BOUNDARY COMMITTEE REVIEW OF LOCAL GOVERNMENT STRUCTURES IN NORFOLK SUFFOLK AND DEVON

REVIEW TO TEST WHETHER AFFORDABILITY CRITERIA ARE LIKELY TO BE MET

FURTHER REVIEW IN RESPECT OF REPRESENTATIONS ON AFFORDABILITY FOLLOWING FURTHER DRAFT PROPOSALS, PUBLISHED ON 19 MARCH 2009

DEVON COUNTY – D1

SUMMARY REPORT OF THE INDEPENDENT FINANCIAL CONSULTANTS

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1. Executive Summary

1.1 Introduction

1.1.1 Background for the Further Review

1.1.1.1 The Boundary Committee published further draft proposals on 19 March 2009 and extended the period for representations on affordability to be received, to 14 May 2009. The deadline for advice has been extended by the Secretary of State to 15 July 2009.

1.1.1.2 The Independent Financial Consultants were asked to consider the representations on affordability and advise the Committee on the following:

> **Task A:** to advise the Committee on the likelihood of further draft proposals being likely to meet the affordability criterion, in the light of representations received;
>
> **Task B:** to advise the Committee on the general questions that have been have been received not directly relevant to the workbooks.
>
> Any other matters the Committee should take into account in reaching its conclusions.

1.1.1.3 We have considered 17 responses on affordability.

1.1.2 Layout of the Report

1.1.2.1 The report is presented in a manner that is intended to provide the reader with an overview of the processes followed leading to the overall outcomes as follows:

- Objectives of the review – paragraph 2.1.1;
- How we approached the review for all tasks – paragraph 2.2;
- Issues that arose from Task A – paragraph 3.1;
- Issues that arose from Task B, Responses to further consultation – paragraph 3.2;
- Other issues that the Committee should take into account – paragraph 3.3;
- Our conclusions – paragraph 4.

1.1.2.2 The report is supported by one other document:

- Detailed Responses in Respect of Affordability Issues – Devon County.

1.1.2.3 The report also draws on information contained within our previous reports of 19 November 2008 and 20 January 2009.

2. Context and Background

2.1 Terms of Reference for the Further Review

2.1.1 The terms of reference are reproduced under Appendix A.

2.2 How we approached and undertook the Further Review

2.2.1 Task B

2.2.1.1 Received from Boundary Committee copies of 17 responses from respondents within Devon County to the further consultation undertaken by the Boundary Committee during April 2009.

2.2.1.2 Read all responses and extracted any parts that referred to affordability onto pro-formas similar to those published within our report "Detailed Comments on Responses and Copies of Responses", 20 January 2009. We have not attached copies of the full response on this occasion.

2.2.1.3 The completed pro-formas have been compiled into a separate document for the Devon County area.

2.2.1.4 Recurring points and issues raised have been summarised within this report under paragraph 3.2 below.

3. Summary Outcomes of the Reviews

3.1 Task A

3.1.1 Further draft proposals being likely to meet the affordability criteria from Exeter City Council, logged as D2 and D3, indicate that, in their view, a different approach to the affordability criterion , and to certain figures within the submissions, could be taken and concludes that a different outcome could be obtained by the changed approach.

3.1.2 We have not considered this to be a new submission since the outline as described in the response would appear to ignore the very tight definition given by the Secretary of State for Criterion 4 in respect of minimum balances. We have however dealt with representations under Task B

3.1.3 We feel therefore that there needs to be no change from our conclusions as to whether or not the affordability criteria are likely to be met for the Devon County Unitary and the Devon Two Unitary pattern.

3.1.4 Apart from the above, no new or revised submissions were received in respect of the Devon County area.

3.2 Task B

3.2.1 The following seem to us to be the key issues which come from the representations.

Issue raised	Comments in response
➢ Concerns about the 'in aggregate' approach to affordability	➢ The IFCs have recorded their reservations and risks concerning the application of the "in aggregate" approach.
➢ Two unitary Devon likely to be better financially than indicated.	➢ This view arises from the changed figures included in the review – which includes the concept that there will be no cost of disaggregation of County services, not reflected in any other Rural County submission. We do not agree with that conclusion.
➢ Opportunity modelling is untested.	➢ Possible opportunities were identified by comparing un-sponsored submissions with sponsored submissions. These were fully explained in the *Compilation of Detailed Reports 19th November 2008.* ➢ We have always given the advice that it should not be assumed that these savings can be achieved without a committed sponsor and detailed review
➢ Concerns about the comparability of data contained in the published synopses and that the data may be misinterpreted.	➢ The role of the IFCs was to advise the Boundary Committee whether or not a submission met a threshold that indicated whether or not it was likely to achieve the affordability criterion. The only ranking indicated was Low, Medium or High risk.
➢ Boundary Committee have not fully considered risks raised by Independent Financial Consultants.	➢ This is an issue for the Boundary Committee
➢ Independent Financial Consultants have recast the figures without a full understanding of the background.	➢ IFCs undertook modelling to test how robust a submission would be if significant inherent risks came to pass.

➢ The Boundary Committee has not given its own view on affordability.	➢ This is an issue for the Boundary Committee
➢ Figures are based on out of date data.	➢ The IFCs have recommended that the Secretary of State seeks assurance about the financial position of constituent authorities before making a final decision on implementation
➢ A new pattern of local government based on other concepts submitted, or indeed more rigorous shared service delivery under the current system has not been considered.	➢ This is an issue for the Boundary Committee
➢ Public finances are now very different from the baseline year.	➢ We have recommended that the Secretary of State seeks assurance about the financial position of constituent authorities before making a final decision on implementation

3.3 Other Issues the Committee should take into account

3.3.1 Issues from Responses

3.3.1.1 In reviewing the responses, we found issues that were for the Boundary Committee itself to consider, and we have listed these below. Some of these we have given some advice on in our review of Task B:

Synopses using non comparable figures likely to lead to the wrong conclusions
'In aggregate' and related powers of Secretary of State
The Committee in its consultation did not highlight the additional risks arising from the 'in aggregate' approach to affordability
Support for Two Unitary option
Two Unitary option the least favoured
Greater Exeter authority
The Committee in its consultation did not highlight the additional risks arising from the 'in aggregate' approach to affordability
No comparison with savings that could be made from other options or from shared services
Effect of recession not considered
Has the Committee adequately determined better value for money from its proposals?
Other options for Devon not considered.
No change – no general support for change. No comparison with status quo.
Review of Plymouth's boundaries required

3.3.2 Risks not modelled elsewhere within our Reviews

3.3.2.1 The in aggregate approach requires transfers of savings and balances from one organisation to another. For the two - unitary pattern in Devon, £2.8m savings need to be transferred to Rural Devon, whilst £4,2m balances then need to be transferred back to Exeter and Exmouth to meet the criteria at medium level on our risk matrix.

3.3.2.2 But each organisation will have it own aims and objectives. There may need to be special powers or arrangements to ensure such sums are available to meet such transfers. In addition some of the cash to be transferred may have to be generated from the savings to be achieved through the transitional plan.

3.3.2.3 The figures include sums for opportunity modelling – it should not be assumed that these savings can be achieved without a committed sponsor and detailed review

4. Likelihood of a Submission achieving the Affordability Criterion

4.1 Devon County – Single Unitary submission - Summary

Criterion 1	Transitional Costs overall likely to be more than offset by Savings in the payback period	**YES**
Criterion 2	Payback period, likely to be no more than 5 years	**YES**
Criterion 3	Capital transitional costs likely to be fully funded	**YES**
Criterion 4	Other transitional costs likely to be financed as defined by Secretary of State (Balances likely to be at or over prudent level each and every year)	**YES**
Criterion 5	All costs incurred to be met locally without increasing Council Tax on average	**YES**
Overall Risk assessment		**LOW RISK**

4.1.1 Other risks to be considered

4.1.1.1 There are no additional risks other than those shown in the body of the report for Devon County that need to be drawn to the Committee's attention

4.2 Devon Two Unitary Pattern B – Devon Rural and Exeter & Exmouth 'in aggregate' - Summary

		Exeter & Exmouth	Devon Rural
Criterion 1	Transitional Costs overall likely to be more than offset by Savings in the payback period	**YES**	**YES but only after receiving a transfer of £2.8m from Exeter and Exmouth**
Criterion 2	Payback period, likely to be no more than 5 years	**YES**	**YES**
Criterion 3	Capital transitional costs likely to be fully funded	**YES**	**YES**
Criterion 4	Other transitional costs likely to be financed as defined by Secretary of State (Balances likely to be at or over prudent level each and every year)	**YES – but only after receiving a transfer of £4.2m balances from Rural Devon**	**YES**
Criterion 5	All costs incurred to be met locally without increasing Council Tax on average	**YES**	**YES**
Overall Risk Assessment under in aggregate analysis		**MEDIUM RISK**	

Note – on an in aggregate basis we take the view that overall the risk assessment must revert to the higher level of the two submissions

4.2.1 Other risks to be considered

4.2.1.1 The in aggregate approach requires transfers of savings and balances from one organisation to another. Each organisation will have it own aims and objectives. There may need to be special powers or arrangements to ensure such sums are available to meet such transfers. In addition some of the cash to be transferred may have to be generated from the savings to be achieved through the transitional plan.

4.2.1.2 The figures include sums for opportunity modelling – it should not be assumed that these savings can be achieved without a committed sponsor and detailed review

Appendix A – Remit from the Boundary Committee

A1 The IFCs are asked to consider the representations on affordability and advise the Committee of the following:

A2 Task A: To advise the Committee on the likelihood of the further draft proposals being likely to meet the affordability criterion in the light of the representations received.

The Committee expects that each individual representation is addressed in turn. It is expected that the response provided will reflect the level of detail that the respondents have provided.

- The Committee also requests that the original IFCs summarise the representations and submit a summary report on how, together, the representations considered have, if at all, affected the outcomes of the reports presented to the Committee previously.
- The approach used by the IFCs to considering this advice should be summarised in this outline report.

A3 Task B: Advice to the Committee on the general questions that have been received not directly related to the workbooks.

- There may be financial questions within the responses that are sent to the Committee that do not directly relate to the workbooks. The IFCs are requested to provide a separate commentary on these issues. The review team of the Committee will direct the original IFCs as to which aspects of the representations it requests particular commentary on. The original IFCs are asked to provide commentary on any other issues raised in representations that the review team do not specifically highlight but which are relevant to the Committee's consideration.
- The IFCs are not expected to provide any comments that do not relate to financial information.

A4 **Process –** The review teams of the Committee will forward to the IFCs all representations on affordability that are received by 14 May 2009.

A5 The IFCs are requested to provide a report to the Committee by 10 June 2009 in advance of its meeting on 15 June 2009, subject to the complexity of the representations received. The report should include any other matters that the Committee should take into account in reaching its conclusions.