



National Audit Office

REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL

HC 1040  
SESSION 2012-13

13 MARCH 2013

---

Department for Communities  
and Local Government

---

# Case study on integration: Measuring the costs and benefits of Whole-Place Community Budgets

---

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

---

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.

---



National Audit Office

---

Department for Communities and Local Government

# Case study on integration: Measuring the costs and benefits of Whole-Place Community Budgets

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 12 March 2013

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Amyas Morse  
Comptroller and Auditor General  
National Audit Office

8 March 2013

We reviewed how the four Whole-Place Community Budget areas have used evidence and analysis to assess the value of their reform proposals, and the role of the Department in supporting and overseeing this process.

---

© National Audit Office 2013

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

2547026 03/13 PRCS

---

---

## Contents

**Key facts** 4

**Summary** 5

**Part One**

Whole-Place Community Budgets 13

**Part Two**

Detailed review of local area  
measurement approach 26

**Appendix One**

Our audit approach 35

**Appendix Two**

Our evidence base 37

The National Audit Office study team consisted of:  
David Betteley, Angela Hands,  
Andy Nichols, Sarah Perryman  
and Sarah Taylor.

This report can be found on the  
National Audit Office website at  
[www.nao.org.uk/community-  
budgets-2013](http://www.nao.org.uk/community-budgets-2013)

For further information about the  
National Audit Office please contact:

National Audit Office  
Press Office  
157–197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Enquiries: [www.nao.org.uk/contactus](http://www.nao.org.uk/contactus)

Website: [www.nao.org.uk](http://www.nao.org.uk)

Twitter: @NAOorguk

---

## Key facts

---

4

local areas that published business cases for Whole-Place Community Budgets, October 2012

---

29

local authorities in the four areas

---

£4.8m

departmental expenditure, partly to fund 33 secondees from nine government departments to work with local areas

---

**October 2011** month the Department for Communities and Local Government invited local areas to express an interest in becoming a Whole-Place Community Budget pilot.

4 local areas selected to take part: West Cheshire; Whole Essex; Greater Manchester; and West London Tri-borough.

**October 2012** month the four local areas published their operational plans setting out how they intend to reform some public services in their areas over the next five years, following intensive collaborative work in area teams comprising local and central government officials.

25 full business cases each setting out the problem being tackled, the proposed new delivery model and the return public bodies might expect for the investment they commit, supported by a cost-benefit analysis.

5 broad themes in which local areas chose to focus much of their development work: families with complex needs; health and social care for adults and older people; economic growth, work and skills; reducing reoffending and domestic abuse; and early years.

# Summary

## The context for Whole-Place Community Budgets

**1** Local authorities and their partners are planning and providing services in a challenging financial climate. Over the coming years, local authorities and other local public bodies will have to manage cuts in their budgets, while providing statutory and other services. As part of its fiscal deficit reduction plan, central government planned at the 2010 spending review to reduce funding of local authorities by 26 per cent (£7.6 billion) in real terms, between April 2011 and March 2015 (excluding police, schools and fire). Including council tax, the overall reduction of local authority income was forecast to be 14 per cent in real terms and further reductions have since been announced.

**2** While also reducing their costs, local bodies will have to manage demand for costly services such as health and adult social care. The government has already reduced the ring-fencing of grants to local authorities, aiming to give greater spending flexibility. However, our report on *Financial sustainability of local authorities*<sup>1</sup> found that the scope for absorbing cost pressures through reducing other lower-cost services is diminishing, because authorities have already reduced spending on these services. Local authorities and their partners recognise that to achieve their desired outcomes with fewer resources, they will have to consider longer-term and more fundamental reforms to providing public services alongside continuing to find further short-term efficiency measures.

## Past initiatives for integrating local public services

**3** One way public bodies are looking to achieve these longer-term changes is through making better use of the totality of public funding spent locally. Rather than operating in traditional 'silos' created by organisational boundaries, bodies may elect to work jointly by aligning their objectives, activities and resources where they believe a collaborative approach can add most value. The case for doing so typically cites:

- improved outcomes for citizens – by focusing on important local outcomes, such as preventing avoidable hospital admissions or reducing reoffending;
- more cost-effective delivery – by stripping out unnecessary or unhelpful duplication, such as different bodies undertaking multiple assessments of people or families;

<sup>1</sup> Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013.

- improved access to resources – by combining budgets, skills, staff or data to address barriers to joint investment, for example where one body spends but another benefits, or when it takes time for benefits to accrue; and
  - creating clearer incentives to deliver more cost-effectively – for example, by changing how local services get central government funding.
- 4** Joining up local and national budgets and services and focusing on outcomes to help local bodies provide more for less is not a new idea. In recent years, for example, local-area agreements and multi-area agreements were intended to help areas focus on an agreed set of priority outcomes. Following this, Total Place, a further government initiative, set out to map all local public expenditure and identify how resources could be aligned to deliver more efficiently and effectively.
- 5** It is generally recognised, however, that these initiatives did not lead to widespread or fundamental changes in local public services, or in the relationship between central and local government. Even so, with the current pressures on local public services, there is now even greater incentive to assess whether, when and how increased integration can help provide services within increasingly tight budgets.

## Whole-Place Community Budgets

- 6** As part of the government's response to the need to explore and test new ways of designing and providing local public services, the Department for Communities and Local Government (the Department) set out in October 2011 a new programme, Whole-Place Community Budgets. Through a prospectus for local authorities and other local bodies, the Department invited expressions of interest in becoming a pilot area that would “thoroughly test out how Community Budgets comprising all funding on local public services can be implemented in two areas to test the efficacy of the approach”.<sup>2</sup>
- 7** In December 2011, following a competitive process and discussions with local areas, the Department chose to work with four areas as local pilots: West Cheshire; Whole Essex; Greater Manchester; and the West London Tri-borough area. From December 2011 to October 2012, a team of local and central government officials worked collaboratively in each of the four areas to develop and agree operational plans for Whole-Place Community Budgets in their areas. They submitted these plans and detailed business cases to the Department in October 2012.

<sup>2</sup> Department for Communities and Local Government, *Community Budgets Prospectus*, October 2011.



## Our rationale, objectives and audit approach

**8** The costs and benefits of changing how local services are organised, as well as the chances of successful delivery, will vary depending on the outcomes sought and the context of a programme or service. Our recent reports *Integration across government*, *Early action: landscape review* and *Financial sustainability of local authorities*<sup>3</sup> have illustrated the importance of public bodies making an initial assessment of the potential value of integrated service delivery, taking account of the particular service and context. It is precisely this task that the four Whole-Place Community Budget areas set out to do in preparing their business cases. We reviewed how the four local areas have used evidence and analysis to assess the value of their reform proposals, and the role of the Department in supporting and overseeing this process.

**9** Given the limited results from similar past initiatives, we also examined how this programme is different, and whether this means it has a better chance of delivering sustained and beneficial change. In making our assessment we are mindful that the local areas are proposing to use Whole-Place Community Budgets to tackle complex issues, which have previously proved very difficult to address. Developing new responses and putting them into effect will require a range of different bodies to work together over a number of years. We have not provided a value for money assessment because operational plans have yet to be implemented. We focus our recommendations on actions to strengthen measurement and analysis as this work develops.

- Part One sets out the background to Whole-Place Community Budgets and considers how the Department has managed the process to date, and has overseen the measurement approach.
- Part Two reviews the measurement approach adopted by the four local areas.

**10** This report focuses on the Whole-Place Community Budgets initiative. We did not review the smaller-scale neighbourhood community budgets. The term ‘community budget’ was originally applied to the Department’s work on troubled families. This work is now being taken forward by the government’s Troubled Families Unit using a nationally operated payment-by-results delivery model.

**11** We reviewed departmental and local area documents, interviewed staff of government departments and local authorities and observed forums where measurement issues were discussed. We reviewed a sample of cost-benefit analyses but did not audit local areas’ business plans as a whole. Further details of our methodology can be found in Appendix One.

<sup>3</sup> Comptroller and Auditor General reports, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013; *Early action: landscape review*, Session 2012-13, HC 683, National Audit Office, January 2013 and *Integration across government*, Session 2012-13, HC 1041, National Audit Office, March 2013.

## Key findings

**12 Despite the history of initiatives with similar objectives, there is limited evidence of the contribution of joint working and resource alignment to improving the impact of public services.** We reviewed 181 relevant publications pre-dating Whole-Place Community Budgets including reviews of local-area agreements and the Total Place initiative. We found that only ten past evaluations had assessed impact on service-user outcomes. Seven of the ten reported a lack of robust evidence that joint or collaborative working improved outcomes. Our recent report on early action similarly identified a lack of robust evidence to support wider preventive and early interventions (paragraphs 1.9 to 1.12 and Figure 2).

**13 These findings endorse the Department's decision to pilot the Whole-Place Community Budget approach.** They also reinforce the importance of making sure that sufficient good quality evidence on impact is gathered this time round (paragraphs 1.9 to 1.12).

**14 All four areas adopted a pragmatic approach to defining, developing and appraising their proposals.** The Department's October 2011 prospectus invited local areas to define the form and content of Whole-Place Community Budgets, for example by setting out proposals for a single budget for the area, or options for pooling and aligning resources. After analysing local spending patterns, local areas decided instead to focus on specific outcomes such as reducing reoffending, preventing avoidable hospital admissions and developing a more integrated approach to employment and growth. Starting with an emphasis on outcomes rather than structures or budgets appears consistent with a mature approach to managing change and cost reduction (paragraphs 1.14 to 1.16).

**15 The areas focused on themes where the cost of providing services was high and where they considered that developing a more cost-effective response would require greater collaboration across public bodies.** Each operational plan and set of business cases outlined a series of projects to redesign services by aligning resources and working jointly across local and national bodies. The plans link the benefits public bodies might expect to achieve through new delivery models to the investment they commit (paragraphs 1.15 to 1.16).

**16 Local areas and central government worked together effectively to develop a methodology to assess the costs and benefits of individual service-level reforms.** The methodology is based largely on the work of New Economy, an organisation that provides research, strategy and policy development on behalf of the Greater Manchester Combined Authority and its partner bodies. The methodology builds on HM Treasury appraisal guidance and was developed with input from central government analysts. Applying the methodology to different service areas required cooperation between areas and central government analysts, which was coordinated through a single forum, the 'technical advisory group' (paragraphs 1.17 to 1.22 and 2.8).

**17 The cost–benefit analysis approach adopted has several key strengths including:**

- reasonable consistency across all four local areas based on collaboration and sharing expertise (paragraphs 1.17 to 1.22);
- for each project, a focus on clarifying the likely costs and benefits to different public sector bodies (paragraph 2.8);
- adjustments for potential ‘optimism bias’ attached to costs and benefits, varying according to the quality of the underlying evidence (paragraph 2.19 and Figure 6); and
- early commitment to robust evaluation of new delivery approaches on implementation (paragraphs 2.21 to 2.25).

**18 We also identified some scope for refining the approach.**

- Not all the analyses we reviewed contained an explicit comparison with the costs and benefits of the current service. Without information on the costs and effectiveness of the current service, there is a risk of over- or underestimating the benefits of a change. Comparisons are particularly important where the proposed service will require (as it often does) reducing or altering current services and the resources supporting them. Identifying a relevant comparator can be a significant task. For example, Greater Manchester is running a randomised controlled trial, which involves comparing outcomes for families with complex needs receiving new services with outcomes for those receiving existing provision. A trial of this sort will not always be possible, and it may be difficult to identify a relevant comparator in some cases, particularly where a completely new approach to tackling a problem is being proposed (paragraphs 2.15 to 2.16).
- All investment decisions are subject to uncertainty and risk. Some of the cost-benefit models we reviewed had made good use of techniques such as sensitivity analysis in assessing risk. Others had been unable to make an informed quantification, for example because of a lack of robust data. Areas were aware that they will need to update their estimates as data become available. As they do so they will also need to update key assumptions and use appropriate techniques to support well-informed management of the most significant risks (paragraphs 2.17 to 2.18 and Figure 8).

**19 Each local area has identified potential for net savings from its projects, within five years.** For example, Greater Manchester, covering ten local authorities, estimates net savings of some £270 million over five years, while West Cheshire estimates net savings in the region of £56 million over the same period. These estimates reflect the proposed activities, and the priorities and scale of spending in the local areas. In some cases, the benefits may accrue over a longer time frame than the five-year assessment period typically used (paragraph 1.23 and Figure 3).

**20 The work done by the four areas has potential to be developed to provide cost savings in other areas, but it is very early days.** The Local Government Association commissioned consultants to estimate the savings if the integrated service delivery approaches that the four local areas assessed were rolled out across England. The consultants estimated that there could be a net annual benefit of between £4.2 billion and £7.9 billion when projects were fully up and running. As they make clear in their report, this estimate is sensitive to assumptions around the effectiveness of local interventions, the ability of other local areas to replicate the projects, and potential overlap with other efficiency measures that local and national bodies already have in train (paragraph 1.24).

**21 The true scale of potential savings and improved outcomes from a Whole-Place Community Budget approach will only become clear if, building on the plans local areas have set out, projects are now implemented in the local areas and evaluated robustly.** In many cases, local areas have proposed controlled implementation of new service models, with evaluation built in ahead of review and wider roll-out. This is a prudent approach that supports informed decision-making. Evidence from evaluating implemented initiatives will be a critical factor in whether central government and local partners choose to invest in projects at greater scale (paragraphs 2.21 to 2.25).

**22 Local areas have identified a number of conditions for implementing their operational plans** (paragraph 1.30). These include:

- encouraging data-sharing between local and national partners;
- continued collaboration and clear leadership both locally and nationally in designing and implementing new services, including continuing technical cooperation; and
- dialogue around potential longer-term and systemic reforms to the way local services are funded, including financial incentives or funding arrangements that encourage partners to invest across organisational boundaries, particularly where reform takes longer to be financially sustainable.

**23 As the local areas implement the new integrated service approaches they will need to consider how back-office functions and asset portfolios can best support frontline delivery.** Local authorities and their partners in Whole-Place Community Budget areas understand that they need robust evidence of the benefits of change to make a sound and compelling case for reforming local service delivery and using resources differently. Even so, sensitive issues like closing facilities to make cash savings may test the resilience of joint working. Cash savings are likely to depend on factors such as whether the scale of any changes in demand for services allows reductions in the use of assets like staff and buildings (paragraphs 1.27 to 1.29).

**24** The ‘co-production’ approach between central government and local bodies in planning Whole-Place Community Budgets is a promising model for future policy design and delivery. A particular strength of the approach adopted by local areas and the Department was the degree of high-level analytical input into, and challenge of, local areas’ plans. The Department provided £4.8 million from its annual budget. This money included funding for 33 senior members of staff, who were seconded from departments to local areas to work directly with staff from local government and other local partners in area teams. This approach was viewed very positively by the local areas (paragraph 1.19).

## Conclusion

**25** The four local areas involved in Whole-Place Community Budgets and central government have collaborated effectively in assessing thoroughly the evidence base for local service reforms. In particular, while having much in common with previous similar initiatives, a number of important lessons have been built into the current approach:

- Allowing local practitioners to identify and propose areas where outcomes could be improved through greater integration.
- Sponsoring more sustained and direct interaction between local and central government officials.
- Using cost-benefit analysis to link the benefits that different public bodies might receive to the resources they commit.

**26** The Whole-Place Community Budget areas have undertaken the kind of robust project design and appraisal that is a necessary first step in testing potentially significant and beneficial changes to how public services are provided. Longer term, achieving value for money will require the Department and local areas to sustain commitment to careful implementation and robust evaluation to identify the actual costs and benefits of new, more integrated, ways of working.

## Recommendations

**27** Our recommendations are intended to help the Department and local areas make the most of and take further the work of Whole-Place Community Budgets. They are also relevant to any future work between government and other local areas, should government decide to support the wider use of this approach.

- a** **The Department and local areas should continue to distil and promote lessons from the work to date, including the enabling elements and success factors of the Whole-Place Community Budget approach.** These may include features such as: commitment to open, systematic communication; effective data-sharing; valuing and making effective use of technical expertise; and strong leadership from the major participant bodies. The Department and the Cabinet Office should review whether the 'co-production' approach the Department used in its work with local areas on Whole-Place Community Budgets would benefit other parts of government.
- b** **The Department should seek a commitment from local areas and other departments to continue to work together to sustain the enabling elements of the programme, including bringing together relevant skills and expertise.** By agreeing clear principles on which to continue development work, the major participants will be well placed to continue working together effectively as the programme develops.
- c** **Government departments and local areas should build on the work of the technical advisory group to support rigorous evaluation of the reforms to public services being taken forward through Whole-Place Community Budgets.** Access to expertise, knowledge and data provided by this group could support the further development of robust measurement methodologies and evaluation activity.
- d** **Government departments should continue to work with local areas to help develop the cost-benefit analysis methodology further as better data become available.** In particular, this should include ensuring consideration and quantification of uncertainty and risk to delivering the expected benefits. Investment decisions that involve potential decommissioning or disinvestment will also require information about what is being given up, as well as likely gains. Government departments with local areas should therefore develop the methodology to enable more explicit consideration of the costs and benefits of existing service configurations.

# Part One

## Whole-Place Community Budgets

### Current context for reforming local public services

**1.1** Local authorities and other local public bodies are planning and providing services in a difficult financial climate. As part of its fiscal deficit reduction plan, central government planned at the 2010 spending review to reduce funding of local authorities by 26 per cent (£7.6 billion) in real terms between April 2011 and March 2015 (excluding police, schools and fire). Including council tax, the overall reduction of local authority income was forecast to be 14 per cent in real terms and further reductions have since been announced.<sup>4</sup> Local authorities and other local public bodies facing similar challenges must manage these budget reductions while also continuing to deliver statutory and other services.

**1.2** While also reducing their costs, local bodies will have to manage demand for costly services such as health and adult social care. The government has already reduced the ring-fencing of its grants to local authorities, aiming to give greater spending flexibility. However, our report *Financial sustainability of local authorities* found that the scope for absorbing cost pressures through reducing other, lower-cost services is diminishing, as authorities have already reduced spending on these services.<sup>5</sup> Local authorities and their partners recognise that to achieve the outcomes they want with fewer resources they will have to consider longer-term and more fundamental reforms to providing public services alongside continuing to find further short-term efficiency measures.

**1.3** One way public bodies are looking to achieve these longer-term changes is through making better use of the totality of public funding spent locally. Rather than operating in traditional 'silos' created by organisational boundaries, public bodies may elect to work jointly by pooling or aligning their resources, objectives and activities where they believe a collaborative approach can add most value. The case for doing so typically cites:

- improved outcomes for citizens – by focusing on important local outcomes, such as preventing avoidable hospital admissions or reducing reoffending;
- more cost-effective delivery – by stripping out unnecessary or unhelpful duplication, such as different bodies undertaking multiple assessments of people or families;

<sup>4</sup> Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013.

<sup>5</sup> See footnote 4.

- improved access to resources – by combining budgets, skills, staff or data to address barriers to joint investment, for example where one body spends but another benefits, or when it takes time for benefits to accrue; and
- creating clearer incentives to deliver more cost-effectively – for example, by changing how local services get central government funding.

## Introducing Whole-Place Community Budgets

**1.4** It is in this context that the Department for Communities and Local Government (the Department) issued a prospectus and invited local areas to express an interest in being a Whole-Place Community Budget pilot in October 2011. Whole-Place Community Budgets are one of a number of community budget initiatives, an approach first outlined in the 2010 spending review.

**1.5** The *Community Budgets Prospectus* set out the Department’s objective “to thoroughly test out how Community Budgets comprising all funding on local public services can be implemented in two areas to test the efficacy of the approach.”<sup>6</sup>

**1.6** The prospectus did not prescribe the particular form and content of a Whole-Place Community Budget. The terms of reference for the second phase of the government’s local government resource review<sup>7</sup> suggested some activities that areas might pursue, for example:

- Developing a shadow budget for each place and understanding how a single budget can operate.
- Identifying and agreeing national and local outcomes that would be delivered.
- Developing and adopting a robust methodology for judging the costs and benefits of options identified.
- Identifying effective local structures, governance and accountability arrangements.
- Devising timescales and developing a plan and a range of options for practical implementation.

**1.7** Whole-Place Community Budgets ultimately entail a different way of working, rather than a specific set of programmes or projects. In common with the general principles of integration in public service delivery, the approach involves:

- understanding spending patterns and identifying fragmented, high-cost, reactive and acute services;

<sup>6</sup> Department for Communities and Local Government, *Community Budgets Prospectus*, October 2011.

<sup>7</sup> See footnote 6, annex to prospectus.



- focusing on outcomes and selecting interventions that best deliver those outcomes, rather than being limited by existing organisational responsibilities;
- developing services that are user-focused;
- shifting the balance of resources in favour of ‘early action’ measures targeting prevention, early intervention and early remedial treatments;<sup>8</sup> and
- identifying investment from partners in new delivery models including considering whether pooling or aligning resources could help maximise provision and minimise duplication and waste as part of a new service model.

**1.8** These characteristics are ones that we have reported on recently in our reports: *Early action: landscape review* and *Integration across government*.<sup>9</sup> We can apply the typology we use in our work on integration to the Whole-Place Community Budget approach. Whole-Place Community Budgets potentially combine:

- **‘horizontal’ integration** of activities between bodies involved or interested in a service or programme, or with a shared interest in a particular client group;
- **‘vertical’ integration** through increased coordination of the delivery chain for a service or programme; and
- **‘back-office’ integration** of functions or management processes which support frontline services or programmes.

In this way they look at both how to reduce future demand for public services, particularly the targeted, expensive provision associated with high levels of dependency, and how to meet existing demand more effectively. **Figure 1** overleaf shows an example of a Greater Manchester project to integrate health and social care services. Greater Manchester is one of the four areas participating in the Whole-Place Community Budgets initiative.

## Whole-Place Community Budgets in the context of past initiatives

**1.9** The Whole-Place Community Budget approach has much in common with several previous policy experiments and initiatives aimed at joining up local service delivery across organisational and budgetary boundaries. These include ‘Total Place’ and local-area agreements. **Figure 2** on pages 18 and 19 sets out the key features of these programmes. It is widely recognised, however, that these initiatives have not led to large-scale and lasting change in how local services are organised, funded and provided. The Department has presented Whole-Place Community Budgets as an opportunity to address this long debate.

<sup>8</sup> Comptroller and Auditor General, *Early action: landscape review*, Session 2012-13, HC 683, National Audit Office, January 2013.

<sup>9</sup> Comptroller and Auditor General reports, *Early action: landscape review*, Session 2012-13, HC 683, National Audit Office, January 2013 and *Integration across government*, Session 2012-13, HC 1041, National Audit Office, March 2013.

---

**Figure 1****A Whole-Place Community Budget project: integrating health and social care**

**The Greater Manchester community budget team has developed plans for organisational changes to better integrate health and social care across the Greater Manchester conurbation.**

The overall aim is to reduce unplanned hospital admissions through better coordinated, better targeted care and community-based interventions. The proposed new way of working includes:

- integrated teams, for example in GP surgeries;
- common assessment and care plans;
- community-based interventions, for example for earlier referral and diagnosis of dementia;
- joint strategic planning between social and primary care;
- a trial of shared technology to enable professionals to securely access patient data; and
- joint governance arrangements involving local authority and health representatives – with further work to align resources across partners.

Public sector partners have undertaken research and analysis to better understand the costs of current working as well as estimating the costs of the proposed new delivery models, broken down by public body and cost category.

It is not certain that the benefits of the new way of working will exceed the costs. However, given the uncertainty around current estimates and the potential gains in this policy area, partners in Manchester see value in testing and evaluating the results before rolling it out. Evaluation will draw on a range of techniques, including a randomised controlled trial in which the new delivery model will be compared with current arrangements to determine the added benefits.

*Source: National Audit Office review of local business plans*

---

**1.10** The Department concluded in its planning for Whole-Place Community Budgets that the contribution of earlier measures to delivering practical change and improving evidence was limited. The Department subsequently decided to test the Whole-Place Community Budget approach through sponsoring a small number of areas to undertake detailed analysis. This decision appears justified, given the lack of conclusive evidence from earlier initiatives.<sup>10</sup>

**1.11** Our own review confirmed that there is very limited robust evaluation evidence identifying the contribution of joint working and resource alignment to improving outcomes:

- Of a total of 181 publications meeting our search criteria, only ten covered the impact of joint working or aligning budgets on outcomes.
- Of these ten, seven reported that there was a lack of robust evidence that joint or collaborative working improved outcomes for service users.
- The remaining three referred to tentative evidence of some impact, but all raised methodological issues that weakened the reliability of results.

<sup>10</sup> Department for Communities and Local Government, *Community Budgets Prospectus*, October 2011.

**1.12** Our recent review of the case for early intervention, a key theme in community budgets, also found similar weaknesses in the evidence base.<sup>11</sup> There is a continued lack of a strong evidence base, despite past attempts to foster increased joint working and align resources locally.

## Developing Whole-Place Community Budgets

**1.13** Fifteen areas submitted expressions of interest in becoming Whole-Place Community Budget pilots, and following a competitive process and discussions with local areas in December 2011 the Department selected four. The four local areas presented bids from partnerships comprising local authorities and a range of other local bodies. The partnerships were:

- West Cheshire (led by Cheshire West and Chester Council, a unitary authority).
- Whole Essex, led by Essex County Council (also covering 12 district, borough and city councils and two unitary councils).
- Greater Manchester (led by ten unitary authorities comprising the Association of Greater Manchester Authorities and the Greater Manchester Combined Authority).
- The West London Tri-borough area (a partnership of three west London boroughs – Westminster, Hammersmith and Fulham, and Kensington and Chelsea).

**1.14** The Department asked the four areas to submit an operational plan setting out proposals to transform local services to achieve better outcomes for service users at reduced costs by integrating services. The Department left it to local areas to define the form and content of Whole-Place Community Budgets. However, it was clear in its guidance that they should build on existing governance and policy reforms (for example, the Work Programme) in developing their plans.

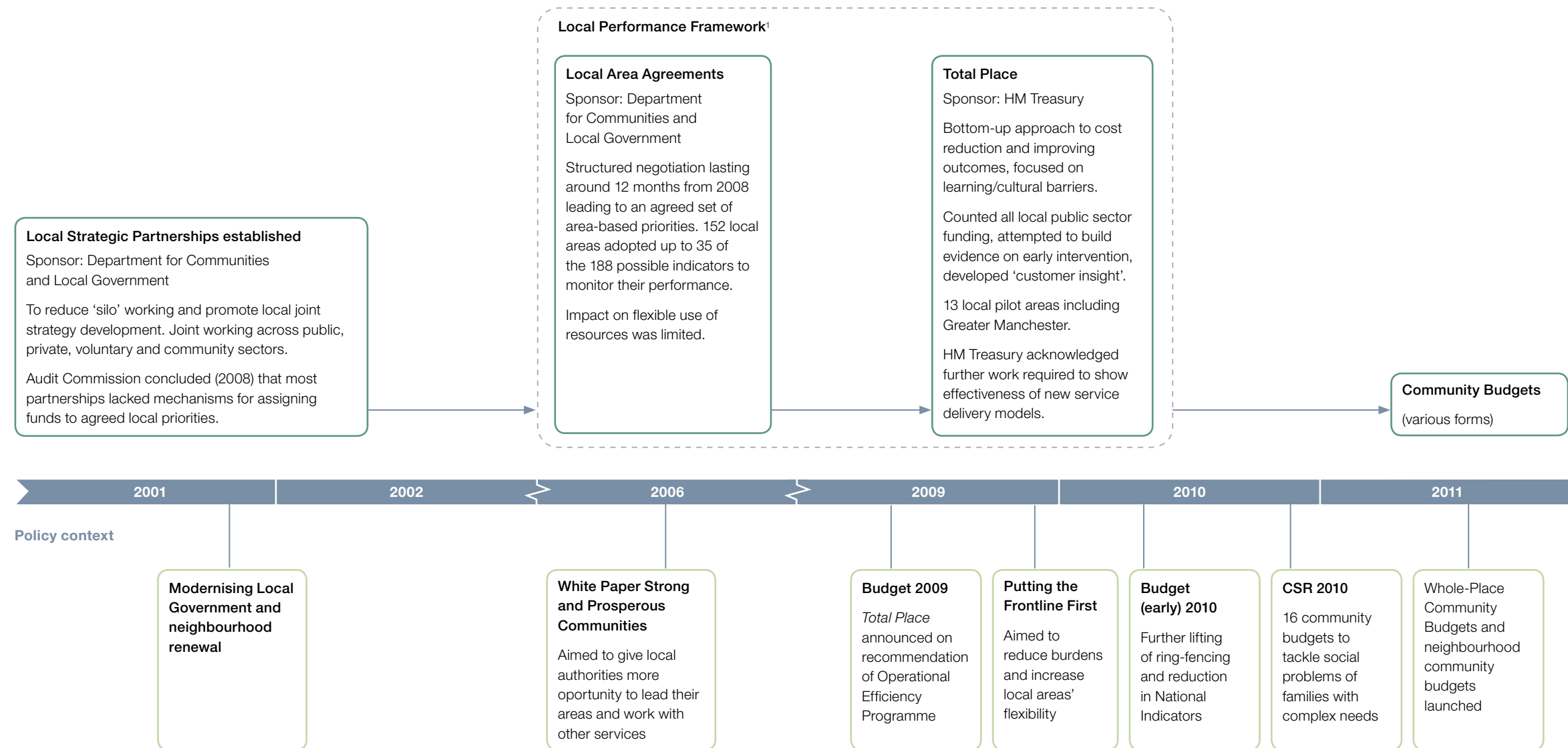
**1.15** Local areas have taken up the flexibility offered and have generally focused on service areas and client groups where they believe there is a strong case for collaboration across public agencies. After analysing local spending patterns, all four decided to focus on specific policy domains, mainly those where the existing pattern of delivery is complex, expensive and focused on reactive and acute interventions, and where the cost of failure is high (for example, criminal justice and health and social care). **Figure 3** on pages 20 and 21 provides a summary profile of the four areas.

<sup>11</sup> Comptroller and Auditor General, *Early action: landscape review*, Session 2012-13, HC 683, National Audit Office, January 2013.

**Figure 2**  
Whole-Place Community Budgets

Whole-Place Community Budgets build on other initiatives with similar objectives

Policy initiatives



NOTE

<sup>1</sup> The local performance framework involved Local Area Agreements and Comprehensive Performance Assessments of local authorities (later Comprehensive Area Assessments) informed by 188 National Indicators of performance.

Source: National Audit Office

**Figure 3**

## A profile of the four Whole-Place Community Budget areas

The areas are developing projects across a range of common themes

|  | <b>West Cheshire</b>   | <b>Whole Essex</b>  | <b>Greater Manchester</b>  | <b>West London Tri-borough</b>  |
|--|--|---|--|---|
| Local authorities covered  | Cheshire West and Chester Council  | Fifteen Essex local authorities led by Essex County Council   | Ten unitary authorities represented by the Greater Manchester Combined Authority and the Association of Greater Manchester Authorities   | Three London boroughs of Westminster; Kensington and Chelsea; and Hammersmith and Fulham  |
| Estimated total savings <sup>1</sup>                             | £56 million net savings over five years  | £414 million in net benefits over six years   | £270 million net savings over five years   | £70 million net savings annually when projects are implemented fully  |
| Local areas' estimates of total public expenditure in their area | £2.4 billion in 2010-11  | £12.8 billion annually  | £21 billion annually   | £6 billion annually, of which £1.9 billion is managed by the tri-borough <sup>2</sup>   |
| Strategic governance   | Public Services Board providing overall strategic and management direction; Operational Steering Group providing expert practitioner input; and Thematic Management Groups   | Executive Board overseeing thematic partnerships, each with a senior-level sponsor  | Statutory combined authority   | Board building on existing structures for tri-borough cooperation   |
| Stated aims  | Creating proactive, preventative interventions and a focus on outcomes and citizens  | To prove the concept that: <ul style="list-style-type: none"> <li>working together in new ways, in collaboration with central government departments, can deliver sustained system-change in local public services; and</li> <li>sustained system-change can deliver improved outcomes for citizens and communities, and help to manage the financial pressures facing local public services</li> </ul> | <ul style="list-style-type: none"> <li>Driving economic growth – reducing existing and future dependency</li> <li>Developing new locally co-designed delivery models</li> <li>Funding new delivery models through joint investment arrangements</li> <li>Creating cashable savings</li> </ul>  | <ul style="list-style-type: none"> <li>Driving growth and integration</li> <li>Reducing dependency on public services</li> <li>Building homes</li> <li>Creating jobs</li> <li>Increasing life-expectancy</li> <li>Rehabilitating criminals</li> </ul> |
| Stated policy themes   | <p>Starting well (early intervention, complex families)</p> <p>Working well (local economic growth, work-ready individuals)</p> <p>Living well (community empowerment, safer communities, affordable housing)</p> <p>Ageing well</p> <p>Smarter services (integrated asset management, pooled customer insight, data-sharing, strategic commissioning)</p> | <p>Families with complex needs</p> <p>Economic opportunity (focused on skills and infrastructure)</p> <p>Community safety (reducing reoffending and domestic abuse); strengthening communities</p> <p>Health and wellbeing (focused on integrated commissioning)</p>  | <p>Early years ('school readiness', links to 'troubled families' work stream)</p> <p>Worklessness</p> <p>Reducing reoffending and transforming justice (young people, women and prolific offenders)</p> <p>Integrated health and social care (dementia and psychiatric, drugs and alcohol, falls, end-of-life, fit-for-work, co-morbidity, acute conditions)</p> | <p>Troubled and complex families, care proceedings</p> <p>Work and skills</p> <p>Adult reoffending, housing</p> <p>Health and social care</p> <p>Strategic coordination of infrastructure</p>   |

**NOTES**

<sup>1</sup> Local areas' estimates not audited by the National Audit Office.

<sup>2</sup> £650 million of the £1.9 billion is viewed as discretionary.

**1.16** A positive outcome of the pragmatic approach adopted to date has been the time that local areas have been able to dedicate to appraising proposed interventions and delivery models. Their work has laid the ground for delivery and subsequent monitoring of costs and outcomes. It has also provided information linking the benefits different bodies might receive to the investment they might commit, which some areas are using to develop formal investment agreements between partners. Over time, it may be possible to use the same approach to develop and test new models of public service delivery for themes that are not included within the four areas' current proposals.

### **The Whole-Place Community Budgets measurement approach**

**1.17** Given the shortcomings of the existing evidence base, the Department's specification that robust measurement of costs and benefits should be a key feature of operational plans developed by local areas seems appropriate. The Department did not impose a measurement framework or standards on the four areas. Instead the approach was locally-led but with substantial collaboration between areas and government departments.

**1.18** Evaluations of previous initiatives, such as Total Place, have concluded that greater central direction on measurement would have produced more comparable and useful data. In practice, however, the four local areas have used a consistent approach. This was based on technical work by New Economy, an organisation that provides research, strategy and policy development on behalf of the Greater Manchester Combined Authority and its partner bodies. It was informed by HM Treasury project appraisal guidance and developed with input from central government analysts. Our detailed findings on this measurement approach are set out in Part Two.

**1.19** The Department allocated £4.8 million to help fund the project. The budget paid for a single project team in each area comprising secondees from both government departments and local bodies and a small technical budget for the areas to supplement their project teams with specialist expertise. Thirty-three relatively senior and middle-management secondees were secured from nine government departments.<sup>12</sup> Their role variously included project management, developing specific proposals, providing critical challenge and liaison with central government departments. Views of local authority representatives we spoke to were positive and they considered that the secondees provided a useful link into central government and helped inform analytical work. If the Whole-Place Community Budget approach were adopted more broadly, however, it is unlikely that the departments would be able to resource a similar level of support across more areas.

<sup>12</sup> HM Treasury, Department for Communities and Local Government, Department for Business, Innovation and Skills, Cabinet Office, Home Office, Department for Work and Pensions, Ministry of Justice, Department of Health and Department for Education.

**1.20** The Department adapted an existing forum, the technical advisory group, to bring together representatives from the local areas and government departments to share information and promote challenge and consistency in the measurement approach. This group met regularly throughout the development of local areas' operational plans. A similar range of departments were represented as those covered by the local secondment programme.

**1.21** To focus specialist expertise, five service technical advisory sub-groups were established, each focusing on developing a methodology for a specific policy area. The groups collectively covered: health and adult social care; criminal justice; families with complex needs; the economy; and education and early years. The groups identified sources of information on unit costs and outcomes, and promoted consistency in key assumptions.

**1.22** The Department has also promoted wider learning and discussion through a learning and challenge network involving a number of other local authorities.

### **The potential for delivering more cost-effectively through Whole-Place Community Budgets**

**1.23** The four pilot areas submitted their operational plans to the Department at the end of October 2012. These plans include 25 business cases (with a further five in development) and cover a range of service reforms involving local and national partners. Each area has forecast net savings from its projects over a five-year period (Figure 3).

**1.24** The Local Government Association commissioned consultants to examine the potential savings from implementing Whole-Place Community Budgets at greater scale. The consultants estimated that if the integrated service delivery approaches assessed by the four local areas were rolled out across England, there would be the potential to deliver a net annual benefit of between £4.2 billion and £7.9 billion when fully up and running (generally after five years). In some cases, the benefits may accrue over a longer time frame than the five-year assessment period typically used. As the consultants make clear in their report, this estimate is sensitive to assumptions around the effectiveness of local interventions, the ability of other local areas to replicate the projects, and the potential overlap with other efficiency measures that local and national bodies already have in train.

**1.25** The anticipated savings from this initial exercise may appear modest compared with total local public expenditure. However, it is still early days for Whole-Place Community Budgets. Importantly, the current exercise focused on testing a new way of working rather than maximising the results over the shorter term.

**1.26** The local areas have focused on developing longer-term service reforms underpinned by analysis. This is consistent with a mature and sustainable approach to cost reduction in public bodies.<sup>13</sup> Individual proposals within operational plans are at various stages of development. The four areas have used a common 'maturity matrix' to describe the stage each proposal is at. We include several illustrative examples throughout our report.

**1.27** Alongside service reform, local areas' operational plans also reference the accompanying rationalisation of physical assets, property and back-office services, which is necessary if projected savings are to be realised. These aspects of the plans tend to be less developed. Our discussions with local areas indicated that joint working to make better use of the portfolio of assets held by local public bodies was generally at an early stage of development. This is partly because decisions about resources such as staff, buildings and other support functions, follow logically from decisions on service redesign. Some local authorities also said that issues, such as building closures, can be particularly sensitive when multiple agencies are involved and that strong partnerships are essential to make progress. Nevertheless, cash savings will not be realised unless decisions of this kind are made.

**1.28** Whether savings the four pilot areas identified can be replicated elsewhere depends on whether reform proposals can make predicted savings in practice. It also depends on local context and areas having the capacity, leadership and governance structures required to develop similar analysis and manage reforms through to completion.

**1.29** Making cash savings also depends partly on the scale at which new proposals are implemented. For example, closing a hospital wing serving several local authorities may not be practical if only one area implements a new model of community-based provision for older people.



## Next steps

**1.30** Local areas generally plan to implement their proposals within existing structures and using existing powers. However, they have also highlighted a number of issues on which they believe continuing local and national sponsorship and collaboration are necessary if the benefits of new delivery models and the potential within the Whole-Place Community Budget approach are to be realised fully. These issues include:

- practical measures within existing funding and commissioning structures, for example promoting common arrangements to assess people's needs and encouraging data-sharing between public bodies;
- securing expert input into designing and implementing new delivery models, for example through channels like the existing technical advisory group, or by departments providing access to specialist technical expertise; and
- dialogue around potential longer-term and systemic reforms including financial incentives for partners to invest in public service reform across organisational boundaries, particularly where reform takes longer to be financially sustainable. For example, Greater Manchester has recommended a 'place-based settlement' that provides greater certainty of funding, and the ability for local partners to retain a share of additional savings over a longer period.

**1.31** The Department told us that, since the publication of operational plans, it has been working with the four local areas and other government departments to review plans and agree practical measures to support implementation. The Department expects to announce proposals shortly for how it and other government departments will collaborate with the four areas, and others wishing to take forward a similar approach, in support of the development, delivery and evaluation of reform proposals. The Department is also working with other stakeholders to develop good practice guidance based on the process to date.

## Part Two

### Detailed review of local area measurement approach

**2.1** In our report *Integration across government*<sup>14</sup> we set out the requirements for successful delivery of projects to integrate public services using the model described in **Figure 4**. This shows that the first step in any exercise to bring together existing services and budgets is to test whether doing so will improve value for money by improving outcomes, saving money, or both.

**2.2** This part of the report considers in more detail the approach local areas have taken to measuring the anticipated costs and benefits of their proposals. We reviewed the core methodology adopted by local areas and examined a selection of the delivery model proposals they developed. Figure 4 shows that, as with all successful projects, long-term success depends on a broad set of factors. A commitment to assessing and measuring the likely benefits is just one, albeit critical, part.

**2.3** Our work is also informed by knowledge from our past reviews of government projects. In particular, we use our experience of analysing pre-implementation appraisals and post-implementation evaluations across a wide range of programmes.<sup>15</sup> The recurring message from this body of work is that rigorous appraisal and evaluation are essential to informed decision-making, strong and accountable delivery and value for money.

**2.4** Pre-implementation assessment helps policy-makers consider and understand the consequences of proposed interventions and enables public bodies to weigh up the relevant evidence on likely impacts.<sup>16</sup> HM Treasury describes good practice in project appraisal as the “process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made”.<sup>17</sup> In turn, post-implementation evaluation is important to ensure that the true impact of projects and programmes is captured, so that improvements can be made and lessons learned for the future.<sup>18</sup>

<sup>14</sup> See footnote 9.

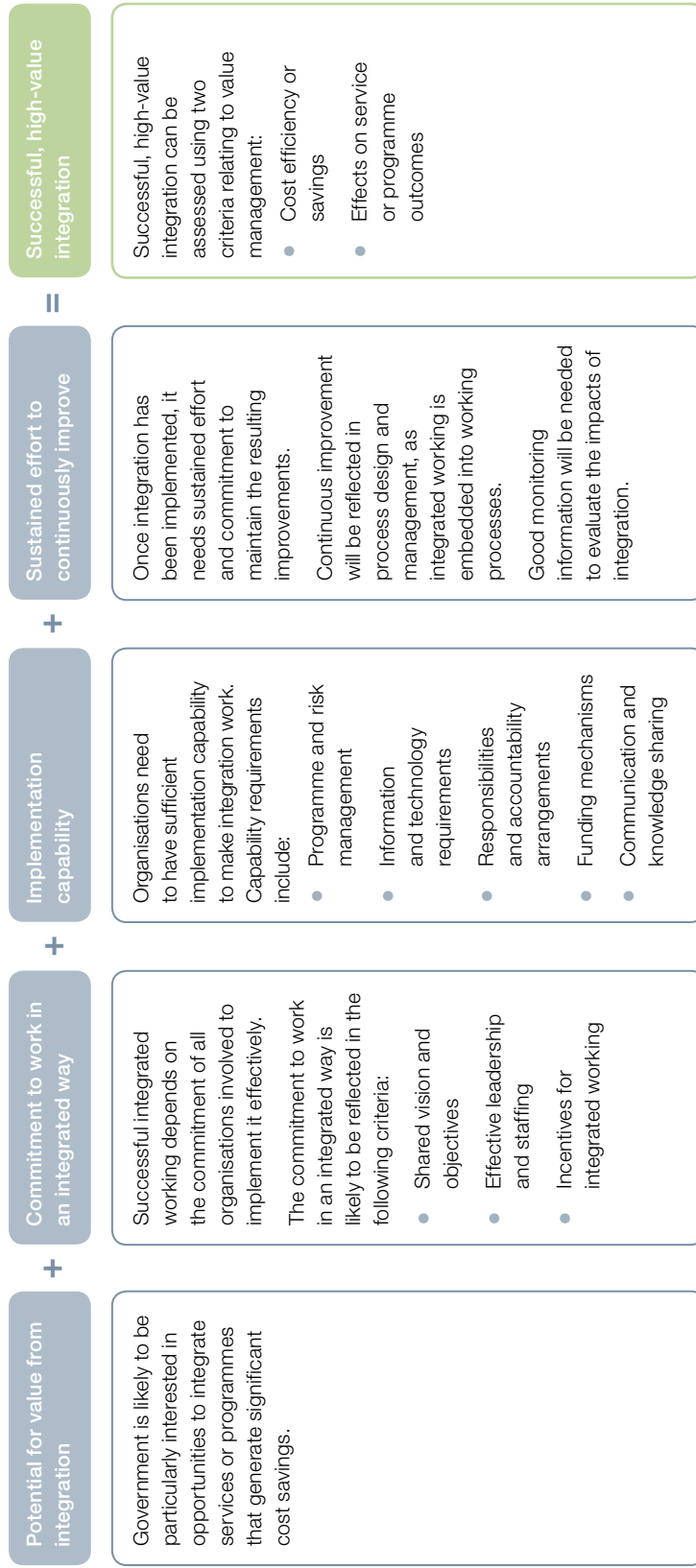
<sup>15</sup> For example, Comptroller and Auditor General, *Assessing the impact of proposed new policies*, Session 2010-11, HC 185, National Audit Office, July 2010; National Audit Office Review, *Options Appraisal: Making informed decisions in government*, National Audit Office, May 2011. Also see: National Audit Office written evidence to the House of Commons Communities and Local Government Select Committee regeneration inquiry, October 2011. More general evidence, summarising a wider body of work, can be found in the NAO guide on Initiating successful projects, December 2011, available at: [www.nao.org.uk/publications/1012/initiating\\_successful\\_projects.aspx](http://www.nao.org.uk/publications/1012/initiating_successful_projects.aspx).

<sup>16</sup> Comptroller and Auditor General, *Assessing the impact of proposed new policies*, Session 2010-11, HC 185, National Audit Office, July 2010.

<sup>17</sup> HM Treasury, *The Green Book, Appraisal and Evaluation in Central Government*, London, TSO, 2003.

<sup>18</sup> Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

**Figure 4**  
Requirements for successful integration



**2.5** We therefore reviewed business cases using the following criteria:

- Clear specification of the intervention and desired outcomes.
- Good information on costs and benefits.
- Robust appraisal against a relevant comparator.
- Appropriate handling of uncertainty and optimism bias.
- Plans for evaluation and review.

### Specification of intervention purpose, priorities and outcomes sought

**2.6** A project specification should clearly state the resources required, the services to be provided, the outputs (for example, the number of people receiving an intervention) and the predicted outcomes (for example, increased employment, improved wellbeing or crime reduction). The specification should explain the commitment and involvement of relevant stakeholders. A focus on realistic objectives is important to increase the likelihood of successful delivery.<sup>19</sup> The Whole-Place Community Budget business cases we reviewed all clearly stated the proposed new delivery models' objectives, agencies involved and the public sector investment required. An example is provided at **Figure 5**. The supporting models itemised the outcomes that the delivery model would affect, and set out specifically the number and types of people affected.

---

#### Figure 5

Specifying the outcomes sought, population targeted and resources required: improving employment outcomes for young people

**A clear specification should set out objectives, resources required, the nature of the intervention and the predicted outcomes.**

The Tri-borough community budget team has put together a project proposal to improve employment rates for local young people. The business case identifies a target population of 4,700 young people who are out of work, and an objective to give 3,500 young people additional employability support (advice, training, work experience) beginning early in secondary school. The proposal also sets out a plan to strengthen the link between vocational skills funding and sustainable employment by increasing the proportion of funding paid for employment results. Wider outcomes, such as improved health and economic wellbeing, are also described.

The plan is to run a small two-year pilot programme in a small number of schools with a predicted cost of £0.32 million. Resourcing is expected to come from the local business community, local authorities, schools, further education colleges and central government. Benefits in terms of improved employment rates and reduced benefit claims are predicted to comfortably exceed costs.

*Source: National Audit Office analysis of local areas' cost-benefit models and business plans*

---

## Reliable information on costs and benefits

**2.7** We expect to see a clearly defined methodology with a consistent approach to measuring all relevant costs and benefits, backed up by reliable information. We have found that at all levels of government, for example in our recent review of budgeting in central government, gaps in cost-benefit information can hinder decision-making.<sup>20</sup> Our previous work has found a tendency for public sector proposals to underestimate costs, partly to secure funding at the outset.<sup>21</sup>

**2.8** On Whole-Place Community Budgets, the examples we saw generally quantified costs and benefits to the public sector. Both local and national costs were included. Costs and benefits accruing to different parties were also frequently identified, which is important in aligning the resources individual agencies put in with the benefits they might receive. Costs and benefits to society (such as time saved by carers from using more home-based care) were considered in some examples where evidence allowed. However, the focus was mainly on public sector costs. The local areas acknowledged the importance of considering wider costs and benefits in their future evaluations. From the small number of cases we reviewed, we also saw evidence of a reasonably consistent approach across both cost and benefit sides of the analysis. The four areas have drawn on the technical outputs of New Economy (paragraph 1.18), to inform their work. An example of how the areas used information on costs and benefits is provided at **Figure 6**.

---

### Figure 6

#### Robust information on costs and benefits: intensive community orders

**Data on costs and benefits should draw on the best available evidence and compare costs and benefits on a like-with-like basis. In keeping with economic decision-making principles, future costs and benefits should be reduced or 'discounted' to reflect their lower value compared with present-day costs and benefits.**

The Greater Manchester community budget team has developed a new delivery model, which promotes the use of intensive community orders as an alternative to custodial sentences. Intensive community orders prioritise a joint agency approach focused on controlling, punishing and rehabilitating offenders outside prison.

This case builds on relatively good evidence of the costs and benefits of the delivery model because it was able to draw, unusually, on findings from local experience of a pilot. This evidence was used to inform an estimate of unit costs and cost allocation across public agencies. Benefits were identified as the positive additional impact on employment and crime outcomes, including a 50 per cent reduction in offences committed in a 'before and after' analysis of local implementation results. Costs and benefits were considered over five years, and future values discounted and presented in 2010-11 terms. The area team recognised limitations in the quality of evidence on impact and applied a percentage cut to their estimate of benefits and a percentage premium to costs. The appraisal showed a positive benefit-cost ratio.

*Source: National Audit Office analysis of local areas' cost-benefit models and business plans*

---

<sup>20</sup> Comptroller and Auditor General, *Managing budgeting in central government*, Session 2012-13, HC 597, National Audit Office, October 2012.

<sup>21</sup> See footnote 19.

**2.9** In the case of Whole-Place Community Budgets, the methodological specification and the cost-benefit analyses we reviewed used standard approaches, adopting the HM Treasury-recommended guidance on discounting future costs and benefits and adjusting for inflation to improve the quality of comparison of costs and benefits.

**2.10** Options appraisal should also distinguish between economic and financial appraisal, following HM Treasury guidance. When considering the costs and benefits of an investment, financial appraisal will assess whether an intervention is affordable for an individual public agency. It will ask whether that investment delivers net cash benefits in accounting terms. Economic appraisal is broader in scope and looks at the proposal in the round to estimate all quantifiable costs and benefits in current terms, regardless of when they occur and whether the investment is affordable. Full consideration of both the economic and financial case is necessary to avoid under- or over-provision of resource and cash requirements. Failing to correctly distinguish between different forms of appraisal and apply the appropriate treatment of inflation, for example, could result in mis-forecasts of resource requirements.<sup>22</sup>

**2.11** The project appraisals we saw developed as part of the Whole-Place Community Budget process were generally economic appraisals, based on current (or ‘net present’) values, typically over a five-year timescale. Business cases could be clearer about the basis on which they present values, whether on an economic or financial basis and, in turn, whether values are given in real or nominal (cash) terms. Local areas will need to understand this distinction when developing detailed implementation plans for new delivery models. The analytical approach to estimating the proportion of savings that are ‘cashable’ is largely preliminary.<sup>23</sup>

### **Robust appraisal against a relevant comparator**

**2.12** Appraisals and evaluations should seek to determine, as far as possible, what would have happened without the intervention. Outcomes and benefits that would have happened anyway are called ‘deadweight’. For example, a jobseeker in an employment support programme might have found work without the help of the programme. In these circumstances, only the *additional* outcomes a project delivers should be attributed to the project.

**2.13** In our report on the Regional Growth Fund, we found that officials from the Department for Business, Innovation and Skills had usefully taken steps to estimate deadweight as part of their appraisal of funding bids received.<sup>24</sup> Our discussions with Whole-Place Community Budget areas and our review of a sample of models indicated that the areas understood the importance of considering potential deadweight in their estimates of the benefits of new delivery models, as illustrated in **Figure 7**. Deadweight was included as a percentage cut from the anticipated benefits of the delivery models we assessed.

<sup>22</sup> See supplementary guidance to HM Treasury Green Book, *Public Sector Business Cases using the Five Case Model: a Toolkit*, available at: [www.hm-treasury.gov.uk/d/greenbook\\_toolkitguide170707.pdf](http://www.hm-treasury.gov.uk/d/greenbook_toolkitguide170707.pdf)

<sup>23</sup> See related discussions in Ernst and Young, *Whole-Place Community Budgets: A review of the potential for aggregation*, Local Government Association, January 2013.

<sup>24</sup> Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

---

**Figure 7****Importance of information on the costs and benefits of existing and proposed services: dealing with domestic abuse**

**An appraisal of a new project needs to consider the costs and outcomes that would result if that new delivery model was not in place.**

The West Cheshire community budget team has set out a new model that emphasises an integrated multi-agency approach to providing services to victims of domestic abuse and their families and which challenges perpetrators to break the cycle of abuse.

The new model – to be introduced from April 2013 – is designed to allow agencies to intervene earlier and reduce demand and the costs of reacting to crises, while also improving outcomes for victims, perpetrators and children. It will introduce specialist access and case management teams who will plan services to provide the best outcomes for the individual and family. The business case for this project sets out the anticipated costs and financial benefits to a range of public sector bodies over five years.

The team analysed the current costs of domestic abuse across West Cheshire. It also assessed the financial benefits based on reducing risk and the demand for child protection, police, health and criminal justice services. The benefit calculations recognised the performance of the current delivery model, and that some people receiving the new service would not have repeat incidents or would not have re-offended even if they had not received the new service. Benefit figures are reduced by a percentage cut to allow for this ‘deadweight’. The team acknowledged, however, that further work was needed to better understand the benefits of current delivery arrangements prior to implementation.

*Source: National Audit Office analysis of local areas’ cost-benefit models and business plans*

---

**2.14** In addition to deadweight, HM Treasury guidance also refers to consideration of other unintended effects such as the potential for a new local delivery model to impact positively or negatively on other areas, or for another group of people to take advantage of a new service, rather than the target group. These themes are referred to in the technical specification document that New Economy produced to support Greater Manchester’s work in this area, a document that has also been used to inform the methodological approach adopted in the other local areas. The size of these unintended effects depends on the nature and scale of interventions and the perspective of the appraising body. Local areas have considered distributional issues, such as which agency or part of government is likely to benefit most from a new delivery model. We also noted evidence that local areas are considering questions of scale in planning new models, for example those relating to skills and training. Generally, however, the potential size of unintended effects, such as those described above, was not quantified in local areas’ cost-benefit analyses.

**2.15** Choosing the right comparator is also important. In practice, a new delivery model often replaces an existing service, and the proposed new delivery model should be compared against the existing intervention, not just a 'no intervention' scenario. For example, the Department for Communities and Local Government (the Department) took this approach, of comparing against the current funding model, when it assessed the impact of a new method of funding affordable housing provision.<sup>25</sup> Making such comparisons requires a good understanding of the costs and effectiveness of what is currently being provided. New service models often require the decommissioning of existing provision and the resources that support that provision, such as cash, assets and staff. If the components and impacts of the existing service are not fully understood, there is a risk of either over- or underestimating the costs or benefits of a change.

**2.16** Our review indicated that local areas did understand the importance of knowing the costs and benefits of existing provision (see also Figure 7). Not all the analyses we reviewed contained an explicit comparison with the costs and benefits of the current service. Identifying a relevant comparator can be a significant task. For example, Greater Manchester is running a randomised controlled trial that involves comparing outcomes for families with complex needs receiving new services with outcomes for those receiving existing provision. A trial of this sort will not always be possible and it may be difficult to identify a relevant comparator in some cases. Nevertheless, it will be important for future evaluations of local projects to consider this aspect as robustly as possible.

### Dealing with uncertainty, sensitivity and optimism bias

**2.17** All pre-implementation appraisals will be subject to uncertainty, which should be clearly acknowledged and ideally quantified. Similarly, robust measurement regimes will consider whether forecast costs and outcomes are sensitive to particular assumptions. These issues should be made explicit so that decision-makers are aware of any uncertainty around results. Regional Growth Fund project appraisals, for example, used 'uncertainty analysis' techniques to quantify uncertainty and risk associated with key measures such as the cost per additional job. This is good practice because it shows uncertainty around predicted results and helps inform decision-makers about levels of risk.<sup>26</sup>

**2.18** Some of the cost-benefit models we reviewed had identified key sensitivities to help flag risks that need particularly careful monitoring and management during implementation. **Figure 8** shows how one local area used sensitivity analysis to do this. Others had been unable to make an informed quantification, for example because of a lack of robust data. Areas were aware that they will need to update their estimates as data become available. As they do so they will also need to update key assumptions and use appropriate techniques to support well-informed management of the most significant risks.

25 Comptroller and Auditor General, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, Session 2012-13, HC 465, National Audit Office, July 2012.

26 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.



---

**Figure 8**

## Sensitivity analysis: families with complex needs

**All appraisals of the impact of new delivery models will be subject to uncertainty and it is important to understand the relative significance of assumptions made in estimates of costs and benefits.**

Sensitivity analysis helps decision-makers understand which assumptions are most important. The Whole Essex community budget team has set out plans for a new way of working with families with complex needs. Multi-agency teams are expected to work with families for up to a year or more, building on current interventions. The cost-benefit analysis incorporates checks of the sensitivity of results to different assumptions. The team found that the model was most sensitive to the average period of time spent working with families. If interventions take significantly longer than expected, costs quickly exceed predicted benefits and the delivery model becomes less viable.

*Source: National Audit Office analysis of local areas' cost-benefit models and business plans*

---

**2.19** Building on the New Economy technical specification, local areas adopted a structured approach to adjusting cost and benefit estimates for potential optimism bias. This approach assesses the quality of underlying evidence and data and applies a correction of up to 40 per cent where assumptions are deemed uncertain. Where the quality and relevance of evidence is stronger, areas apply a smaller, or no, correction.

**2.20** The Department has also sponsored development of 'assumptions packs' to help communicate to other government departments the range of cost assumptions local areas used. Departments reviewed and provided feedback on these packs, which helped to promote departmental buy-in to the measurement approach.

## Evaluation and review

**2.21** While projects can be appraised before implementation it takes time for their impact to be established in practice, so there needs to be a strong commitment to monitoring and evaluation over the longer term. Given the lack of strong evidence from previous programmes on the impact of integrated ways of working, local areas are starting from a variable evidence base. As projects are implemented, local areas will need to design their evaluations to determine the actual impact of projects and take appropriate action. For example, the Department previously demonstrated good practice in commissioning an early external evaluation of the Mortgage Rescue Scheme, an intervention to help homeowners avoid repossession and homelessness. The Department used the findings and models from its evaluation to analyse modifications to this scheme and to strengthen analysis of costs and benefits.<sup>27</sup>

<sup>27</sup> Comptroller and Auditor General, *The Mortgage Rescue Scheme*, Session 2010-12, HC 1030, National Audit Office, May 2011.

**2.22** In the case of Whole-Place Community Budgets, evaluation will need to involve all bodies that have an interest in the success or otherwise of the projects being implemented and so is likely to require central government as well as local input. Our previous work has shown that central government also has an important role in facilitating good practice and wider learning.<sup>28</sup>

**2.23** Our discussions with local areas identified early examples of good practice in evaluation. For example, one area is carrying out a randomised controlled trial of its project to better integrate health and social care (see Figure 1). We have also found evidence that other local authorities outside the Whole-Place Community Budget areas are conducting randomised controlled trials as part of work to improve outcomes and reduce costs. For example, Warwickshire County Council, alongside Gloucestershire County Council and Sandwell Borough Council, are trialling ‘functional family therapy’ as an alternative to residential care as part of their children’s services strategies.

**2.24** As paragraph 2.16 shows, it will not always be possible, appropriate or cost-effective to use randomised control trials to assess the impact of new ways of working. However, evaluations that use a comparison or control group have the most potential to address historical weaknesses in the evidence base.

**2.25** Local leaders and decision-makers also need robust evidence to inform decisions about which new delivery model to maintain, expand, or halt. It will be important for local areas to develop an ‘exit strategy’ for work that does not deliver the expected benefits. We saw some evidence that local areas are developing strategies to manage this process. Some areas have developed an ‘investment agreement’ template that allows local partners to sign up to conditions under which they will invest. Such agreements may, for example, reference the results of evaluative trials. Other areas acknowledge that, while this is the next step, they have yet to formalise and agree a process between local partners.

28 For example, National Audit Office written evidence to the House of Commons Communities and Local Government Select Committee regeneration inquiry, October 2011.

# Appendix One

## Our audit approach

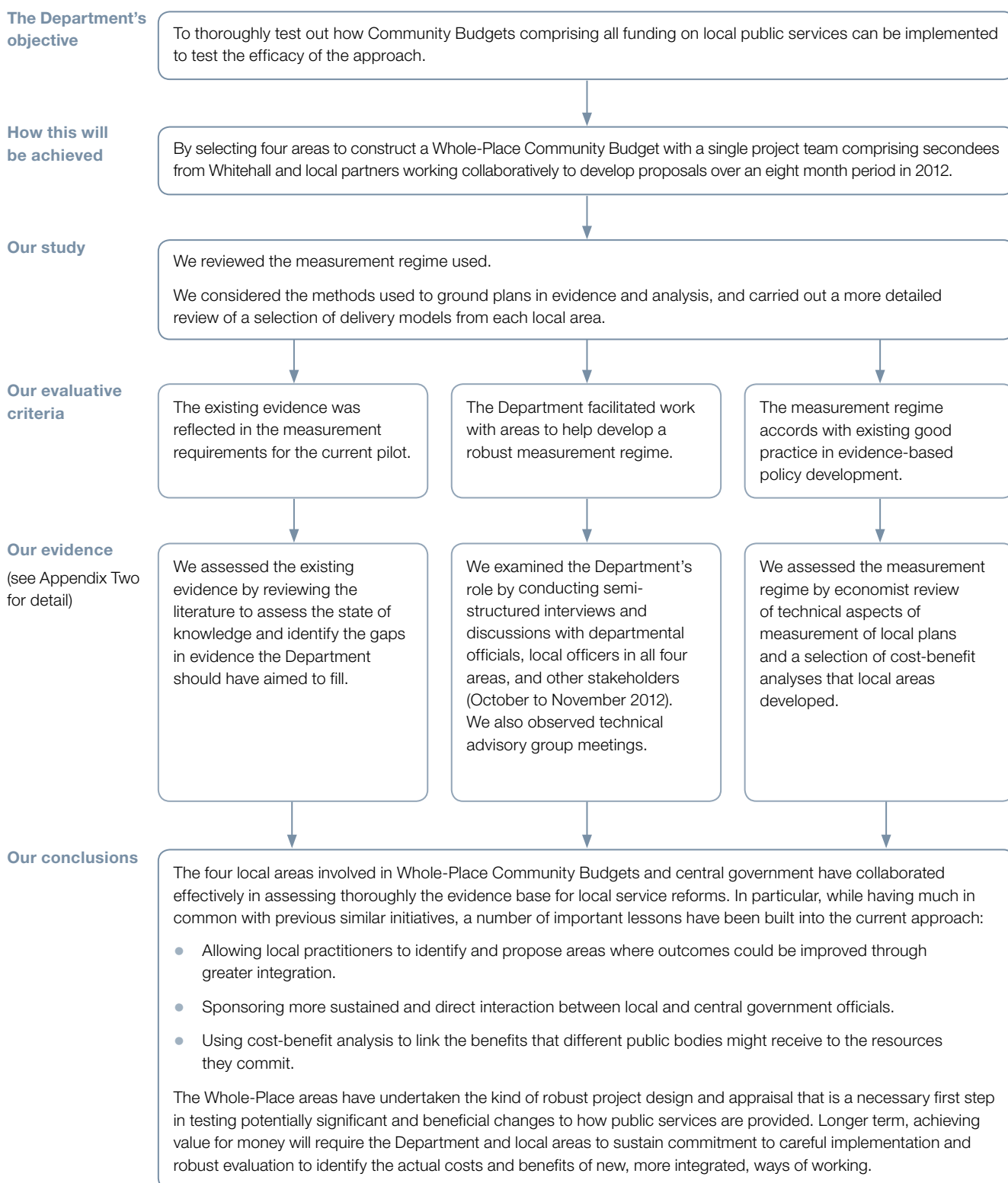
**1** Our review looked specifically at the measurement regime used for Whole-Place Community Budgets to the end of October 2012. In doing so, we considered:

- the Department's knowledge of the existing evidence and how far this evidence was reflected in the measurement requirements for Whole-Place Community Budgets;
- the Department's role in designing and specifying a pilot exercise leading to the development of a robust measurement regime; and
- the measurement regime the four areas used.

**2** We developed an analytical framework to assess the measurement regime, supported by evaluative criteria based on evaluation good practice including the Maryland Scale of scientific rigour and our extensive back-catalogue of reports, some of which are referenced in this report.

**3** Our analytical framework is summarised in **Figure 9** overleaf. Our evidence base is described in Appendix Two.

**Figure 9**  
Analytical framework



## Appendix Two

### Our evidence base

**1** Our conclusions are based on reviewing the measurement regime for Whole-Place Community Budgets, which we developed in the context of our wider knowledge of appraisal and evaluation across a range of government programmes.

**2** We applied an analytical framework with evaluative criteria, which considers what a good measurement regime looks like in the Whole-Place Community Budget context (Figure 9).

**3** We **evaluated the existing evidence and assessed how far this evidence was reflected in the measurement requirements for Whole-Place Community Budgets.** To do this we reviewed existing evaluation literature to help us understand the state of the evidence supporting a Whole-Place Community Budget approach. Following a search and initial sift of more than 200 documents we identified 180 remaining documents with evaluative content. We categorised these according to whether material was process evaluation or impact evaluation. For the impact evaluations we conducted a second more detailed review. We examined evaluative literature published since 2002, covering initiatives in the UK. Our particular interest was in the extent of evidence on the additional contributions of joint working, pooling or aligning budgets to outcomes.

**4** We **conducted semi-structured interviews** and discussions with departmental officials, local officers in all four areas and other stakeholders, to understand the extent of collaboration and the Department's intervention logic, commitment and ambition.

**5** We **assessed whether the Department facilitated the development of a robust measurement regime.**

**6** We **examined a range of documents from the Department and local areas,** including policy documents, meeting minutes and departmental communications. We assessed these documents against an audit framework of questions based around good practice in measurement, particularly project appraisal. These documents also provided an overview of the development of the Whole-Place Community Budgets programme over time.

**7** We **observed technical advisory group forums** where local areas and departments met to discuss the emerging measurement regime and the associated evidence base. These observations gave us a first-hand view of the discussions between local areas and central government, and the extent of joint and collaborative working between the major parties.

**8** We **assessed whether the measurement regime accords with existing good practice in evidence-based policy development**.

**9** Our expert economists worked with the study team to **review a sample of eight cost-benefit models that local areas developed**. We compared key features of the models to a framework of characteristics of good models developed based on our previous work. This gave us an overview of the modelling approach and assumptions used, and allowed us to assess how far standard techniques, such as generating net present values, application of discounting and the specification of comparators and unintended effects such as deadweight were applied.

**10** We **visited local areas and discussed the models with staff who developed them**. This enhanced our understanding of the project aims and objectives and the supporting analyses. The visits also gave us a more grounded view of the challenges involved in gathering and using relevant evidence.



Design and Production by  
NAO Communications  
DP Ref: 10088-001

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Published by TSO (The Stationery Office) and available from:

Online

[www.tsoshop.co.uk](http://www.tsoshop.co.uk)

Mail, telephone, fax and email

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/general enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone: 0870 240 3701

The Houses of Parliament Shop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/general enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: [shop@parliament.uk](mailto:shop@parliament.uk)

Internet: <http://www.shop.parliament.uk>

TSO@Blackwell and other accredited agents

£16.00

ISBN 978-0-10-298133-9

