



**SUPPLEMENTARY SUBMISSION TO THE  
LOCAL GOVERNMENT EFFICIENCY REVIEW GROUP**

With research support from



**29<sup>th</sup> April 2010**

## **Executive Summary**

The Dublin business community has an inherent interest in the efficient operation of local government as it is by far the largest single contributor to the budgets of the four Dublin local authorities. Dublin Chamber recognises that some progress has already been made to cut budgets and reduce staff costs, but further reforms are required.

There is considerable scope to make local government more efficient; that is, to improve the quality and effectiveness of its services and/or to cut the cost of providing such services. The savings made from making local government more efficient should directly lead to supporting jobs and businesses by reducing commercial rates and charges. Innovation amongst individual local authorities should also be encouraged, so that some of the savings from efficiency gains that are made may be retained by a local authority.

The Local Government Efficiency Review Group should ensure that its recommendations for change are underpinned by detailing a more meaningful set of performance indicators for local authorities. Given that some reforms may take longer than others, the Review Group should consider setting out a number of recommendations that may be implemented swiftly in order to provide momentum to the process of change.

At a minimum, Dublin Chamber recommends that a target be set for local authorities to reduce their current expenditure by 3% per annum through efficiency improvements. This would lead to a cost saving of €150 million per annum nationally, and €50 million of this in Dublin.

## **Recommendations**

- An audit of the range of services and programmes that Dublin local authorities currently deliver should be undertaken. From this a decision should be made as to whether they are the most appropriate agency to deliver such services.
- The “how” of service delivery should be considered in all areas of local government expenditure to eliminate duplication and ensure the most effective and efficient method is used. Options considered should include outsourcing, sharing or centralisation of services.
- Set financially based Performance Indicators
- Information Technology should be better utilised to realise cost savings.
- Multi-annual budgeting should be introduced to give local authorities greater certainty over their budgets and enable them to plan better.
- Local authorities should complete and publish an audit of the properties they own or occupy. Through this audit they will ensure the optimal use is being made of their asset portfolio..
- The recommendation of the Special Group on Public Service Numbers and Expenditure Programmes to reduce the number of local authorities to 22 should be implemented.

## **Preface**

The Dublin Chamber of Commerce welcomed the establishment of the Local Government Efficiency Review Group, on foot of the Chamber's recommendations for Budget 2010. We look forward to the Group completing its analysis by early June and to seeing its recommendations implemented in Budget 2011.

This paper builds on the Dublin Chamber submission of 8<sup>th</sup> March. It seeks to develop the arguments made in that submission and provide suggestions and examples of where efficiencies and improvements can be made in the operation of local authority activities.

## **Introduction**

The current system of local government financing has failed, with local authorities in urban areas overly reliant on business rates and charges as a source of funding. Changes to the operations and structures of local authorities are required, such that efficiencies are identified and implemented, and the cost of doing business is reduced.

Competition for international investment and jobs occurs between city regions, rather than nation states. It is city regions that act as the engines of growth for national economies. As the only region of sufficient size in Ireland to be able to successfully compete internationally, it is important that businesses in the Dublin City Region are not hampered by uncompetitive local government taxes and charges.

Dublin Chamber recognises that progress has already been made by the Dublin local authorities to cut costs in 2009. Dublin City Council, for example, reduced its costs by €75 million in its most recent budget. Nonetheless, Dublin Chamber considers it imperative that further efficiencies are found and that the Review Group propose permanent structural improvements in efficiency and accountability within local government. Innovation must also be rewarded. Efficient local authorities should be rewarded for their efforts. The proposed directly elected Mayor for Dublin provides an opportunity for many structural improvements through, for example, shared services in the four local authorities in Dublin.

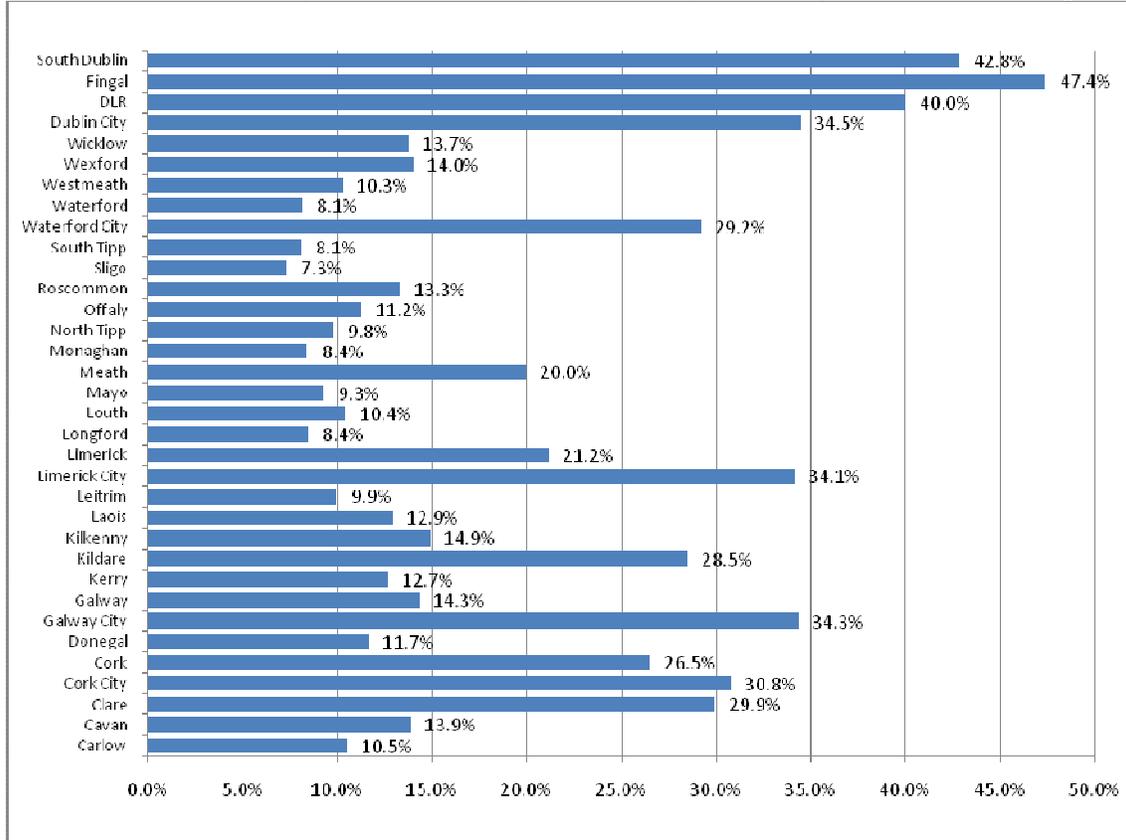
## **The Burden on Business**

The combined current and capital budget of local authorities in Ireland is approximately €11bn and they employ about 33,000 staff. In the current climate, a review of the cost base, expenditure of, and numbers employed in local authorities is appropriate. Dublin Chamber supports the broad thrust of the recommendations of the Report of the Special Group on Public Service Numbers and Expenditure Programmes (McCarthy report) in terms of its recommendations for local government reform. Dublin Chamber also supports the recommendations of the Commission on Taxation to broaden the tax base to capture the full cost of providing domestic services. More efficient local government, driven by the requirement to deliver transparent and measurable performance indicators, has the potential to reduce the burden on business, while providing more targeted resources to address local needs.

Business has an inherent interest in the efficient operation of local government as it is by far the largest single contributor to local authority budgets in Dublin (as shown in the following chart). In Dublin, the combined current expenditure of the four local authorities is almost €1.7 billion, of which some 37%, or €625 million, is funded by commercial rates. This is well above the national average of 27%.

In addition, charges for goods and services, many of which are levied on businesses, account for more than 30% of the expenditure of the authorities in the Dublin region, somewhat above the national average of 28%. Whilst Dublin Chamber recognises that progress has already been made to cut budgets and reduce staff costs within the Dublin local authorities, we believe that more ambitious measures are required.

**Commercial Rates as a Proportion of Gross Expenditure – City and County Councils - 2009 Budgets**



**Source: Department of Environment, Heritage and Local Government**

Dublin Chamber believes that very significant savings can be achieved by a concerted focus on improving efficiencies in local government. In England, for example, local authorities were required to deliver annual improvements in efficiency of 2.5% each year from 2005/6 to 2007/8 – and in fact, significantly exceeded this target.<sup>1</sup> This target has been increased to 3% per annum and Councils are now expected to achieve almost £5 billion cash-releasing efficiencies by 2010/11.<sup>2</sup> If a similar target were achieved in Ireland this would mean annual “savings” in local authorities’ revenue expenditure of over €150 million per annum nationally.

Dublin Chamber believes that some of the dividends from making local government more efficient should be passed on to businesses through reduced commercial rates and charges. Furthermore, to enable to promote greater efficiencies on the part of local authorities, it is essential that local authorities are allowed retain some of the savings that they make from innovations in service provision.

1 <http://www.communities.gov.uk/localgovernment/efficiencybetter/deliveringefficiency/aboutlocal/>

2 <http://www.communities.gov.uk/documents/localgovernment/pdf/value.pdf>

## **Efficiency Review – Key Issues**

Dublin Chamber believes that in reviewing local authority efficiencies an assessment framework, such as that advocated in the Indecon Report, must be adopted by the Review Group.<sup>3</sup> This framework must examine both the economic justification for local authority functions as well as service delivery mechanisms.

Under such a framework, the first question must be the appropriateness of the range of services and programmes that local authorities deliver. It is essential that the Review Group considers whether the local authority is the most appropriate agency to be undertaking particular activities or programmes; whether there is a market failure or public good argument to support the local authorities' involvement in the delivery of certain services; and also whether other organisations and/or the private sector are better placed to deliver these services or programmes.

These considerations cut to the heart of many of the concerns Dublin Chamber has about the current system of local government. This includes, for example, the appropriateness of local authorities competing with private sector operators, as in the collection of waste, as well as the geographic location of delivery of some services (e.g. water supply) and whether these should be delivered at a national, regional or local level.

As well as focusing on "what" is delivered at a local level, the Review Group must also focus on "how" services are delivered. Therefore, Dublin Chamber believes that the Review Group must consider the following options for all areas of local government expenditure:

- Outsourcing;
- Using shared and centralised services;
- Elimination of duplication;
- Using IT to drive greater efficiency;
- Multiannual budgeting;
- Joint procurement to achieve economies of scale;
- Selling of state assets; and
- Setting financially based Performance Indicators.

Many of these issues were also highlighted in the Indecon Report and Dublin Chamber would urge the Review Group to give serious consideration to the recommendations contained therein. The following sections highlight a number of areas where the Chamber believes efficiencies could be achieved.

### ***Outsourcing***

Dublin Chamber believes that local authorities should ensure their range of services is delivered in a competitive manner, to a high standard and at a competitive price. There are many areas of local government activities where the opening up of a service up to the competitive process provides an opportunity to reduce costs.

The Review Group should explore in detail how the local authorities can deliver services in different ways by different bodies as recommended by the Public Service Agreement 2010-2014.<sup>4</sup>

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<sup>3</sup> Indecon Review of Local Government Financing, page 135

<sup>4</sup> Public Service Agreement (2010-2014), Department of Finance, 30th March 2010.

Specifically, the Review Group should request that local authorities prepare a service plan to evaluate existing in-house services, outsourcing options, and a comparison of both.<sup>5</sup> An Outsourcing Service Plan should be prepared without delay and in advance of Budget 2011.

The priority areas for outsourcing should be the shared services identified in the Government's Transforming Public Services Programme.<sup>6</sup> These include:

- HR and Pension Shared Services;
- Financial Shared Services; and
- Single Point of Telephone Contact.

In relation to housing, for example, the Dublin Chamber believes that there is scope to contract out a higher percentage of expenditure on housing maintenance and repair services. The Indecon Report showed that cost savings of upwards of 20% were achieved by contracting out such services.<sup>7</sup> In Ireland, however, while some progress has been made in this area, direct provision by local authorities is still the principal mechanism for delivering the housing maintenance service. The Dublin Chamber believes that more needs to be done to enhance the efficiency of this very significant area of local authority spending.

Transactional services, such as rent collection, student grant services and debt collection generally, are also areas that offer potential for significant efficiency improvements. The costs of collecting rents are reported to be relatively high (according to Indecon these can equate to 10% of total rental income) and therefore, different payment options and procedures need to be explored. This could include, for example, contracting out the collection function; introducing different payment options, such as direct debits; or sharing these functions across local authorities to achieve economies of scale.

In the UK, for example, an Audit Commission study concluded that transactional services are one area where Councils can make significant savings.<sup>8</sup> They found that, in relation to the collection of council tax and business rates and the payment of housing and council tax benefits, significant savings could be made simply by improving direct debit uptake rates. Indeed, it was estimated that this measure alone could generate savings of £15 million per annum. The report also highlighted the potential efficiency savings arising from greater sharing of services and back-office functions.

Urgent consideration should be given by local authorities to outsourcing more of their waste management activities. This is an area where the public sector is in direct competition with the private sector and, until recently, had been further subsidised by the fact that no VAT was levied by local authorities on this service.

### ***Shared/Centralised Services***

Evidence from England confirms the importance of greater collaboration between local authorities to ensure that administrative boundaries do not act as a barrier to service transformation and efficiency.

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5 Op cit. Appendix, para 6.

6 [www.onegov.ie](http://www.onegov.ie)

7 Op cit, page 146.

8 Audit Commission: The Efficiency Challenge; The administrative Costs of Revenues and Benefits, November 2005.

Whilst acknowledging the differences between the Irish and English local government systems, it is interesting, nevertheless, to consider what has been occurring in England, where a concerted strategy to improve local government efficiency has been pursued over the last number of years.<sup>9</sup>

Their Local Government White Paper, *Strong and Prosperous Local Communities*, contains a clear expectation that greater collaborative working is central in transforming local services, bringing together local partners to focus on the needs of citizens and communities and agreeing specific improvement targets through Local Area Agreements.<sup>10, 11</sup> This strategy involves local authorities and other public bodies working together to overcome administrative boundaries that sometimes act as a barrier to service transformation. It means sharing assets, systems, data, skills and knowledge more effectively and various frameworks have been introduced (such as Regional Improvement and Efficiency Partnerships) to facilitate greater co-operation between local agencies.<sup>12, 13</sup> As indicated earlier, this strategy has helped to deliver efficiency improvements of between 2.5% and 3% each year since 2004.<sup>14</sup>

Dublin Chamber believes that 'shared local authority services' nationwide would reduce costs and expenditure, some of which could be passed back to rate and tax payers. Therefore, the Review Group should assess the feasibility of introducing Local Area Agreements in Ireland, with the Dublin City Region being a priority pilot area. Such a pilot would fit well with the proposed introduction of a directly-elected Mayor for the Dublin City Region.

Another area that offers potential for efficiency improvement is that of water supply and waste water treatment. As highlighted in the Indecon report, efficiency issues largely centre on the potential to achieve greater economies of scale, as well as on user incentives and the appropriate delivery mechanism.<sup>15</sup> While the commercial sector is charged for these services, domestic users receive them free of charge and, therefore, there is little incentive for domestic consumers to economise in their use of these services. As highlighted in the Indecon Report, this is likely to lead to over-consumption and to unnecessary expenditure. There is, therefore, potential for significant expenditure efficiencies if users were made responsible for meeting the economic cost of delivering these services. As indicated earlier, the Dublin Chamber supports the broadening of the tax base to include the cost of providing domestic services as recommended by the Commission on Taxation. The area of water charges is an area that needs to be addressed urgently.

Dublin Chamber also believes that the provision of services on a shared basis with other local authorities or on a regional, or indeed a national basis, would generate significant economies of scale by cutting administrative and engineering costs.

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9 National Efficiency Strategy <http://www.communities.gov.uk/publications/localgovernment/efficiency>

10 <http://www.communities.gov.uk/documents/localgovernment/pdf/152456.pdf>

11 [www.communities.gov.uk](http://www.communities.gov.uk)

12 Under the National Improvement and Efficiency Strategy, nine Regional Improvement and Efficiency Partnerships (RIEPs) have been established. These are local-government led partnerships which work to support better, more efficient local services and play a key role in helping councils to achieve their annual efficiency saving target. They work by re-designing services; sharing back-office functions; streamlining tendering processes to encourage more competitive bids and sharing legal advice.

13 Local Government White Paper, page 135.

14 For example, the East Midlands Regional Improvement and Efficiency Partnership has developed LawShare, a partnership of 19 local authorities with the police and fire services and commercial legal firms, to share legal services. A cost benefit analysis published found that £3m has already been saved since the contract was signed, with £5m savings anticipated over the 5-year duration of the agreement.

15 Indecon report, op cit, page 150

This was the conclusion reached from evidence on unit costs in the Indecon Report. Whilst acknowledging that some progress has been made across the County to share services, Dublin Chamber believes that this approach should be given greater consideration here. In the area of planning too, the Dublin Chamber believes that there may be scope to share some of the administration costs between local authorities and to manage these activities in a more cost-effective manner. The Review Group should explore, for example, how a web based 'One-Stop Shop' for planning in the Dublin City Region could operate.

### ***Elimination of Duplication***

As part of the review process, serious questions need to be asked about the role and function of local authorities in certain activities and programmes. At the present time, local authorities are involved in many activities, and in the funding and delivery of programmes, that are essentially national in character and in which there are already numerous other agencies involved. It is clear that for many of these programmes, policy is set at a national level and therefore the "local" element is relatively minor. This issue, which was also highlighted in the Indecon Report, means that in some instances there is a duplication of administration across the organisations involved, ultimately leading to higher delivery costs for the programme.<sup>16</sup>

### ***Joint Procurement***

A co-ordinated and collaborative approach to procurement can deliver real efficiencies. In the UK for instance, there have been numerous initiatives aimed at improving the way in which the public sector – including local government – procures goods and services.<sup>17</sup> In fact, smarter procurement is regarded as a fundamental driver for securing better services and even greater efficiency.<sup>18</sup>

As mentioned above, local authorities in England have successfully delivered 2.5% to 3% annual efficiency improvements in recent years. These savings have been achieved by a mix of measures including outsourcing and shared services. However, it is interesting to note that in relation to the latest targets, there is an expectation that nearly 60% of the total saving will arise through smarter procurement.<sup>19</sup>

Local authority sector Professional Buying Organisations operate in most English regions and grew out of local authority purchasing consortia.<sup>20</sup> The larger sector Professional Buying Organisations are structured as joint committees of local authorities and some specialise in particular goods or services. To facilitate these efforts, local government has access to a wide range of project support, guidance, toolkits, regular workshops and events, and standard or tailored management solutions.

In addition, considerable investment has taken place in guidance and encouragement for local authorities to modernise their procurement processes as part of the e-Government initiative. Improving take-up of e-Procurement is seen as an integral part of securing better outcomes and greater efficiency. E-Procurement technologies are considered to be a vital tool in optimising efficiency in quotation, tendering and contracts management.

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16 Indecon report, op cit, pages 161-165

17 National Procurement Strategy

[www.communities.gov.uk/localgovernment/efficiencybetter/nationalprocurementprogramme/nationalprocurementstrategy/](http://www.communities.gov.uk/localgovernment/efficiencybetter/nationalprocurementprogramme/nationalprocurementstrategy/)

18 The National Procurement Strategy for Local Government, Final Report, 2008.

19 The Roots Review; Review of Arrangements for Efficiencies From Smarter Procurement in Local Government, February 2009.

20 In the UK, schools, fire and rescue authorities and the police may also be covered by these Professional Buying Organisations

In addition, the use of e-procurement systems also provides management information enabling effective targeting for further efficiencies to be achieved.<sup>21</sup>

The Review Group should consider the potential lessons that can be learnt from the UK in relation to the establishment of procurement consortia and the use of technology to facilitate more efficient procurement. The e-tenders website has been a significant success but more could be done in relation to the standardisation of tender documentation and processes amongst local authorities.<sup>22</sup>

### ***Using IT to drive greater efficiency***

As indicated above, the e-tenders site is a practical demonstration of how technology can be used to improve the functioning of local authorities. There are a number of other examples that could also be highlighted such as the online motor taxation service; the electronic car parking services available in many cities; the centralised system for payment of the tax on second homes etc. However, more generally, Dublin Chamber believes that there is far greater scope to use IT to help to improve the quality of services being offered by local authorities and to drive greater efficiencies.

Again, evidence from the UK suggests that significant savings can be delivered if technology is properly harnessed. For example, the UK Government's local e-Government Programme is reported to have delivered over £1.1 billion of efficiency gains in England by 2006.<sup>23</sup>

Most of these savings are due to the ability of people to access information or services easily via the local authority website rather than having to contact the authority directly.<sup>24</sup> In England, for example, a comparison of the cost of different delivery mechanisms found that the average service transaction costs for face-to-face service delivery was £7.81, telephone was £4.00 and web was just 17p. This suggests that very significant efficiency gains and cost reductions could be achieved through making reductions in avoidable contact in favour of self-service.<sup>25</sup>

However, in order to achieve these efficiencies in Ireland, significant work would need to be undertaken on the websites of most local authorities. Indeed, even within the Dublin Region there are significant variations in the amount and quality of the information contained on the local authorities websites. Dublin Chamber believes that the websites of the four local authorities in Dublin should be more co-ordinated and integrated to make it easier for the capital's residents and businesses to interact with the Councils.

### ***Multiannual Budgeting***

Dublin Chamber supports the view that local authorities need to be given clearer incentives to secure efficiencies. The use of multi-annual budgeting would give the authorities greater certainty over their budgets and would ensure that any under-spend could be carried forward to future years, thus avoiding any year-end rush to spend the budget. This is the approach that has been adopted in the UK where the provision of

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21 The National Procurement Strategy for Local Government, Final Report, 2008.

22 For example, in England, the Regional Improvement and Efficiency Partnerships in the North East, North West, Yorkshire and Humber and East Midlands have come together to develop Docking Station, a collection of standard documents to make tendering and contracting quicker and fairer for buyers and suppliers to councils in the regions. It has proved particularly useful to district councils, which have in the past struggled to meet the commitments of the e-tendering process.

23 Local Government White Paper.

24 An example is the Waste Information Network website which was developed for use by local authorities in the South East region of England and provides information on all aspects of waste management.

25 <http://www.communities.gov.uk/documents/localgovernment/pdf/325664.pdf>

three year funding settlements for local authorities was seen as being essential for providing greater stability and enabling local authorities to plan better.

### ***Asset Management***

More efficient asset management can also play an important part in delivering efficiency improvements. In the UK, for example, the requirement to achieve stringent annual efficiency targets compelled local government to consider the most effective use of its assets. This included considering co-location of services; shared use of assets; working closely with community groups to best utilise assets; and reviewing the future of underperforming assets.

The Review Group should request all local authorities to complete and publish an audit of the properties they own or occupy and their involvement in any business ventures to ensure the optimal use is being made of their portfolio.

Dublin Chamber recognises that the disposal of assets in the current market is extremely difficult, so a long term view is needed. Nevertheless, the Review Group should set criteria which local authorities should follow in relation to the continuing use and possible disposal of surplus property assets.

### ***Greater Transparency and Accountability***

Information on spending by local authorities and the value for money being achieved at this level of government is quite poor. At the time of writing, only the 2007 spending outturns for local authorities and the budgeted spending for 2009 have been published. The latest Service Indicators Report by the Local Government Management Services Board is for 2008. These indicators do not capture value for money as they are generally either output based, without any consideration of the inputs required; or expenditure based, without any consideration for the outputs and outcomes achieved.

Dublin Chamber believes there is a critical need to increase the current levels of public information and analysis of the performance of the Irish local government system. Whilst there has been improved use of indicators across a wide range of services since 1996, there remains a substantial amount of work to be engaged in to build upon these changes.

Although the recent publication of Local Authority Performance, using a suite of 42 Service Indicators, gives some insight into service level improvements, the absence of transparent financial Key Performance Indicators that compare the cost of providing services with similar private sector costs makes these service indicators incomplete as a measure of efficiency.

Clearer quantitative measures should be put in place to ensure that the targets agreed can be publicly measured and that their achievement can be publicly verified. It is important that all performance indicators are combined with a standard costing system to make management accounts more transparent and unit costing possible for more meaningful comparative national benchmarking.

Those who fund local authorities expect to see how their money is being spent. The Review Group should therefore draw on international benchmarks and set minimum guidelines for the local authorities in relation to the preparation of annual budgets, public consultation on the budget process, and the publication of complete and timely reports on key service indicators. These guidelines could be informed by best practice in England, Wales, Australia and New Zealand.<sup>26, 27, 28, 29</sup>

## Conclusion

The Dublin Chamber of Commerce looks forward to the report by the Local Authority Efficiency Review Group. Our submission highlights a number of key processes that we believe should be considered as part of the methodology of the Group. In addition, we believe that there is a need to rationalise the number of local authorities and to improve the measurement of their performance, having specific regard to value for money.

Ireland is divided into 34 areas, 29 county councils and 5 city councils. Within most counties there are town authorities, 80 in total, each of which elects its own council. We support the recommendation of the Special Group on Public Service Numbers and Expenditure Programmes to reduce the number of local authorities to 22.

The combined budgets of the four local authorities in Dublin alone amounts to some €3 billion. Dublin Chamber has welcomed the announcement of draft legislation in relation to an elected Mayor for Dublin. We believe that there is a strong case for centralising the responsibilities and the services of the four local authorities under this office. Once in place, the Mayor should introduce a performance and output monitoring system, along the lines of the CitiStat system used in Baltimore, Maryland, in order to drive efficiencies at the level of the Dublin City Region.<sup>30</sup>

Dublin Chamber believes that the likely timeline of implementation will occur after the Local Government (Dublin Mayor and *Regional Authority*) Bill 2010 has been passed in the autumn. The Review Group should consider how this office could be used to improve efficiency and improve co-ordination of the activities in the four Dublin local authorities.

The Local Government Efficiency Review Group should ensure that its recommendations for change are underpinned by detailing a more meaningful set of performance indicators for local authorities.

Given that some reforms may take longer than others, the Review Group should consider setting out a number of recommendations that may be implemented swiftly in order to provide momentum to the process of change.

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26 Best Value Performance Indicators: [www.communities.gov.uk](http://www.communities.gov.uk)

27 The Local Government (Performance Indicators and Standards) (Wales) Order 2010, 24 February 2010.

28 Financial Performance Indicators for Australian Local Governments: [www.pc.gov.au](http://www.pc.gov.au)

29 Service Performance Measurement in New Zealand Local Government: [www.auditnz.govt.nz](http://www.auditnz.govt.nz)

30 [www.baltimorecity.gov/Government/AgenciesDepartments/CitiStat.aspx](http://www.baltimorecity.gov/Government/AgenciesDepartments/CitiStat.aspx)