formally engage and collaborate around options for operating models across core functions. Initial focus under Phase I should determine where local process improvements can drive normalisation prior to identifying and establishing consensus on best practice models for the provision of such services. This should incorporate a view as to the quality of service provision across functions of varying size and cost. Further activity as authorities progress towards Phase II should consider:

- Utilising a consistent benchmarking framework to identify an optimal size structure for core functions
- Authorities identifying the best means to rapidly move towards best practice operating models. This could be facilitated through the heads of service forums for example.
- Developing a mechanism to undertake comprehensive process mapping to determine where efficiencies can be gained across supporting business processes
- Longer term reform and its consequential impact on the capacity and capabilities within these functions to support future transformation.

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Recommendation

Development of a platform for Property Management performance that optimises expenditure, maximises asset utilisation and considers alternative delivery models.

Summary

Data submitted indicates that Property Management accounts for the most significant proportion of administrative expenditure across Welsh Local Authorities, totalling £101m in 2013/14. This has been categorised into Estates Management, totalling £29m and Facilities Management, totalling £72m. The total expenditure figure of £101m can also be categorised subjectively, with significant proportions £38m identified as administrative buildings expenditure and £32m as staffing costs.

Property Management expenditure is highly variable between authorities, with relative expenditure as a proportion of GRE ranging between 0.5% to 4%. Whilst it is acknowledged that authorities will be operating with varying estate models, such variance warrants a more detailed review of property management and estates. The integrity of performance metrics for Property were poor, suggesting authorities need to more effectively use data to drive efficiencies in Property Management expenditure. On a pan-Wales basis; a platform is needed that standardises performance data, encourages collaboration and considers opportunities for geographic hubs, integrated facilities management provision and, where appropriate, soft market testing. By operating cross authority this would not be constrained by boundaries when determining how best to meet asset demand.

Key Considerations

- Expenditure data from 21 Welsh Local Authorities, indicates spend of £29.3m on Estates Management and £71.5m on Facilities Management activity in 2013/14.
- Property Management activities are supported by £5.4m of income generated primarily from schools, where authorities are providing maintenance activities, or catering and cleaning activities that would be captured in this activity.
- Authorities have highlighted savings plans and initiatives in place that will influence the 2013/14 spend figure. For 2014/15, authorities highlighted plans to save £1.9m, with a further £1.5m in 2015/16.

Opportunity In Scope

The opportunities in Phase I and II focus savings in expenditure less cost of premises



Enablers

- Collation of standardised asset utilisation data.
- Collation of wider activity and performance data including key metrics such as gross internal area.
- Consultation with the facilities management market.
- Consideration towards pan-Wales Property Management requirements not limited by authority boundaries.

Risks

- Commercial rents have been excluded from Property Management income collection. Although the cost of these teams has been captured, this may reflect unfairly on authorities with large commercial estates.
- Any subsequent data analysis exercise would need to be considerate toward the rural nature of a number of authorities and the challenges this brings to efficient service provision.

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Supporting Analysis

Property Management activity, broken down into Estates Management and Facilities Management, accounts for gross expenditure of £101m in 2013/14 across all Welsh Local Authorities. 1,041 FTE's are engaged in Property Management activity.

On a relative basis, spending on Property Management activity varies significantly between authorities. Whilst the range of relative spend is wide (with authorities spending between £3 to £43 per £1,000 GRE on Property Management) it should be noted that a number of the more expensive authorities on a relative gross basis do generate income from Property Management activity.

Authorities of a comparable size demonstrated significantly different levels of Property Management spend. Whilst an element of this could be driven by the diverse geographic nature of the authorities, such variance should be investigated.

Fig.20 Cost of Property Management per £1,000 GRE

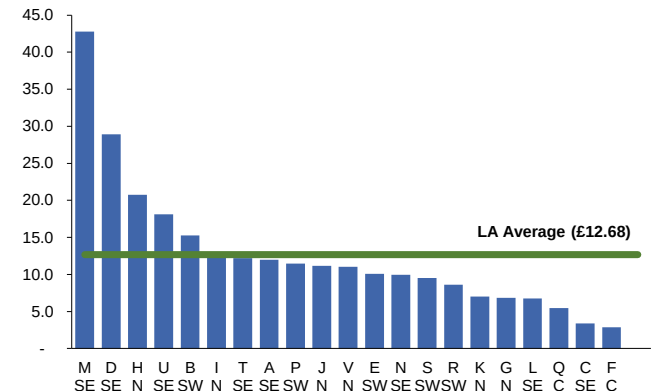
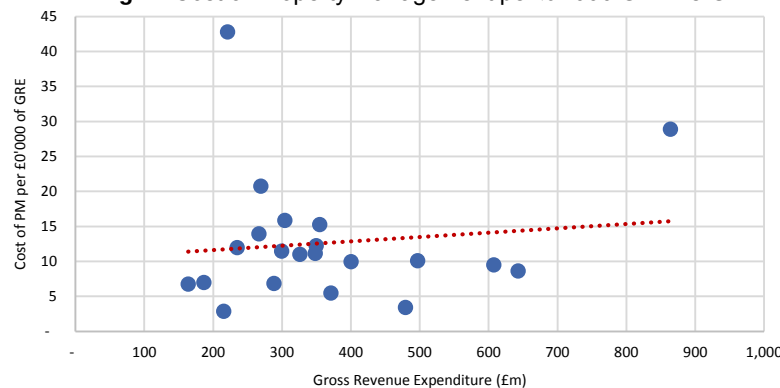


Fig.21 Cost of Property Management per £1'000 GRE vs GRE



Authorities did not evidence any material examples of collaboration within Property Management activity. Furthermore, standardised performance metrics did not appear to be readily available across the authorities which would hinder collaboration and an ability to establish effective performance management on a pan-Wales basis.

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Detail

Of all administrative expenditure collated, 21% relates to Property Management activity. Services of this materiality warrant definitive review with a focus on optimising costs and assets through considering alternative delivery models where appropriate. A number of key areas should feed into any review

Firstly, employee costs relating to Property Management are large, with data suggesting 1,041 FTEs operate within this function across Welsh Local Authorities. To allow for robust analysis and performance comparison, consideration should be made to defining and agreeing a new taxonomy to allow more detailed comparability on roles, structures and performance within both the Facilities and Estates Management activities. The ability for authorities to generate standardised performance metrics appeared limited which would hinder collaboration and effective performance management.

Expenditure totalling £8.8m was categorised by authorities as relating to 'Other Supplies and Services'. This should be further analysed by categories such as hard facilities management, catering and cleaning, landscaping and waste to identify where there may be scope for authorities to jointly procure.

The market for outsourcing and joint ventures within Property Management is mature. Whilst noting that one of the lowest cost Facilities Management figures collated on a relative basis was delivered by an outsourced contract, a review should look to consider what options for external supply could deliver savings, particularly in relation to boundaries.

Furthermore, given the significant total expenditure on administrative buildings, in parallel with other recommendations such as transactional hubs or wider Local Government Reform, authorities may consider there is an opportunity for administrative asset rationalisation as part of a subsequent investigation.

Next Steps

To support a pan-Wales review of Property Management and Estates, authorities need to work towards sourcing definitive estate focussed activity and performance metrics across total local authority estates. Further activity should consider:

- Engagement with authorities to fully understand Property Management requirements
- Proposed design and scope of any subsequent review, considering the potential for estate rationalisation, alternative asset utilisation and consideration towards developing a standardised performance management framework. This should be in line with potential wider Local Government reform across Welsh Local Authorities
- Opportunities for optimised asset utilisation to support initiatives under Phase II
- Soft market testing of Facilities Management activities

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Recommendation

A number of functions which demonstrate significant variances in relative spend need to be considered for rationalisation.

Summary

A number of functions analysed displayed significant variances in expenditure and headcount between comparable authorities. Of particular note, Strategy and Policy and Legal Services demonstrated large variances in headcount; data collated identified Policy teams ranging in size from 1 to 28 FTE's, Communications from 2 to 35 FTE's and Legal Services from 7 to 81 FTE's.

For authorities falling in the upper range of headcount across these services, an urgent review of activity and productivity should be undertaken. Except where justified by demand particular to an authority, or where demand on the service has increased due to income generating activities, rationalisation of teams should be endorsed.

Average employee costs across these functions tends to be reasonably high (average £41k across both Strategy and Policy and Legal Services in 2013/14), meaning that a reduction in variability between authorities has the potential to have a significant impact.

It should be noted that no analysis of the quality or effectiveness of these functions has been undertaken, which should be considered in any subsequent review.

Key Considerations

- In 2013/14, authorities spent £42.8m on Strategy, Policy, Performance, Communications and Chief Executive Office and £33.9m on Legal Services
- These services achieved £2.8m in income 2013/14, apportioned £1.6m from Legal Services and £1.2m from Strategy and Policy.
- Authorities have highlighted savings plans and initiatives in place that will influence the 2013/14 spend figure. For 2014/15, 18 authorities highlighted plans to save £1.6m across these functions, with a further £2.2m in 2015/16.

Opportunity In Scope

The recommendation assumes that a review of functions has the potential to reduce team sizes that currently exist as outliers across Welsh Local Authorities.



Enablers

- Consideration towards building on existing collaboration initiatives.
- Platform to facilitate sharing of best practice and operating models.
- Support to undertake further analysis against functions in scope.
- Subjective analysis of communications expenditure should be considered to verify bulk advertising or purchasing deals.

Risks

- The categorisation of spend between sub-activities within Strategy and Policy will incorporate a degree of subjectivity and should be analysed further.
- Reducing head count in Legal for example can shift demand elsewhere and can also risk placing reliance on expensive external advice.
- Reducing resource bases in some authorities has the potential to have a detrimental impact on employment in those areas.

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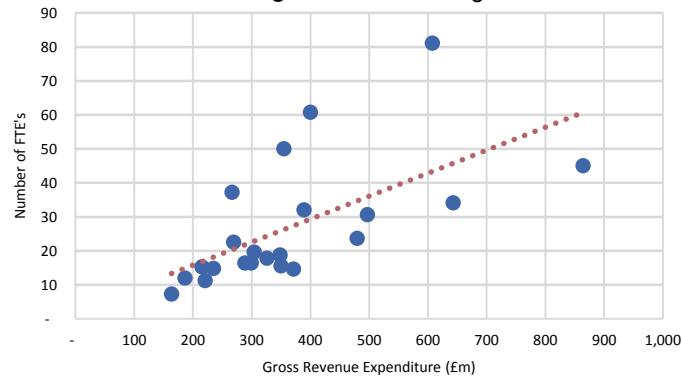
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Supporting Analysis

Gross expenditure across a number of core functions appears highly variable. Within activities such as Legal Services, Strategy and Policy, Governance and Contact Centres, such variance appears driven predominantly by very different numbers of FTE's, even within comparably sized authorities. Whilst it is noted that such analysis has not determined the quality of these functions, such variance must be reviewed and considered for rationalisation.

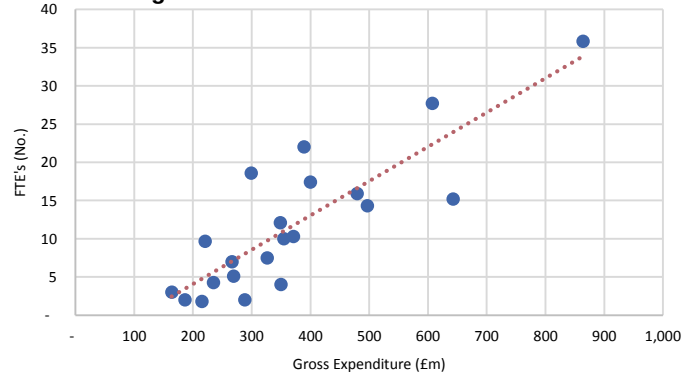
Fig.22 Number of Legal FTE's vs GRE



Legal Services activity accounts for gross expenditure of £34m across Welsh Local Authorities in 2013/14. Whilst it is noted authorities generate income from such activity (amounting to £1.7m over the same time period), the size of Legal Service functions varies significantly, from 7 FTE's up to 81 FTE's. However, even those of a similar size on a GRE basis have very different sized functions. Authorities with GRE of between £370m to £400m have Legal Service functions that range from 15 FTE's to 61 FTE's.

This variance drives the significant differences in the relative cost of Legal Services. Authorities spend between £2.3 to £7.4 per £1,000 GRE on Legal Services activity.

Fig.23 Number of Communications FTE's vs GRE



Strategy and Policy was categorised into five key areas, namely Communications, Policy, Performance, Chief Executive's Office and Strategy. Whilst it is noted that categorisation of such activity could be deemed to be subjective, significant variance was identified both across Strategy and Policy as a whole, as well as within the individual activities. Strategy and Policy spend on a relative basis varies between £2.2 to £14.1 per £1,000 GRE across authorities. The variance in FTE's is also deemed to be material. Within Communications, the largest of the five categorised activities, the size of functions varies between 2 to 35 FTE's.

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The analysis of data across key functions indicates a number of authorities that are operating with significantly larger teams than comparable authorities in Wales. It is recognised that services such as Strategy and Policy and Legal Services provide integral services to support the effective operation of authorities, however larger teams need to be reviewed and an understanding of activity developed. Included within this any additional capacity needs to be analysed for revenue generating potential, building on established examples of services that generate income within these functions.

Where capacity is not being utilised and metrics suggest that authorities are operating with larger teams than comparators, then consideration should be made toward the potential for reducing team sizes. Collaboration should be sought between authorities to share details of operating models and organisational structures across these functions to support such initiatives.

Furthermore, authorities should consider where opportunities exist to build on existing examples of collaboration, such as the shared service model for legal services in South West Wales. Collaborations of this nature have the potential to drive further efficiencies and can also look to establish a centre of excellence aimed at enhanced service quality alongside the promotion of further revenue generating activities.

Next Steps

Within Phase I, authorities should review process and operating models across the services in scope to determine where variances between authorities drive significantly different sized functions and relative spend. This should be aimed at determining existing capacity, reconciled against demand within each function and should also consider the quality of such service provision. Authorities should consider the potential to build on existing revenue generating initiatives. Further activity as authorities progress towards Phase II should consider:

- Development of a platform to support collaboration and sharing of best practice between authorities.
- Supported by analysis, initiatives should be considered and implemented across authorities to rationalise existing teams within the functions in scope.
- Alignment with potential wider Local Government reform across Welsh Local Authorities

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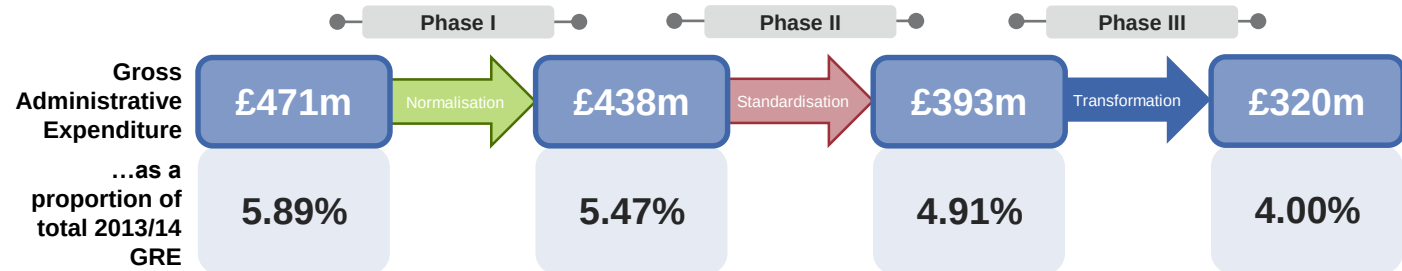
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Phase III

Recommendations incorporated within Phase II will help authorities progress towards common operating models, consistent taxonomies and standardised service levels across administrative functions. This will establish a foundation from which strategic, system-wide transformation can be considered. Standardised operating models will allow for the implementation of radical transformational initiatives that are pan-Public Sector and have the potential to not only deliver significant savings, but also drive performance, innovation and sustainability.

System-wide transformation must be considered in parallel to wider Local Government reform. Initiatives should consider an array of different options, including shared service operations and outsourcing as well as enablers such as cloud technology.

A single layer of Local Government must demonstrate greater efficiency than other, multi-layered Local Government models. This assumption can provide a benchmark from which an indicative opportunity in scope can be derived within Phase III transformation and a view as to what administrative expenditure could amount to should initiatives progress Welsh Local Authorities towards leading practice.



As of 2013/14, Welsh Local Authorities spend 5.89% of GRE on administrative activities. The opportunity in scope from Phase I initiatives suggests a potential for authorities to reallocate 0.42% of GRE to non-administrative activities. Phase II initiatives propose a further opportunity relating to 0.56% of GRE. Whilst noted to not be directly comparable, but to provide a leading practice example, unitary authorities in England achieve a benchmark spend of total GRE allocated to administrative activities of 3%–4%. Utilising the ambition of achieving the lower end of performance within this benchmark, were Welsh Local Authorities allocating 4% GRE to administrative activities this would suggest an opportunity in scope of a further £73m on top of the existing Phase II.

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Phase III (cont.)

To deliver a step change in the efficiency of administrative functions, authorities need to urgently consider a number of transformative initiatives. These may fundamentally alter the way administrative activities operate and interface with other functions within authorities. Considerations should be made towards initiatives such as:

- **Establishing a Commissioning Hub**

Focus must be applied to where best to source efficient and effective service provision. Authorities should look to establishing a commissioning hub that drives commercial decisions about where and how to source all services required to be delivered by authorities, including both front line and administrative services. Outsourcing of services should be rigorously analysed by the commissioning hub to ascertain where it can drive value through efficient and effective service provision. The development of a commissioning hub should also encourage the development of alternative service delivery models for the provision of service. This would allow for authorities to operate much more commercially, looking to source income from equity in subsidiaries delivering service to a customer base drawn from both public and private entities. Commissioning hubs would be able to more effectively manage and develop the markets that they service.

- **Regional Centres of Excellence**

The delivery of administrative activities should not be constricted to the existing functions and boundaries of the 22 local authorities. Collaboration should underpin transformation, recognising that the activities provided by administrative functions are broadly consistent across all authorities. Consideration must be applied to where administrative activities can be more efficiently and effectively delivered from regional hubs as opposed to the existing 22 distinct silos. Regional Centres of Excellence should focus not just on delivering value for money through the provision of highly efficient administrative services, but also on delivering leading practice service. Such a transformation should consider the potential for pan-Public Sector service provision, delivering value more widely than just local government.

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Phase III (cont.)

• Utilising Disruptive Technology

Building on a pan-Wales ICT strategy, authorities need to consider radical technological solutions to drive both efficiency and effectiveness across administrative activities. The use of disruptive technology should not be focussed on making incremental improvements to systems, but on wholesale transformation of the operating model delivering administrative activities across Welsh Local Authorities. Through embracing the use of Enterprise Resource Platforms, self-service internal systems such as IT and HR and greater use of digital channels in services such as Revenues and Benefits for example to enhanced value and drive multi-agency data use that supports more effective decision making. Cloud based technology has the potential to significantly reduce existing hardware investment and maintenance costs. Transformation aimed at driving value from technology must also consider a means through which it can enable more effect 'self-serve' operations, allowing front line functions to draw down effective administrative support in a way which doesn't require a significant administrative resource.

• Centralisation of Activity

Focus must be applied to effectively cleansing administrative activity taking place in front line functions that is deemed to be inefficient and ineffective. Data collected suggests that expenditure assigned to administrative activity in front line functions could amount to between £70 and £100m. This has not been included within the analysis undertaken on the gross administrative expenditure of £471m but should be considered for review and centralisation. This will allow for more effective performance management of such activities, driving efficiency by ensuring that authorities only deliver administrative activity from front line functions by exception.

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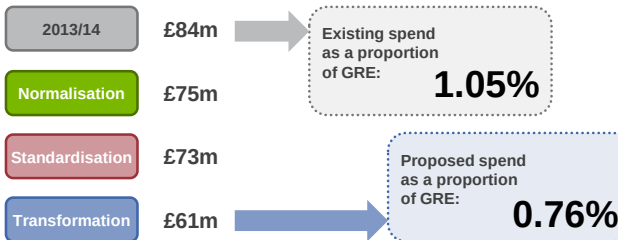
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Phase III (cont.)

The potential reduction in administrative expenditure proposed in Phase III represents a 32% reduction in 2013/14 administrative expenditure. Assuming the implementation of initiatives in Phase I and II, analysis can be undertaken by applying the opportunity in scope proposed by Phase III on a relative basis to all functions.

ICT

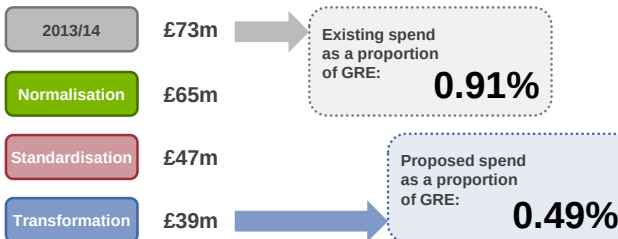
Gross expenditure on ICT activity could be considered across all three Phases to decrease from £84m to £61m.



ICT expenditure of £61m represents 0.76% of GRE spent on ICT activity. Through releasing expenditure of approximately £24m, this transitions the efficiency of ICT cost within the range of industry benchmarks of between 0.7% and 0.9% of total expenditure. This should also provide increased performance through innovation and increased performance of systems to support functions across authorities.

Finance

Gross expenditure on Finance activity could be considered across all three Phases to decrease from £73m to £39m.



Finance expenditure of £39m represents 0.49% of GRE spent on Finance activity. The release of expenditure of approximately £33m would require the full consideration of commissioning service from other entities along with drawing service from regional centres of excellence tasked at delivering efficient transactional activities and leading practice accountancy and treasury services to all authorities.

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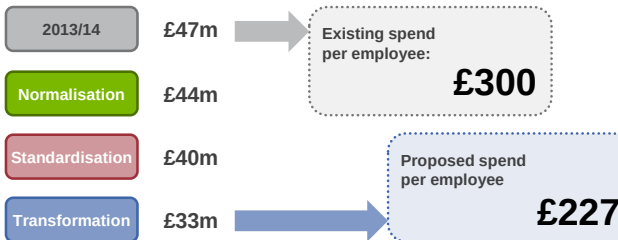
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Phase III (cont.)

HR

Gross expenditure on HR activity could be considered across all three Phases to decrease from £47m to £33m.



HR expenditure of £33m represents per employee spend of £227. Through releasing expenditure of approximately £14m, the performance of HR activity across Welsh Local Authorities can surpass the performance of the CIPFA Benchmarking Club average of HR spend of £252 per employee. This should be founded on the utilisation of technology to facilitate self-serve functionality along with transactional activity sourced from regional centres of excellence.

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Supplementary Recommendations

Further to recommendations detailed, there are a number of principles and matters that should be considered in the course of the implementation of any initiatives. These should be viewed as good practice and should be embedded within the way Local Authorities operate across Wales going forward.

- **Sharing of Best Practice**

Collaboration between Welsh Local Authorities should be extensively encouraged, with a particular view towards sharing best practice across a range of activities and services. A range of wider stakeholders could facilitate and formalise sharing between authorities. Operating models should be shared and scrutinised where they deliver enhanced efficiency and effectiveness and authorities should consider how improvements can be delivered when compared to best practice.

- **Benchmarking of Performance Data**

Data analysis and subsequent performance benchmarking does not appear to be commonplace between Welsh Local Authorities. Such activity should be undertaken regularly to compare efficiency, and encourage authorities to drive performance through assessment against comparable peers both within Wales, across English authorities and against the private sector where appropriate. Volumetric data can also be used to help identify and reduce internal demand for administrative services.

- **Utilisation of Central Functions**

Actions should be taken to ensure that authorities are able to effectively utilise the full range of central functions that are available to support the provision of service. It was evident that services such as the National Procurement Service were not being utilised as effectively as they could be, suggesting that significant inefficiencies exist in the provision of certain services where central functions are in place. A review focussed on the utilisation of such services should be undertaken, with particular consideration to the impact central functions have on the remaining resource capabilities.

- **Reviewing Front Line Administrative Activity**

Data collated suggests that between £70m to £119m is spent on administrative activity in front line functions within Welsh Local Authorities. Whilst it is noted that some administrative activities are likely to fall within front line functions (such as specific Children's Payment teams), a review should be undertaken as to how effective and efficient other administrative activity is that takes place in front line functions.

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Supplementary Recommendations (cont.)

- **Spend Categorised as “Other Administrative Spend”**

Spend to the value of £35m has been categorised as “other administrative spend” across Welsh Local Authorities. Further analysis should be undertaken to determine the nature of activity that falls under this category with a view to determining its efficiency and effectiveness.

- **Ensuring Change Capacity**

As initiatives continue to drive enhanced performance and efficiency, authorities should consider to what degree they maintain sufficient capacity and capability to manage on-going and future change requirements. Change should be considered an element of business as usual activity for all functions and sufficient resource should be maintained to accommodate this.

- **Investment in Services**

As the cost envelope within which administrative services is reduced, consideration should be made towards the potential benefit of investing in some services to drive efficiencies and effectiveness elsewhere in the organisation. As an example, back office procurement functions were broadly considered to be operating with lean operating models, where driving further efficiencies posed a risk of reducing the effectiveness of the procurement activity within an organisation as a whole, and potentially increasing expenditure and decreasing value for money. Such investment could also empower the front office via the use of technologies that enhance the use of digital channels and business intelligence.

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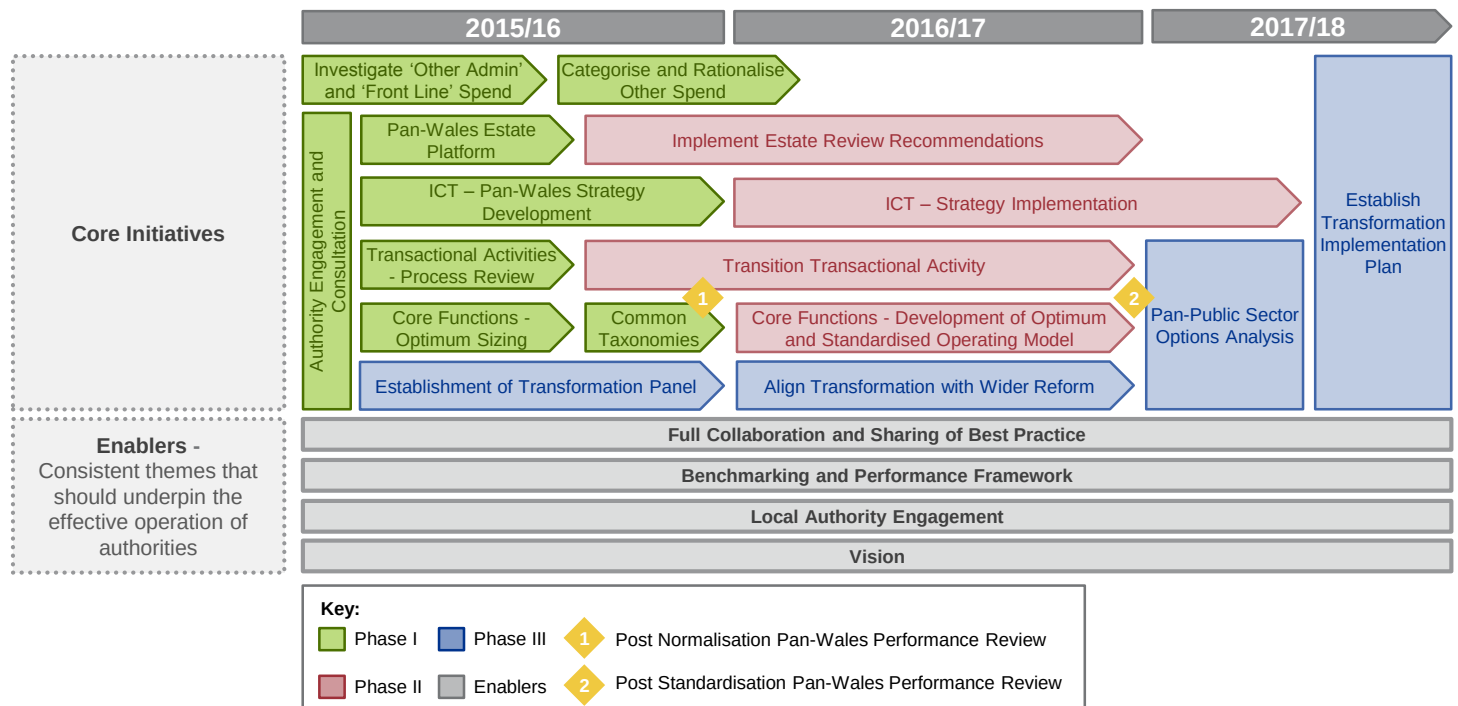
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Indicative Timetable

The process of transforming local authority administrative functions is one that requires vision, comprehensive engagement across all stakeholders and determined leadership. This should encourage transformation from ‘the ground up’, with authorities supported to deliver strategic change. The transformation should be guided by resolute vision developed collaboratively by authorities.

The initiatives incorporated within the recommendations have been aligned to an indicative timetable below. This should be used as a framework to develop more detailed improvement plans and aligned to existing initiatives to supplement ongoing improvement work. A number of key milestones have been suggested where authorities can undertake a comprehensive view of progress attained.



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Benefits

Working through the timetable effectively will allow Local Authorities to realise a range of financial and non-financial benefits. Financial benefits would offer the opportunity for resources to be redirected to front line services and have been articulated. Whilst the focus of the report has been on cost and activity levels, wider benefits could also be realised through transformation of these services. Benefits would come throughout the three phases;

- **Normalisation**

Through reducing variability between authorities immediate cashable savings could be realised. By quickly working through the recommendations made, particularly in relation to rationalisation and optimum sizing of services, authorities can assess their current capacity, and consider the appropriateness of this. This also represents the first step in authorities collaborating to share information on teams, cost efficiencies and best practice.

- **Standardisation**

To move toward CIPFA Benchmarking average performance, authorities will need to work more closely with one another and the wider public sector to identify best practice structures and processes. Through more homogenous operating models front line services will be accessing administrative functions in a standardised way, increasing the opportunity for cross authority working. Given a number of these services are highly technical (treasury, legal, procurement for example) shared knowledge and insight can reduce risk.

- **Transformation**

Through wide scale collaboration and by fully embracing technology and other solutions to deliver leading practice services, authorities will not just see financial benefits but also a clear jump in service levels. Leading practice functions facilitate better business intelligence for their internal customers, using data to effectively assess performance and opportunities for improvement. Technologies streamline manual processes, freeing up staff to work on more advanced support. Opportunities for a more mobile workforce exist and a collective approach to learning and development can be facilitated.

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Key Enablers

There are a number enablers that should be considered to support initiatives under all Phases. These are deemed to be beneficial towards the successful and effective implementation of change. The onus for these does not fall to any distinct stakeholder, but should be considered as a common requirement for the benefit of all parties.

- **Platform for Collaboration**

Engagement with authorities has highlighted the need for a platform from which authorities can readily collaborate on matters of service provision, performance and risks. This should be used as a means through which the analysis of performance across authorities can be discussed in a productive manner. The ability to share best practice, innovative ways of working and the potential for shared investment will drive performance across authorities.

- **Clarity Over Future Reform**

Change and transformation will be hindered by lack of clarity over the shape of significant reform that may be imminent in the sector. Strategic initiatives must be aligned with wider reform in the sector and even more immediate, local initiatives will be potentially encumbered by the contextual uncertainty that looming reform may bring. A number of initiatives will require substantial investment (both time and resource) to realise and efforts should be made to ensure clear direction is provided as to the shape of reform to provide authorities with an environment within which such investment can be made.

- **Resolute Vision**

Whilst proposed transformation will undoubtedly be made up of many component parts, a common purpose needs to be developed. This should take the form of a vision for transformation across Local Government in Wales that encapsulates the ambition and aspiration for change across authorities.

- **Performance and Benchmarking Information**

As previously noted the exercise has demonstrated there are differing uses and competencies across authorities in collating and analysing key performance information. Going forward a consistent taxonomy and shared methodology for data is vital. This information enables authorities to enhance performance more effectively both within their organisations and across Wales.

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Key Risks

The scale of transformation considered at a time of irrefutable pressure for local authorities should take account of any potential risks associated with change. Whilst individual initiatives will carry specific risks that should be effectively managed, there are a number of over-arching risks that should be considered in the course of developing transformational plans.

- **Reallocating Demand**

A risk emerges when attempting to view administrative activities as being distinct functions from front line activity. Through driving perceived efficiencies within administrative functions without ensuring the necessary capabilities or infrastructure to support the remaining demand, there is a risk that demand can be shifted on front line functions. These functions will often be less geared towards delivering the administrative activity and has the potential of reducing the capacity or hinder the quality of front line functions.

- **Impact on Localities**

A number of proposed initiatives tasked at driving efficiency consider the potential for reducing headcount in inefficient functions or relocating activities. The wider impact of these initiatives should be fully considered outside the proposed efficiency benefits of administrative activity.

- **Capacity for change**

With the prospect of substantial transformational change across the local government sector, efforts to drive efficiency across administrative activities pose a risk of reducing the change capacity of organisations. The capabilities incorporated within a number of core administrative activities will be integral to supporting effective change and efforts should be made to ensure that adequate capacity remains within organisations to deliver this.

- **Degradation of Quality**

Analysis within the report has focussed exclusively on quantitative data and has not considered the quality or effectiveness of administrative activities. When establishing efficiencies across administrative activities, consideration should be made towards the impact on quality. Initiatives should be focussed on enhancing both efficiency and effectiveness.



cutting through complexity