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and Local Government

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

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*¹ 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;

¹ 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”.²
- 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.

² 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*³ 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.

³ 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.⁴ 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.⁵ 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;

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

⁵ 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.”⁶

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 review⁷ 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;

⁶ Department for Communities and Local Government, *Community Budgets Prospectus*, October 2011.

⁷ 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;⁸ 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*.⁹ 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.

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

⁹ 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.