

**Office of the First Minister Deputy First
Minister**

**Exercise to Estimate the Costs and
Efficiencies of the Review of Public
Administration Proposals**

Executive Summary

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This report is a summary of the findings of an exercise undertaken to estimate the costs and efficiencies of the Review of Public Administration proposals. For detailed information on the methodology adopted for this exercise, reference should be made to the full November 2005 Deloitte report.

This report is confidential to the RPA team and prepared solely for the purpose(s) set out in our proposal letter. You should not refer to or use our name or the report for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our report for any purpose whatsoever and we accept no duty of care or liability to any other party who is shown or gains access to this report.

For the purposes of this report, save where we have been able to corroborate information, we have had to assume that the information provided to us in terms of current costs of service provision and activity levels generated is reliable and complete. The scope of the exercise did not extend to an audit of the data provided.

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EXECUTIVE SUMMARY

1. INTRODUCTION

This document sets out a summary of the findings of the work carried out by Deloitte MCS Ltd (Deloitte) to assist the Review of Public Administration (RPA) team within the Office of the First Minister and Deputy First Minister (OFMDFM) to estimate the efficiency savings and costs of implementing the RPA proposals.

The aim of this engagement was to estimate the efficiency savings to be gained from the implementation of the RPA proposals, to identify the steps necessary to achieve implementation, and to estimate the costs associated with these, particularly around the options and proposals for local government (including the restructuring of planning and other services which would transfer to local government), Health and Personal Social Services (HPSS) and education set out in the March 2005 RPA “Further Consultation” document.

2. ANALYTICAL FRAMEWORK AND COSTING PRINCIPLES

The original basis for costing agreed with the RPA Management Group is the model outlined in the March 2005 RPA consultation document.

In the course of the assignment, it was agreed that two additional costing models would be prepared as follows:

- for the education sector, a model based on one combined support body covering the proposed activities of the Education Services Support Body and the Curriculum and Teachers Support Body;
- for the health sector, a model based on the following:
 - a Regional Health Authority to replace the existing 4 HSS Boards and acquire some of the functions currently undertaken by the Department in relation to financial and performance management, operational policy, planning and procurement with responsibility for the creation and operation of 7 Local Commissioning Groups to support GPs and other primary care practitioners in the commissioning of services; and
 - a reduction in the 18 acute, community and mixed Trusts to 5.

2.1. Analytical Framework

On commencement of this exercise, we defined a common analytical framework across which potential efficiency has been captured and modelled. This analytical framework was agreed with the RPA Management Group and includes the following.

Costs of Servicing the Organisation

The composition of costs associated with servicing the organisation relates to the following:

- the costs associated with leading the organisation defined to include the Chief Executive, team of Executive Directors and associated administrative support;
- costs of maintaining and servicing the governing body and arrangements underpinning it within the organisation; and
- the costs associated with maintaining the PR and branding of the organisation and other central functions such as corporate planning, modernisation/value for money and internal audit.

Shared Service Efficiency

Shared services is a mode of operation whereby high-volume, transaction-based or experience-based support processes within an organisation are identified, separated, and run independently, enabled by common practices and systems.

For the purposes of this exercise, support services which have shared service potential are defined as:

- Legal Services;
- Human Resources;
- Finance;
- Information Technology;
- Procurement; and
- Estate Management.

Other Service Efficiency

It is recognised that rationalisation in the number of organisational structures underpinning the delivery of key public service areas will provide an opportunity to improve front line service efficiency and performance. This would involve an analysis of current service delivery models against a best practice / 'Model Office' construct.

As part of this exercise it was agreed that we would undertake a high level analysis of the potential savings that could be achieved through rationalisation of front line administrative services.

Coterminosity of Boundaries

Another key issue for the analysis is the extent to which efficiency can be derived through maximising the policy and operational service co-ordination of co-terminus boundaries from a strengthened local government function, health and education.

Evidence would suggest that where public service boundaries are aligned, the optimum potential efficiency benefit can be achieved in terms of service planning and co-ordination.

A high level analysis of the savings that could be achieved where a combined model provides for coterminosity of organisational boundaries has been applied.

2.2. Costing Principles

A number of costing principles were identified which underpin the development of the costings and savings model. These are:

- costing would be focused on those activities and functions which will be impacted by and through the implementation of the RPA model. This will include the impact of organisational rationalisation and process change/optimisation across administrative functions eg introduction of shared service across finance/HR etc;
- performance and system change which relates to front line service delivery such as waste management, running of schools, direct healthcare provision etc will be outside the scope of this costing exercise;
- data collection activity will focus upon the capture of the steady state baseline position in cost, activity and staffing terms as at a specified base period across those functions/activities defined within the analytical framework;
- analysis of potential efficiency will be based upon a comparison of the steady state position against a generic and sector specific model based on fit for purpose best practice metrics and benchmarks;
- it is assumed that the best practice model used for comparative purposes will be the position 5-10 years post implementation; and
- best practice metrics and benchmarks will be collated from available indicators of high quality service delivery, technology and working environment.

2.3. Baseline Data Capture

Estimating efficiency savings to be derived from the implementation of the RPA model has required underpinning the exercise with the capture of a robust and accurate baseline data set across health, education and local government. Clearly a constraint on this has been the timeframe established for the exercise.

We developed an information request for issue to each sector, and this was based on the objective of ensuring comparability and collating the information consistently across organisations and sectors. Preliminary meetings were held with the DHSSPS, DE and DoE to discuss and agree the contents of the information request and associated definitions.

Due to the tight timescales for the exercise, it was recognised that a sampling approach needed to be applied to the collation of data across the sectors, with data supplied then being used to estimate total costs for the sector.

3. OVERALL SUMMARY OF SAVINGS AND STAFF IMPACT

The RPA consultation exercise highlighted a number of options for each sector and Table 1.1 overleaf summarises options generated and savings anticipated under each option based on an average and a best practice model. This includes the application of a co-terminosity adjustment to Options 4, 10, 13 and 16.

Table 1.1
Summary of Savings Options 1-18

Option	Education Bodies	Health Bodies	Local Government	Savings (£'000s)		Staff Impact (FTE)		Staff Impact (FTE excluding Board/Council Members)	
				Average	Best Practice	Average	Best Practice	Average	Best Practice
1	1	5	7	120,514	181,126	2,761	4,378	2,230	3,847
2	1	5	11	116,026	176,578	2,641	4,258	2,150	3,767
3	1	5	15	111,731	172,343	2,541	4,158	2,070	3,687
4	1	7	7	145,293	205,905	2,712	4,329	2,195	3,812
5	1	7	11	113,711	174,263	2,592	4,209	2,115	3,732
6	1	7	15	109,416	170,028	2,492	4,109	2,035	3,652
7	2	5	7	119,768	180,380	2,726	4,343	2,215	3,832
8	2	5	11	115,280	175,832	2,606	4,223	2,135	3,752
9	2	5	15	110,985	171,597	2,506	4,123	2,055	3,672
10	2	7	7	144,547	205,159	2,677	4,294	2,180	3,797
11	2	7	11	112,965	173,517	2,557	4,174	2,100	3,717
12	2	7	15	108,670	169,282	2,457	4,074	2,020	3,637
13	1	New Model	7	140,379	200,841	2,752	4,369	2,223	3,840
14	1	New Model	11	108,796	169,198	2,632	4,249	2,143	3,760
15	1	New Model	15	104,501	164,963	2,532	4,149	2,063	3,680
16	2	New Model	7	139,633	200,095	2,717	4,334	2,208	3,825
17	2	New Model	11	108,050	168,452	2,597	4,214	2,128	3,745
18	2	New Model	15	103,755	164,217	2,497	4,114	2,048	3,665

Table 1.1 highlights that of the options outlined above, the optimum model as defined in terms of the maximum potential release of efficiency savings is option 4 i.e.:

- one combined education support body;
- 7 health agencies; and
- 7 Councils.

Option 4 offers a total post implementation efficiency saving of £206 million.

Table 1.1 also indicates that between 2,020 and 3,847 FTE staff posts will be impacted across the three sectors depending on the model implemented. It should be noted that this does not take account of any additional posts required for the creation of Local Commissioning Groups in the health sector.

Option 1 highlights the maximum staff impact. This option is defined as:

- one combined education support body;
- 5 health agencies; and
- 7 Councils.

This option would result in a staff impact of up to 3,847 FTEs and a Board and Council Member impact of 531 across all sectors.

4. CONSIDERATION OF OTHER SERVICE/DEPARTMENTAL TRANSFERS

The RPA March 2005 consultation document outlined the principle of strong local government and as a result, proposed that a number of services currently undertaken by central government or other government bodies could be transferred to the new Local Authorities following implementation of the RPA proposals. As part of the consultation process undertaken for the costings and savings exercise, we met with representatives of the following organisations to discuss the implication of the transfer of services to local government.

- Roads Service;
- Planning Service;
- Environment and Heritage Service;
- Department for Social Development; and
- Department for Culture, Arts and Leisure.

Areas highlighted by these bodies as being likely to result in additional costs included:

- policy development and the need to strengthen governance arrangements between central and local government;
- performance management and reporting;
- relocation of staff, accommodation and other resources (eg IT systems);
- standardisation of processes; and
- capacity building and the potential need to increase staffing levels as a result of diseconomies of scale.

It was concluded that additional cost will be incurred through the transfer of services to Local Government, but it is not possible at this stage to quantify this cost. Further detailed analysis of the revenue consequences should commence in the first phase of RPA implementation between January and March 2006.

5. ANALYSIS OF IMPLEMENTATION ISSUES AND COSTS

In order to identify the indicative costs of implementation of the RPA proposals, we have made a number of base assumptions with regard to the governance and design of the implementation programme. These are detailed in Chapter 10 of the November 2005 Deloitte report.

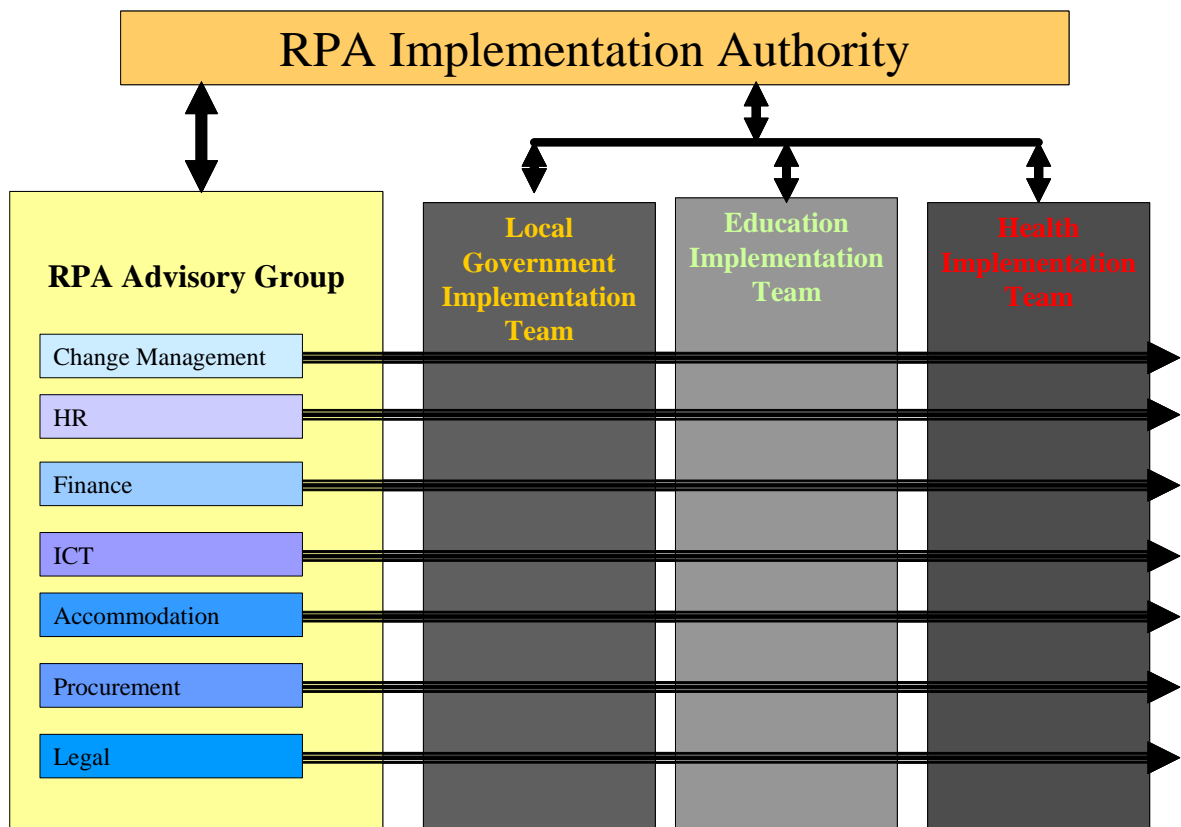
In considering the nature and scale of costs associated with RPA implementation we have defined the following constituent elements:

- **Change Management:** expertise in taking organisations through the three stages/eight step model of change management outlined in our detailed report is required, including particular expertise in communications;
- **HR:** expertise in organisation design, workforce planning, redundancy, TUPE (including protection of pay and conditions of employment), recruitment and selection, outplacement, terms and conditions of employment, trade union consultation and negotiations, learning and development, and the implementation of the best practice HR model is required. Our assessment of the 'People' implementation costs has attempted to capture the scale and profile of expenditure across the broad spectrum of people issues that will exist;
- **Legislative:** the programme of costs associated with the scheduling and passage of legislation required to underpin the new model of administration;
- **Technology:** the costs associated with the implementation of a best practice technological infrastructure and systems which will facilitate service enhancement and efficiency;
- **Accommodation:** the costs associated with the implementation of a model office working environment; and

- **Finance:** the cost of implementing and maintaining a robust system of financial management to underpin the monitoring and control of savings / benefits realisation across the programme.

The approach to implementation is illustrated diagrammatically in Figure 1.1 below.

Figure 1.1
RPA Implementation



The March 2005 RPA consultation paper sets out an indicative timetable for implementation of the new legal entities and structures within each sector, as follows:

- Health : 2 years;
- Education : 2 years; and
- Local Government: Target election date May 2009.

This exercise has analysed the profile of implementation costs across the timelines detailed above, for planning purposes we have assumed that the full implementation programme will commence 1 April 2006, with Phase I planning and funding activities programmed for 1 January to 31 March 2006.

6. IMPLEMENTATION COSTS SUMMARY

We have summarised the range of estimated implementation costs in Table 1.2 below.

Table 1.2
Summary of Implementation Costs

	Range	
	£M	£M
Central Implementation Team	4	5
Departmental Teams	8	14
ICT/Shared Service	68	76
Estates and Accommodation	6	9
Legislative	1	2
Finance	2	2
People and Change	43	290
Total	133	397

The critical variance lies with the approach and principles adopted to underpin those individuals leaving employment across the sectors.

In addition, another key issue impacting primarily on the assumed cost of the Departmental implementation teams is the extent to which teams can be established from across the Departments' existing staff complement without requirement to back fill posts, in this regard 2 different scenarios have been explored which rehearse a differing level of backfill.

Full details of the analysis of implementation costs and cost drivers is included in sections 9 to 15 of the November 2005 Deloitte report.

ABBREVIATIONS

DE	Department of Education for Northern Ireland
Deloitte	Deloitte MCS Limited
DHSSPS	Department of Health, Social Services and Public Safety
DoE	Department of the Environment
HPSS	Health and Personal Social Services
OFMDFM	Office of the First Minister and Deputy First Minister
RPA	The Review of Public Administration
TUPE	Transfer of Undertakings Protection of Employment