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LOCAL GOVERNMENT STRUCTURES IN NORFOLK

FINANCIAL CONSULTANCY

On

FURTHER DRAFT PROPOSALS FOR UNITARY LOCAL GOVERNMENT

Report Author

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EXECUTIVE SUMMARY

- 1 The Boundary Committee has been consulting on its further draft proposals for unitary local government in Norfolk. These proposals are: a single unitary council for the whole county; and two unitary councils, "Greater" Norwich and Rural Norfolk.
- 2 This is the short summary of a report, commissioned by the Borough Council of Kings Lynn and West Norfolk, to review at a high level the Boundary Committee's assessment of the affordability of its further draft proposals.
- 3 The work for this report has entailed reviewing various documents submitted to the Boundary Committee, including reports from its own Independent Financial Consultants who have prepared a risk analysis of the affordability of the various proposals.
- 4 The full report includes commentaries on many detailed issues. Key issues examined include whether or not:
 - Savings might be overstated
 - Proposals to share "back-office" services are deliverable
 - A significant PFI contract can be renegotiated within the financial envelope outlined
 - The opportunity cost of any disruption to services should be allowed for in the methodology
 - The proposed Rural Norfolk council is deliverable in practice
 - Further delays to the implementation of any new unitary councils might affect front line service delivery
 - Transfers between new unitaries of the savings and unallocated balances that may be needed can be guaranteed
- 5 The affordability and value for money of the proposals could be affected by each of these. Answers are needed before any final decisions are made, otherwise the new unitary councils could be faced with financial difficulties only surmountable by real cuts in front-line services.
- 6 The report also:
 - Examines current levels of unallocated balances
 - Shows the extent to which Norfolk district councils over a three year period have to identify savings and efficiencies over and above those needed to finance the costs of creating unitary councils
 - Suggests that the Boundary Committee should obtain evidence of the actual costs and savings from setting up new unitary councils before making its recommendations about Norfolk
- 7 The report questions whether there has been transparency over how the Boundary Committee has considered and given weight to the risk analysis of their independent financial consultants.
- 8 Finally, the report has a critique on the adequacy of the Boundary Committee's consultation with the general public, and concludes that reference should have been made to the risks as assessed by their consultants, and to the fact that a significant proportion of the savings is achievable without adopting a unitary pattern of local government in the county.

REPORT

Introduction

- 9 The Boundary Committee is seeking views on its further (March 2009) draft proposals for the review of local government in Norfolk. These proposals are: a single unitary council for the whole county; and two unitary councils, "Greater" Norwich and Rural Norfolk (referred to as Pattern B). The Boundary Committee has to report to the Secretary of State by 15 July 2009. The Boundary Committee closed its consultation process on 14 May 2009 but has agreed to receive further representations on the basis of the work in this report.
- 10 I have been procured by Solace Enterprises, as an independent consultant, to prepare a report for the Borough Council of Kings Lynn and West Norfolk (as lead authority for a group of Norfolk District Councils) with a remit "to review at a high level the Boundary Committee's assessment of the affordability of these two proposals". The remit for this work is attached as Appendix 6.
- 11 Affordability is one of five tests that the Secretary of State will be applying to proposals for unitary councils. Any pattern of authorities proposed by the Boundary Committee has to have the capacity to meet her five criteria of being affordable, attracting a broad cross-section of support, delivering neighbourhood empowerment, providing strong strategic leadership and delivering value for money public services.
- 12 The concept of "affordability" has been defined further into five criteria which are, in summary:
- Transitional costs to be more than offset by savings over a pay back period
 - Payback period to be no more than 5 years
 - In each year, capital transitional costs to be financed through revenue, prudential borrowing or capital receipts
 - Revenue transitional costs to be financed by revenue savings or drawing on reserves, subject to ensuring that satisfactory amounts remain in reserves to meet other potential calls
 - Council tax increases not to be used to fund costs incurred
- 13 The Boundary Committee retained Independent Financial Consultants (IFCs) to assess the affordability of the proposals made to them. The IFCs' objective has been to ascertain the likelihood or otherwise of a submission meeting the Secretary of State's affordability criterion, both as a single unitary and "in aggregate" and advise the Boundary Committee accordingly.
- 14 The remit for my work and this report is affordability and value for money. I have not looked at how the proposals might meet the other tests established by the Secretary of State, except in so far as was needed to glean an understanding of the business models proposed.

Approach

- 15 I have tracked the figures submitted in workbooks (supporting the proposals for single county unitary and the two unitaries in Pattern B) through into the work of the IFCs and

through into the high level synopsis published by the Boundary Committee. I have also reviewed the most recent (May) resubmission by Norwich City Council in so far as it changes the figures previously submitted for Rural Norfolk. I have also seen the comments submitted by various Norfolk councils.

- 16 To obtain the most current financial information on key issues, I sent a questionnaire to Norfolk councils and the results from that are included in this report.
- 17 In the time available to me, I have not been able to go beyond a high level (as per the remit) analysis of the submissions and supporting documentation. I have not audited the figures submitted, and have concentrated my efforts on the issues that appeared to me to be the most significant.

Analysis of Submissions

- 18 The first substantive section of this report is a commentary on my analysis and review of financial aspects of the proposals for the single county unitary and the two, Pattern B unitary councils. I also bring in references to the IFCs' review, risk analysis and remodelling in which they test whether the proposals would meet the affordability criteria.
- 19 The IFCs' overall risk analysis, taking all factors into account, is that the proposals represent:

Single county unitary	Low risk
Pattern B:	
Greater Norwich	Low risk
Rural Norfolk	High risk
Pattern B in aggregate:	
Method A	High risk
Method B	Gtr Norwich medium risk Rural Norfolk high risk

- 20 I return to the IFCs' risk analysis at various points in this report, and comment particularly on those aspects of those conclusions which are not quantifiable.
- 21 The IFCs have not so far been able to review the May 2009 resubmission by Norwich City Council of the Rural Norfolk proposals.

Overall summary of finances from proposals

- 22 As a starting point I felt it important to summarise the transitional and ongoing costs and savings submitted to the Boundary Committee, starting from the workbooks and tracking council figures into the IFCs' remodelling adjustments and reports. This whole exercise was time consuming and more complex than might be expected and required trawling through a mass of information.

- 23 My figures are shown in the two versions of Appendix 1. Appendix 1 (a) shows the figures as submitted and reviewed by the IFCs in November 2008 (single county unitary) and February/March 2009 (pattern B). Appendix 1 (b) has updated figures for the Rural Norfolk unitary as resubmitted by Norwich City Council in May 2009. Both versions consistently use headings from the council workbooks and all the figures are adjusted to take account of the various remodelling assumptions made by the IFCs.
- 24 Summary figures from these two Appendices are shown below.

Workbooks with IFCs' remodelling (appendix 1(a))

Transitional period (years 1-4):

	<i>County</i>	<i>Pattern B</i>		
	<i>Unitary</i>	<i>Gtr Norwich</i>	<i>Rural Norfolk</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs	42.0	19.0	42.8	61.8
Savings	71.5	32.6	48.2	80.8
Net Savings	29.5	13.6	5.4	19.0

Ongoing:

	<i>County</i>	<i>Pattern B</i>		
	<i>Unitary</i>	<i>Gtr Norwich</i>	<i>Rural Norfolk</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs	6.5	5.0	7.2	12.2
Savings	22.7	13.7	17.2	30.9
Net Savings	16.2	8.7	10.0	18.7

Workbooks with IFCs' remodelling and Rural Norfolk re-submission (appendix 1(b))

Transitional period (years 1-4):

	<i>County</i>	<i>Pattern B</i>		
	<i>Unitary</i>	<i>Gtr Norwich</i>	<i>Rural Norfolk</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs	42.0	19.0	33.8	52.8
Savings	71.5	32.6	48.2	80.8
Net Savings	29.5	13.6	14.4	28.1

Ongoing:

	<i>County</i>	<i>Pattern B</i>		
	<i>Unitary</i>	<i>Gtr Norwich</i>	<i>Rural Norfolk</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Costs	6.5	5.0	4.9	9.9
Savings	22.7	13.7	17.3	31.0
Net Savings	16.2	8.7	12.4	21.1

- 25 Is a comparison of these figures in this way valid?
- 26 First, I have deliberately chosen to summarise figures *adjusted* for the IFCs' remodelling as that is the basis for their risk analysis as presented to the Boundary Committee. To date their remodelling adjustments appear not to have been challenged; it would also appear that the Norwich City Council, in submitting their revised figures for the Rural Norfolk unitary have also accepted the adjustments previously made by the IFCs although they are not incorporated in their latest workbook.
- 27 In passing I have to note that it is now not at all obvious just what the financial proposals under Pattern B are. The IFCs have remodelled the figures for the Greater Norwich and for the Rural Norfolk unitary councils (but have yet to look at the revised proposals for Rural Norfolk), but it is not clear whether the sponsoring council has decided to accept the remodelling changes and therefore whether or not the proposals themselves have changed.
- 28 Secondly, I am aware that the Boundary Committee has said that direct comparisons between these figures are not appropriate. Their web site has this statement - "*Please note that the two synopses are based on different financial assumptions. Direct comparisons between them are therefore not appropriate*". However the Boundary Committee's own summary presentation of the financial implications of the proposals shows successively the two different unitary models without repeating this caveat.
- 29 Norwich City Council has also reminded me of the need to take care in directly comparing figures, saying "*comparing them is therefore like comparing apples and pears. To illustrate, the aggregate of the 2 unitary doughnut model is not the same as the county unitary - even though they cover the same geographical area.. The 2 unitary model will create two very different councils, able to focus more closely on the needs and issues of their relative areas. This means that many elements of the business cases will be very different from the single unitary model - both in relation to costs such as officer structures, neighbourhood working patterns, investment in ICT systems etc, and in relation to savings e.g. BPR proposals, shared services etc. The different models therefore generate different costs and savings - meaning that the finances underpinning the models will be different.*"
- 30 But, at a summary level, analysts will compare between the submissions - as Norwich City Council's own May submission to the Boundary Committee says, "*However the analysis of the Boundary Committee's financial consultants has shown that in the longer run the doughnut model would actually deliver more savings.*"

- 31 A comparison between these figures is valid as long as that comparison does not in itself lead to a judgement between proposals. At summary level, this comparison can serve as a pointer for further examination of submissions to understand the differences in the council models proposed. In the same way, performance indicators can never be taken as judgements of relative performance, but as pointers for questions to be asked and explanations to be sought.
- 32 Intuitively it is not unreasonable to assume that the more unitaries that are created, the lower will be the ongoing saving and the lower will be the short term transitional costs.
- 33 If this is not the case, as with the figures summarised above, then what are the differences in the underlying model that create this position?

Proposals for Savings

- 34 Going into the detail of the workbook submissions, and adjusting for the remodelling of the IFCs, I have summarised the savings figures on Appendix 2. The presentation of this information has a further analysis showing (where this information has been given) a subdivision between savings from a reduction in staff headcount, and those which are non-staff related.
- 35 It is at this level of detail that the difficulty of comparing between different submissions becomes apparent and in these figures, the returns from the sponsoring councils may not be completed consistently - for example, the County Council has ascribed significant savings to contract procurement, and proposals for Pattern B allocate savings against Shared Services.
- 36 In part I prepared this summary to test out whether, as commented on by the County Council, the Pattern B proposals overstate the amount of savings which is attributable to shared services, in so far as those savings have apportioned non-staff related savings as well as those from shared services. The difference (i.e. overstated saving) is said to be £7.203m transitional and there will also be a significant impact on ongoing savings. I have not seen any response to this assertion. Given the significance of the figures involved, I suggest that the Boundary Committee do need to establish whether or not the Pattern B savings are overstated to this extent. I have noted that the IFCs, in their report, have commented on the level of staff savings assumed, and remodelled the figures down by 10/25% (Greater Norwich) and by 30% (Rural Norfolk).
- 37 Despite the apparent inconsistencies in presentation, and the different underlying models, one row of relatively small figures is also worthy of comment – members' allowances. A straightforward comparison of savings on members' allowances ought to be possible; comparing proposed democratic models with the cost of allowances at present, proposal A has xxx council members and proposal B has xxx council members, equating to figures of £y and £z savings.
- 38 The single county unitary shows savings on members' allowances of £1.8 million (transitional) and ££0.450 million ongoing. Looking at their detailed submission this is based on a single council of 120 members compared with allowances for the present complement of councillors in county and districts. However I have seen nothing which explains how the Pattern B savings on members allowances, £4.9 million (transitional) and £1.247 million (ongoing) have been calculated. There could well be an extremely

simple explanation of this anomaly (e.g. other figures might be included here) and it would be useful to ask for the detailed basis of the Pattern B savings figure.

- 39 Finally, I have noted the concern of the IFCs that Pattern B savings are based on *"apportionments of savings originally calculated for other submissions and other circumstances which mean that they can be no more than targets at this stage, and are not supported by detailed plans"*. It seems difficult to reconcile an approach to a business model for two new councils based significantly on the shared service model portrayed in the unitary county proposals, with the assertion that it is not possible directly to compare the different proposals given they are based on different business models.

Shared Services

- 40 The proposals for unitary county and for Greater Norwich/Rural Norfolk all place significant reliance on a shared service model of operation for back office services.
- 41 Norfolk County Council's outline business case for Shared Services (which has been submitted to the Boundary Committee) was produced with input from all Norfolk councils. The business case shows significant annual savings against current costs the extent of which is dependent on the operational model and the extent of stretch assumed.
- 42 The shared services model of service delivery is increasingly being adopted across the country as the requirement grows for more and more efficiency savings. It is therefore not a cutting-edge proposal.
- 43 However, the difficulties of introducing this model of delivery cannot be underestimated and strong effective leadership and commitment is needed to make it work. Experiences from elsewhere show that this approach requires a significant resource commitment not only to the process of merging services, but also to their re-engineering, without which maximum savings will not be derived. Also, not to be underestimated, are the additional timescales, resources and energy needed to create any of the forms of public-private partnership. Even where there is strong political and organisational will to make a shared services model happen, it is extremely time consuming to set up.
- 44 This would be a viable model of operation for a single county unitary, where the County Council as continuing authority and as a significant provider already of these services, can take the lead.
- 45 However, in Pattern B, it is not at all clear who will take that lead. Most of these services are currently operated by the County Council which would no longer exist; there is no sponsor so far of the Rural Norfolk Council to which the majority of these services would pass.
- 46 The IFCs make a number of references to the risks associated with the shared services aspects of the Pattern B proposals and, on the assumption that the two new authorities will be able to work together in creating the shared service model, they comment that *"agreement between the two potential unitaries which would make up Norfolk Pattern B is not at this point by any means assured
Lead-in times tend to be considerably longer than anticipated even where there is shared ambition and desire already in place"*

The distraction of bringing together a number of whole or part existing authorities into a new corporate entity whilst at the same time embarking on a shared service arrangement with another authority would appear to increase the risks of falling short in one or other or indeed both challenges"

- 47 Lack of capacity or differing objectives will make it difficult to achieve an early target date for implementation (IFCs remodelled in a delay of a year). If the added complication of a public-private partnership arrangement is factored in, that will add considerably to the timescales required.
- 48 So, in general terms, it is doubtful that the timescales anticipated in the workbooks can be achieved in practice.
- 49 In passing I also note various comments to the effect that there has not to date been much enthusiasm in Norfolk for jointly operating back office services; had there been, a significant proportion of the savings now predicted could already be arising. Shared service arrangements can be and are being introduced in two tier areas. Therefore it is not necessary to set up unitary councils to move to a shared service model and realise significant levels of savings. In fact, introducing shared services at the same time as setting up a unitary structure might actually have the effect of lengthening the timescales involved, and delaying the accrual of those savings.
- 50 I have also seen that Norwich City Council's first submissions were based on an entirely different premise of operation, therefore their February/March Pattern B submission represents a complete operational rethink; in reality, having fought for so long to become a single tier council, will there in practice be the appetite not to operate these services in the more traditional way?

Steria Contract

- 51 The paper trail shows considerable scepticism over the level of savings assumed in the Pattern B submissions for Norwich City Council's existing Steria PFI contract.
- 52 In short:
- The proposals from the City Council assume the existing contract will be reduced, work currently undertaken by Steria taken in-house (as part of the new county wide shared services arrangement) and the PFI contract used to deliver those services not part of the shared service model. Steria will also be able to bid for new work arising
 - The value of the present contract is £8 million per annum, the contract running until 2017. The Pattern B proposals assume this can be reduced to £3 million per annum, in-house ICT costs will increase by £2.5 million, leaving a net annual saving of £2.5 million per annum. The submission assumed a one-off novation charge of £2.8 million
 - A contract review is scheduled for 2010/11
- 53 In their analysis, the IFCs have doubled the one-off novation charge to £5.6 million and delayed savings accruing on the contract by one year (April 2010 to April 2011) i.e. a reduction in transitional period savings of £2.5 million.
- 54 It remains difficult to understand why Steria should accede to these terms - a reduction in guaranteed income of £5m a year for 6 or 7 years in exchange for novation payments

of either £2.8 million or £5.6 million sounds commercially unattractive from their point of view. There must therefore remain considerable doubt as to whether these figures can be achieved.

- 55 The Steria contract attracts PFI credits of £1 million a year. The submitted figures assume this credit will continue at this level, despite the significantly proposed reduction in the value of the contract and, as this appears not to have been checked out with the Government, there is a risk of a further cost pressure arising from a loss of or reduction in PFI credit.

Services Impact

- 56 Neither the Boundary Committee's methodology nor the IFCs risk analysis allow for any recognition that in the period of uncertainty and change, there may well be an impact on front line services, and therefore an opportunity cost.
- 57 This can happen when:
- County level services are disaggregated
 - District level services are either aggregated or disaggregated, or both (which would be the case with the services of some of the councils under Pattern B)
- 58 Although the services delivered by front line teams ought not to be directly affected by service aggregation/disaggregation, management and leadership will face a period of considerable uncertainty before and after the vesting date. A huge amount of work will be involved in, for example, disaggregating budgets, creating new governance frameworks, dealing with HR transitional issues (including appointments), resolving issues of property transfer and setting up entirely new systems and procedures. It is inevitable that the capacity normally available for service improvement work will be challenged by the additional workload involved.
- 59 The Boundary Committee will no doubt be aware of the actual impact of LGR work in those areas of the country which changed to unitary local government in April 2009. Even if the methodology does not directly allow for the opportunity costs of service impact, the Committee should factor in to their decision making the experiences of these areas.

Proposed Rural Norfolk Unitary Council

- 60 There is no obvious sponsor behind the creation of a Rural Norfolk unitary. Detailed workbooks have been submitted by the Norwich City Council, but these appear largely to be based on apportionments of the county unitary figures and do not appear to be supported by a worked up business model. It is hard to see how the Secretary of State's criteria of attracting a broad cross-section of support, delivering neighbourhood empowerment, providing strong strategic leadership can be demonstrated without such supporting documentation.
- 61 The risks of this have been recognised by the IFCs. They have recorded their concern over the risks that the lack of an obvious sponsor has on the deliverability of this unitary - *"Some opportunity modelling has been included in Norfolk Remainder. Therefore **it should not be assumed** that the model applied is sustainable, without further detailed work, and especially without a sponsor"*

Timing

- 62 The workbook submissions and the reports to date have all been prepared assuming an April 2010 start date for unitary local government in Norfolk. Given the effect of various procedural delays, it is now apparent that this date cannot be achieved.
- 63 A one year delay would impact on the financial presentations. To some extent, it would have simply moving transitional plan and its costs and savings back a year, and a year's delay might in reality help with the planning for some aspects of the proposals, for example shared services. It would however all mean a further period of uncertainty for the strategic leadership and management of the various councils, thereby also having to some degree prolonged planning and improvement blight and it might also be difficult to retain and recruit employees.

In aggregate

- 64 In additional advice issued on 5 December 2008, the Secretary of State has clarified the meaning of the expression "in aggregate". The IFCs' remodelling has therefore not only looked at the affordability of proposals for the new unitary councils individually, but also, in the case of the two Pattern B councils, in aggregate. Two methods of aggregation are used - A, simply adding together figures for the two submissions as remodelled and B, making transfers of transitional net savings and/or unallocated balances between the new councils to reduce the overall risk assessment.
- 65 The IFCs note that *"this exercise has highlighted the issues, in that the "in aggregate" approach assumes that two separate identities can work together to share transitional savings and balances to ensure that each is affordable. That assumes a high level of co-operation which is not evidenced at any stage in the process by local authorities in Norfolk, and not even in this exercise"*.
- 66 The risks of making decisions based on an "in aggregate" assessment are, in my view, considerable, unless the transfer between the new councils of significant sums of savings and unallocated savings could be given some form of statutory backing. In the real world, these will be new councils, possibly different politically, and established (in one case) after many years of campaigning.

Affordability and value for money

- 67 So what are the affordability and value for money implications of the analysis and commentary in this section of the report?
- 68 Each of the issues outlined above could affect both:
- If Pattern B savings are overstated, there would be a direct impact on affordability, pay back and value for money
 - If the shared services proposals for Pattern B are not deliverable, for any of the reasons outlined by commentators, the affordability of the overall package of proposals would be affected - as would the value for money of council services
 - If the Steria contract cannot be novated within the financial envelope outlined by the City Council (as adjusted by the IFCs), affordability would be affected and a significant amount of net ICT savings not realised

- The opportunity cost of any disruption to services could affect the value for money of and improvement plans for critical front line services
- The lack of a sponsor and a business model for the Rural Norfolk council makes it difficult to judge the adequacy of financial planning behind the submission, and makes it difficult to see how this unitary will be delivered
- Delays to the implementation of any new unitary councils would ease the planning burden for change, but will also lead to an additional period of uncertainty which could affect the delivery of front line services
- It may not be possible to guarantee the transfers between new unitaries of the savings and unallocated balances needed to make reality of an “in aggregate” assessment

69 The questions and issues outlined here do need to be answered before any final decisions are made, otherwise the new unitary councils could be faced with financial difficulties only surmountable by real cuts in front-line services.

Additional Information

70 The second substantive section of this report seeks to go beyond the submissions to take into account latest information, from Norfolk and the new unitaries, on the key issues of balances and transitional/ongoing savings.

71 The information in this section is therefore not taken into account in the submissions, or the IFCs' remodelling, but is relevant to the Boundary Committee's consideration of its July report to the Secretary of State.

Unallocated Balances

72 I have asked the Norfolk councils for updated information on “unallocated balances”. This was to test out whether there had been any significant movement in the workbook figures since they had been submitted. Were unallocated balances to have reduced significantly, this could affect the 4th criterion of affordability, namely that satisfactory amounts have to remain in reserves after any draw on them to fund transitional costs. In the current economic climate, levels of balance could be under greater stress.

73 In practice, the latest figures from the councils (Appendix 3) show an increase in unallocated balances, from £30.981 million at 31 March 2007 to £42.8 million at 31 March 2008 but they are estimated to reduce again to £33.8 million at 31 March 2010. Three Norfolk councils had monies invested in the failed Iceland banks and the risk exposure of this has still to be settled; the balances figures on this appendix make no allowance for this element of risk.

74 The figures from the councils also assume their current medium term financial plans can be delivered, i.e. that there will be no further call on balances other than as already planned and required levels of savings (real or efficiency) will be achieved.

Savings

- 75 The LGR financial case has to be free standing, in that reductions needed to offset the transitional/ongoing costs of new councils cannot be those already needed to finance councils' spending plans. Similarly, savings needed to meet the ongoing business needs of councils, whether real or Gershon related efficiency, cannot be used to fund transitional costs. The guidance to councils for completion of the financial workbooks is quite specific on this point; transitional costs and savings included in the workbook should be those arising specifically because of the creation of a unitary councils; general Gershon related efficiency savings should therefore not have been included.
- 76 I also asked the Norfolk councils for information on savings plans. There were two reasons for this. First, I wanted to test out whether there is any element of double counting between the savings submitted in the LGR workbooks and the savings needed to finance their ongoing business plans. Secondly, because in the current financial climate, spending and savings plans might have changed, for example because of the short term and ongoing effects of the recession or because of increasing requirements for efficiency savings.
- 77 From the returns and from the various council spending plans, there would seem to be no double counting between the workbook figures and the savings needed anyway.
- 78 However, the information gathered also highlighted the significant extent to which the detail of future savings plans has still to be determined. This is summarised in Appendix 4. Note, this is district council information only as the County Council has clear and itemised ongoing savings plans.
- 79 The appendix shows that the level of unidentified savings over the current and next two years is £16.6 million, or 13% of this year's budget base. My understanding is that these figures, based on current budget plans, may not have assumed the latest Gershon targets or the latest predictions for revenue support grant settlements, or the latest changes in the whole economic climate, so are likely to increase further.
- 80 The point of this analysis is only to draw out the significance of the savings targets and to comment that in practice, it is likely to be difficult to achieve a 13%+ reduction on base budgets without councils making savings such as shared appointments, shared services or joint procurement of contracts, and these are the areas of savings identified in the councils' workbook submissions and needed to fund transitional and ongoing costs. These savings cannot be used twice.

Transitional and ongoing costs/savings in unitary councils

- 81 A number of new unitary councils are now established. For each of these, there will have been both a submission of proposed transitional and ongoing costs/savings, and now, actual budget plans. Given that the actual levels of costs/savings are critical to affordability and value for money, I have looked for published evidence to show what has actually happened in practice.
- 82 This evidence has not been possible to find. Anecdotally, it would seem that the transitional plans for some of the new unitaries are being achieved in practice; also anecdotally, it would seem that some are not, with once off costs varying significantly.

83 In my view, for due diligence, it is essential that the Boundary Committee obtains solid evidence of the actual experiences of the new unitaries, against which the various proposals for Norfolk unitaries can be assessed. This is fundamental to the achievement of affordability and ongoing value for money.

Boundary Committee - IFCs' Commentary

- 84 From my review of the various submissions and the reports, it is apparent that the Independent Financial Consultants felt there were a number of significant risks which could not be fully addressed through their numerically based approach to the overall affordability criteria.
- 85 I have quoted from the IFCs' commentaries in a number of places in this report; other comments have been brought together in Appendix 5.
- 86 These comments were for the Boundary Committee to address in coming to their next stage of decision making, i.e. to issue the current two further draft proposals for consultative comment.
- 87 The process and consideration given by the Boundary Committee to these comments by the IFCs should be entirely transparent; there should be readily available information to show that the Committee has followed due process in weighing up the risks identified in the IFCs' work.
- 88 This transparency appears to be lacking. I have not been given any material, and have not seen anything on the Boundary Committee's web pages, to show what process was followed, or what weight and consideration was given to the IFCs' concerns by the Committee in deciding to seek views on the further draft proposals. If there is evidence to show how due process was followed, it should be made publicly available, otherwise an understandable and logical conclusion is that due process may not have been followed.

Boundary Committee Consultation

- 89 I am asked to give a critique of "the extent to which the general public and other stakeholders can be said to have been adequately informed of the Committee's proposals in respect of affordability and value for money, using paragraph 58 of the Court of Appeal's decision in Breckland as a guide to what is likely to be judged as legally acceptable".
- 90 Paragraph 58 of the Breckland judgement says:

"We have to say that we were not shown any such stripped down version of the financial assessment of either the Norfolk or Devon alternative proposal which emerged from the mediation of opinion makers, nor any "bottom line". If there is such in the mass of papers before us, we were not directed to it. Nor do we think that some of those consulted, however expert, should be left to inform the less expert part of the public what they believe a mass of complicated and indigestible data may

show. Intrinsically we should have thought that what the general public needed from the Boundary Committee themselves was something fairly simple along these lines: "The best estimate of the cost of the proposed change is £xm. (see Appendix A at page p). We estimate that this may be covered transitionally from the resources shown in Appendix B; and that it may be more than recovered over 5 years by annual savings of £ym. (see Appendix B page q). These savings will not diminish the services provided to the public for the reasons given in Appendix C; and it will not be necessary to increase council tax"."

91 Paragraph 70 says this:

"We decline to say whether the publication of the consultants' reports repaired the deficiency which we perceive in the workbooks alone. The reports were not before the judge at the time of his Norfolk judgment, and we doubt whether he was in a position to conclude that there had been adequate consultation on affordability without seeing them. We were not invited to look at the reports in detail. Neither claimant set about persuading us that they were not adequate for local authority purposes, provided that they had adequate time to respond. No other party set about persuading us that they were adequate for the purposes of the public. We decline to go further than to wonder whether providing, without a short synopsis, several hundred pages of dense material from which the critical summary conclusions may not leap off the page should be regarded as adequately informing the public of the bones of the financial conclusions – as to which see paragraph 58 above."

92 In publishing its draft proposals for consultation, the Boundary Committee included this statement on its web site:

(27 Mar 2009)

"The Boundary Committee for England has published a summary of the potential costs of its proposals for changing from two-tier to unitary local government in Norfolk. Detailed financial information was first published in November 2008 (and further revised in January and March 2009) and is available on the Committee's website at www.boundarycommittee.org.uk

County unitary authority

The best estimate of the cost of changing from a system of two-tier local government to a county unitary authority is £42.1m.

It is estimated that this cost may be covered from savings of £71.5m, and that it will take about 3 years to recover this cost.

Two unitary authorities Greater Norwich and Rural Norfolk

The best estimate of the cost of changing from a system of two-tier local government to two unitary authorities is £64.7m.

It is estimated that this cost may be covered from savings of £83.7m. However, the Greater Norwich unitary authority would need to share some savings with the Rural Norfolk unitary authority for both authorities to be able to cover their costs. It is estimated that it will take about 4 years to recover this cost.

It will not be necessary to increase the average council tax in Norfolk as a result of the change to unitary local government. The actual levels of council tax will be decided by the new authorities."

93 The Boundary Committee has also made available on its web site the workbooks, financial consultants' detailed reports and a synopsis (unattributed) of the finances of the

two draft proposals. There is also a Boundary Committee poster to raise awareness of the consultation process but this includes summary information only about the two draft proposals, and there is no mention of affordability.

- 94 So has there been adequate presentation to the general public and other stakeholders of the affordability and value for money implications of these draft proposals?
- 95 It is not unreasonable to assume stakeholder's possess a level of expertise that the general public does not have, hence the test of "adequacy" should be more stringent when considering this question from the viewpoint of the general public.
- 96 The general public has to rely on the summary information published. It has taken the author of this report several hours of work to reconcile these figures and the detailed financial consultants' reports back to the workbooks submitted by the councils; given that the general public can not generally be expected to have the financial expertise to do this, or the research capability to track back to key source material, they have to take the summary statements at face value.
- 97 This summary information however cannot be taken in isolation from the comments made by the IFCs in presenting their report on the two submissions. On the two unitary submission, they draw out significant risks which could affect affordability and value for money and their overall assessment is that there is low/medium/high risk (according to which Pattern is adopted) of the submissions not meeting the affordability criterion, whilst from their earlier report, the single unitary submission is assessed as low risk. One might reasonably imagine that, in the interests of balance, the Boundary Committee would draw the attention of the reader to this material.
- 98 It might also be reasonably assumed that the general public's reading of this financial summary might be that the costs and savings presented arise solely and inextricably from the proposals - i.e. that other than by adopting one or other of the proposals, the costs/savings will not arise. That is not the case.
- 99 It is entirely possible for significant levels of the savings portrayed to be realised if neither proposal is adopted. There is of course no presentation of the case for Status Quo or "Improved" Status Quo which, if it were included, would enable the reader to judge whether or not the difference between no structural change, and either of the two proposals for unitary local government, would be reasonable set against the differences in savings and costs.
- 100 Finally, the Boundary Committee's above summary financial presentation successively shows the position for a single county unitary and two unitary councils. Their web site says: *Please note that the two synopses are based on different financial assumptions. Direct comparisons between them are therefore not appropriate.* This qualification was not repeated in the information above given directly to the public who might understandably conclude they could compare the two sets of figures.

Acknowledgements

101 My task in preparing this report has been made easier by the cooperation and help I have received from officers in Norfolk councils. I have also had some valued specific assistance from Vanessa Dunmall and Gay Watt in pulling together the research based information, and am grateful to them both.

List of Appendices

1 (a)	Summary of base finances from proposals - as remodelled by IFCs
1 (b)	Summary of base finances from proposals - as remodelled by IFCs and as resubmitted (Rural Norfolk)
2	Savings detail from proposals as remodelled by IFCs
3	Unallocated balances
4	Unidentified savings and efficiencies
5	IFC comments on non-quantifiable issues
6	Financial consultancy remit

Nigel Pursey

Associate
Solace Enterprises

22 May 2009

APPENDIX 1(a)									
NORFOLK LGR - SUMMARY OF BASE FINANCES FROM PROPOSALS AS REMODELLED BY INDEPENDENT FINANCIAL CONSULTANTS									
	TRANSITIONAL YEARS 1 to 4				ONGOING				
	Norfolk Unitary (remodelled) £m	Gtr Norwich (remodelled) £m	Rural Norfolk (remodelled) £m	Total (remodelled) £m	Norfolk Unitary (remodelled) £m	Gtr Norwich (remodelled) £m	Rural Norfolk (remodelled) £m	Total (remodelled) £m	
Costs									
Staff release - once off	11.891	3.800	9.583	13.383					
Staff release - ongoing	12.000	0.800	9.000	9.800	3.000	0.200	2.250	2.450	
Accommodation		0.100		0.100					
IT	1.089	1.100	1.600	2.700					
Change management	3.805	1.400	3.507	4.907					
Contingency				0.000					
Contract novation		5.600		5.600					
Elections	0.060		0.100	0.100					
Localisation	8.600	2.400	6.510	8.910	2.450	0.600	1.870	2.470	
Comms/branding	0.800	0.200	0.600	0.800					
Closedown	0.350		0.300	0.300					
Other	2.950	3.600	11.202	14.802	0.900	4.200	2.943	7.143	
Capital financing	0.500		0.400	0.400	0.132		0.100	0.100	
Total Costs	42.045	19.000	42.802	61.802	6.482	5.000	7.163	12.163	
Savings									
Corporate and democratic	39.305	16.700	29.090	45.790	11.592	4.900	10.150	15.050	
Education									
Social Services									
Other services	32.197	6.900	19.150	26.050	11.076	2.800	7.020	9.820	
Other		9.000		9.000		6.000		6.000	
Total savings	71.502	32.600	48.240	80.840	22.668	13.700	17.170	30.870	
Savings less costs	29.457	13.600	5.438	19.038	16.186	8.700	10.007	18.707	
Notes:	Norfolk Unitary - remodelled. These figures are the council's workbook as submitted and adjusted for the IFCs' remodelling in their report to the Boundary Committee								
	Greater Norwich - as remodelled. These figures are Norwich City Council's workbook as submitted in March 2009 and adjusted for the IFCs' remodelling in their report to the Boundary Committee								
	Rural Norfolk - as remodelled. These figures are the workbook as submitted in March 2009 and adjusted for the IFCs' remodelling in their report to the Boundary Committee								

APPENDIX 1(b)									
NORFOLK LGR - SUMMARY OF BASE FINANCES AS PROPOSED									
AS REMODELLED BY INDEPENDENT FINANCIAL CONSULTANTS AND WITH RE-SUBMISSION MAY 2009 RE RURAL NORFOLK									
	TRANSITIONAL YEARS 1 to 4				ONGOING				
	Norfolk Unitary	Pattern B			Norfolk Unitary	Pattern B			
	(remodelled)	Gtr Norwich (remodelled)	Rural Norfolk (resubmitted)	Total	(remodelled)	Gtr Norwich (remodelled)	Rural Norfolk (resubmitted)	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Costs									
Staff release - once off	11.891	3.800	9.583	13.383					
Staff release - ongoing	12.000	0.800	4.000	4.800	3.000	0.200	1.000	1.200	
Accommodation		0.100		0.100					
IT	1.089	1.100	1.600	2.700					
Change management	3.805	1.400	3.507	4.907					
Contingency				0.000					
Contract novation		5.600		5.600					
Elections	0.060		0.100	0.100					
Localisation	8.600	2.400	6.510	8.910	2.450	0.600	1.870	2.470	
Comms/branding	0.800	0.200	0.600	0.800					
Closedown	0.350		0.300	0.300					
Other	2.950	3.600	7.173	10.773	0.900	4.200	1.885	6.085	
Capital financing	0.500		0.400	0.400	0.132		0.100	0.100	
Total Costs	42.045	19.000	33.773	52.773	6.482	5.000	4.855	9.855	
Savings									
Corporate and democratic	39.305	16.700	29.090	45.790	11.592	4.900	10.280	15.180	
Education									
Social Services									
Other services	32.197	6.900	19.150	26.050	11.076	2.800	7.020	9.820	
Other		9.000		9.000		6.000		6.000	
Total savings	71.502	32.600	48.240	80.840	22.668	13.700	17.300	31.000	
Savings less costs	29.457	13.600	14.467	28.067	16.186	8.700	12.445	21.145	
Notes:	Norfolk Unitary - remodelled. These figures are the council's workbook as submitted and adjusted for the IFCs' remodelling in their report to the Boundary Committee								
	Greater Norwich - as remodelled. These figures are Norwich City Council's workbook as submitted in March 2009 and adjusted for the IFCs' remodelling in their report to the Boundary Committee								
	Rural Norfolk - as resubmitted. These figures are Norwich City Council's adjusted workbook as per their submission to the BC May 2009. These figures have also been remodelled for the IFCs adjustments								

APPENDIX 2									
NORFOLK LGR									
SAVINGS DETAIL FROM PROPOSALS AS REMODELLED BY IFCs									
TRANSITIONAL YEARS 1 to 4					ONGOING				
	County	Pattern B			County	Pattern B			
	Unitary	Greater	Rural	Total	Unitary	Greater	Rural	Total	
	£m	Norwich	Remainder	£m	£m	Norwich	Remainder	£m	
<i>Non-staff savings</i>									
Members allowances	1.800	3.700	1.200	4.900	0.450	0.900	0.347	1.247	
Non-staff related savings	4.987				1.225				
Procurement	9.470				3.690				
BPR		4.000		4.000		1.000		1.000	
Steria Contract		5.000		5.000		5.000		5.000	
<i>Sub Total - non staff savings</i>	<i>16.257</i>	<i>12.700</i>	<i>1.200</i>	<i>13.900</i>	<i>5.365</i>	<i>6.900</i>	<i>0.347</i>	<i>7.247</i>	
<i>Staff related savings</i>									
Corporate and democratic:									
Support staff	1.344				0.336				
Senior staff	13.650	7.400	10.000	17.400	3.413	1.900	2.925	4.825	
IT	8.054				2.478				
Pro rata corp and dem core		5.600	17.890	23.490		2.100	5.930	8.030	
Other							1.078	1.078	
Other services:									
Service amalgamation	32.197				11.076				
Pro-rata other services		6.900	19.150	26.050		2.800	7.020	9.820	
<i>Sub Total - staff related</i>	<i>55.245</i>	<i>19.900</i>	<i>47.040</i>	<i>66.940</i>	<i>17.303</i>	<i>6.800</i>	<i>16.953</i>	<i>23.753</i>	
TOTAL	71.502	32.600	48.240	80.840	22.668	13.700	17.300	31.000	
Note									
All figures are from the detailed workbooks adjusted for the IFCs' remodelling									

Appendix 3					
NORFOLK LGR					
UNALLOCATED BALANCES					
		31/03/2007	31/03/2008	31/03/2009	31/03/2010
		£000	£000	£000	£000
		<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>
Breckland		4168	4824	4824	3124
Broadland		3616	6231	7500	5000
Gt Yarmouth		2033	1868	2058	1268
Kings Lynn and West		1314	2452	2001	1659
North Norfolk		1315	1103	1057	958
Norwich City		6699	9866	8800	4549
South Norfolk		1422	2311	2261	2261
Norfolk CC		10414	14112	15000	15000
TOTAL		30981	42767	43501	33819
Notes:					
31 March 2007 - taken from LGR workbook as submitted					
31 March 2008 - taken from statement of accounts					
31 March 2009 - latest, best estimate for the financial year					
31 March 2010 - from budget plans for 2009/10					
Norwich figures beyond 3/2008 from February 2009 Executive report on budget					

IFC COMMENTS ON NON-QUANTIFIABLE RISKS

Extracts from the IFCs' detailed report, March 2009

"The new submission and its supporting business case appear to have been put together hastily and from an optimistic viewpoint (13.1)

"We remain concerned that the savings are based on apportionments of savings originally calculated for other submissions and other circumstances which mean they can be no more than targets at this stage and are not supported by detailed plans (13.3)

"The submission makes no apparent risk provision that recognises the difficulty of new authorities (separate entities) being in a position to have a Shared Services in place on or before vesting day. We have attempted to deal with that by means of building delay into the savings to be achieved. In the event, the lack of co-operation, which has been demonstrated by many of the parties within Norfolk, may be detrimental to the initial implementation of the proposed new unitary authority. This could lead to further delay over and above our modelled levels and we are not able to reliably take these risks into account in the risk matrix as shown (13.4)

"...We remain concerned that, despite our modelling, the savings are in the main based on apportionments of estimated savings used by Norfolk county for the County Unitary submission. These estimates do not directly assume a shared service arrangement between two unitary authorities, and in adapting them to the Greater Unitary Norwich business case in a very short timescale indicates that they are likely to be no more than indicative estimates at this time (summary)

Extracts from the IFCs' summary report February 2009

"We highlight some risks which we are not able to take into account sufficiently in our risk matrices

- *The risk inherent in the "in aggregate" approach*
- *The further delay over and above our modelled levels which could arise due to the co-operative working which will be necessary and the risk to a smooth implementation that this would bring (1.3.4)*

"We recommend that the Boundary Committee takes these risks into account when considering our overall reports (1.3.5)

"We have included some opportunity modelling in Norfolk Remainder and it should not be assumed that the model applied is sustainable, without further detailed work, and especially not without a sponsor (1.3.6)

"We recommend that if the Boundary Committee is minded to recommend any of these patterns that the Secretary of State seeks assurance about the financial position of the authorities involved at that time (1.3.7)

FINANCIAL CONSULTANCY (LGR) ASSIGNMENT - BOROUGH COUNCIL OF KINGS LYNN AND WEST NORFOLK

REMIT

Summary

The Boundary Committee is currently seeking views on its further (March 2009) draft proposals for the review of local government in Norfolk. These proposals are: a single unitary council for the whole county; or, two unitary councils, "greater" Norwich and rural Norfolk. The Boundary Committee has to report to the Secretary of State by 15 July 2009.

This assignment is to review at a high level the Boundary Committee's assessment of the affordability of these two proposals, including both Methods A and B for the two unitary alternative.

The priority for the assignment is to review the affordability of the two unitary proposal but the Council has asked for the affordability of the single unitary proposal also to be reviewed.

Within the scope of the assignment it will be necessary to

1. Analyse the financial information that has been provided to assess the capacity of the draft alternative proposals (the county unitary concepts and the Doughnut) to meet the Secretary of State's affordability and value for money criteria with a view to establishing the following:-
 - i. The methodological difficulties associated with comparing the extent to which each of the above options satisfy the affordability and value for money criteria.
 - ii. Setting the issue of comparability to one side, assess the extent to which the methodology adopted by the Boundary Committee admits an adequate and reliable assessment of value for money and affordability criteria.
 - iii. Setting any methodological difficulties to one side, and doing the best we can, a critique of the conclusions reached by the Committee on affordability and value for money, highlighting areas of risk and the broad magnitude of any errors or areas of disagreement compared with the Committee's own conclusions.
2. Produce a critique of the extent to which the general public and other stakeholders can be said to have been adequately informed of the Committee's proposals in respect of affordability and value for money, using paragraph 58 of the Court of Appeal's decision in Breckland as a guide to what is likely to be judged as legally acceptable.
3. Provide an explanation of the difficulty of knowing what the affordability and value for money of the various proposals is having regard to the fact the information provided by the Committee keeps changing.

Approach

It will be necessary to examine/review/track through the financial workbooks submitted to the Boundary Committee, the Independent Financial Consultants' (IFCs) reports thereon and how these lead into the Boundary Committee's own published conclusions on affordability, for critical issues to be highlighted as part of this report.

In addition, further new research may be needed in order to test some of the working assumptions made by the IFCs and the Boundary Committee.

Output

A written report of around 12 – 15 pages (as a guideline for length) is to be completed and emailed to the Borough Council no later than Friday 22 May 2009.