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 – D2

DETAILED RESPONSES IN RESPECT OF AFFORDABILITY ISSUES

TASK B

REPORT OF THE INDEPENDENT FINANCIAL CONSULTANTS

Chris Wheeler CPFA and Tony Hall CPFA

10 June 2009

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RESPONSE D1 REVIEW	
Author of response	**Date of response**
D1 Exeter City Council **Chief Executive – Philip Bostock**	14 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ General support for the Two Unitary Pattern within Devon. No financial issues raised. ➢ Support for a Greater Exeter as shown in April/May 2008	➢ This is an issue for the Committee ➢ This was not an option which the Boundary Committee consulted on – this is an issue for the Committee

RESPONSE D2 REVIEW	
Author of response	**Date of response**
D2 Exeter City Council **Leader of the Council – Cllr Adrian Fullam** **Leader of the Conservative Group – Cllr Yolonda Henson** **Leader of the Labour Group – Cllr Pete Edwards** **Leader of the Liberal Group – Cllr Joan Morrish**	14 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ Affordability issues raised under paragraphs 3.5 to 3.11 and are extracted from report by Exeter's own consultant. ➢ …the information and method of assessment used by IFCs significantly underestimates the financial viability of the two unitary pattern.	➢ It was not the remit of the IFCs to either audit the financial data or to construct a budget for a proposed unitary submission; it was only to assess the likelihood of a submission meeting the affordability criterion.
➢ **Exeter and Exmouth Submission** • The level of transitional costs is reasonable even after the amendments made by IFC. • Ongoing costs are low but reasonable.	➢ Noted ➢ Comparators were published in our November 2008 report, Exeter and Exmouth was **by far the lowest**
• Proposed savings are reasonable in the context of other proposals. In addition Exeter and Exmouth is the only unitary proposal that does not have any service specific savings thereby giving potential for further potential savings. • With some reasonably minor changes on assumptions would not have been 'high risk' on criterion 4 –	➢ Savings per head of population were forecast to be **the highest of any submission** at September 2008**.** ➢ Our modelling and its reasoning is fully documented , and note should be taken of the comments on costs

balances in the assessment undertaken last year.	and savings above As above, the margins should be considered in the light of risks and additional expenditure and savings forecasts.
• The methodology for allocating the county's unallocated balances should be reviewed and other bases considered such as population. Currently tax base has been used. Using alternative methodologies gives Exeter and Exmouth between £0.3m and £0.5m more: these additional sums are significant and material in the context of Exeter and Exmouth's balances for the assessment period.	➢ The allocation of balances was input to the workbooks by Exeter - it was our understanding that this and other apportionments were undertaken after discussion with Devon County.
➢ **Rural Devon Submission**	
• Although the IFC have reduced the diseconomies of scale by 50% LG Futures believe that they should be entirely deleted from the proposals on the grounds that they are unsubstantiated.	➢ Diseconomies of scale **are** likely to occur in disaggregating services into smaller units. All rural two unitary options included some provision for this. IFCs have not audited figures in any submission, but taken a view by comparing submissions and exercising judgement, reflected in modelling when submissions did not reflect the 'norm'. Lead Officers were required to give limited assurance with regards to figures used. Page 169 of the Compilation of Background Information November 2008 indicates that working papers were supplied to support the Rural Devon submission. The reduction was made in the light of the data provided. It would be unreasonable to entirely disregard the data. .
➢ **Other General Points**	
• The County Council's earmarked balances could be reviewed with a view to transferring some earmarked balances into unallocated balances.	➢ Our evaluation took place against the figures provided by the lead officers
• LG Futures have produced their own evidence that the best performing unitaries are not the largest. There is also no correlation between population and the level of council tax set.	➢ This is no part of any contention we have made - No advice from IFCs needed

• LG Futures have developed assessment model based on payback period which they consider to be the key criterion. Using this model clearly shows that all Devon options have ongoing savings that considerably exceed ongoing costs.	➢ Payback is only one of the five criteria which make up the total affordability criterion and is included in the model used by IFCs. That model calculates payback based on data provided. The model has been consistently applied to all submissions and has generally been found to be reasonable.
➢ We have explored further the potential for neighbourhood empowerment and the devolution of the power and resources to communities across the Greater Exeter area.(p9)	➢ We understand that this comment relates to the 'Greater Exeter ' boundary, not part of the consultation – but we point out that there are no resources included in the Exeter and Exmouth workbook for localisation – the only submission not to do so. This is an issue for the Committee.
➢ The work of LG Futures, which draws on real experiences of some of the unitary authorities created in April 2009, clearly shows that a two unitary pattern for Devon would not only be low risk, but would be likely to provide a much better financial outcome than is indicated by the work of the IFC. We believe this work also calls into question the extent to which any additional transfer of assets in the form of balances or savings between two new unitary authorities would be necessary beyond that which would be required in normal circumstances.	➢ The data used by IFCs was provided by the Lead Officers for Exeter and Devon and assessed consistently for each submission. The data was not intended to be used as a budget, but only for advising of the likelihood or otherwise of a pattern being able to meet the affordability criterion as defined by the Secretary of State. The base figures were pre-defined and fixed and all other data was as provided by lead officers. Our modelling and its basis are well documented. Changes to that modelling for whatever purpose will of course change the outcome. We have highlighted key issues relating to this above – low ongoing costs, high savings levels, and provision of some costs for disaggregation. The 'in aggregate' definition was also provided by the Secretary of State, and all submissions where that definition applied were assessed in a consistent manner. The definitions of the affordability criteria were also laid down by the Secretary of State.

RESPONSE D3 REVIEW	
Author of response	**Date of response**
D3 Exeter City Council **L G Futures**	14 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ The issues raised are primarily related to the issues raised in D2; this paper is the substantive background to the conclusions quoted under the **D2 overview response.** ➢ **Background** i. This paper challenges and analyses the Boundary Committee's report on the affordability of the two-unitary proposals for Devon. This report was written by the Boundary Committee's independent financial consultants (IFC). ii. The IFC's have given E&E a "low risk" rating and Rural Devon a "medium risk" rating using the Secretary of State's methodology. This makes an assessment based on the aggregate of the E&E and Rural Devon proposals. Without the "aggregate" methodology, however, both Rural Devon and E&E were rated as "high risk". iii. The proposals we make in this paper could be applied to both the aggregate and individual proposals made for E&E and Rural Devon. ➢ **Key Assumptions** i. We have challenged the key assumptions that are	➢ No further advice from IFCs needed. o These were the conclusions of the IFCs reports of 19 November 2008 and the further report of 20 January 2009. No further advice from IFCs needed.

	used in the IFC's affordability assessment: • Unallocated Balances. This is the most important element for E&E because the IFCs have highlighted this as the factor that makes E&E's bid "high risk". Our conclusion is that the level of balances set by the Section 151 officer is reasonable based on benchmarking data. E&E's planned balances – even after the £1.4m net reduction made by the IFCs – are low compared to other bids for unitary status but not compared to many other existing unitary councils in England. We suggest that the methodology for disaggregating the county's unallocated balances should be reviewed and other bases considered, such as population. Furthermore, the County Council's earmarked balances should be reviewed with a view to transferring some earmarked balances into unallocated balances. • Transitional Costs. We have found the level of transitional costs to be reasonable, even after the amendments made by the IFCs. However, we have suggested that the profile of the costs could be amended, with the some of the expenditure in LUY2 and in years 1 and 2 being delayed into later years. E&E's submission proposed incurring transitional costs earlier than any other two-unitary proposals. • Ongoing Costs. E&E's ongoing costs are low but reasonable. We discuss diseconomies of scale later. • Savings. E&E's proposed savings are reasonable in	➢ The IFCs did not change the level of balances set by the S151 officer of the Lead authority. However, some S151 officers of constituent authorities qualified their statements, see paragraph 1.5 of the Detailed Report of 19 November 2008. The modelling carried out in respect of perceived risks did result in the predicted balances falling below the prudent levels in years 1 and 2 ➢ Comparison with the balances levels of established unitary councils is not helpful – movement to unitary status is major step for which reasonable balances must be available ➢ No further advice from IFCs needed. ➢ IFCs reviewed the submission received in September 2008. The suggestion that the profile of costs be amended, is in effect a suggestion that a new submission is made. No further advice from IFCs needed. ➢ Comparators were published by IFCs in November 2008 and Exeter and Exmouth was **the lowest** ➢ Savings per head of population were the **highest** of any of the submissions received in September

the context of the other proposals both in the current and previous rounds. But they are not unreasonably high: E&E have proposed savings of 29% against a median level of 24%. E&E's efficient working savings are backed by plans and by reports from specialist BPR consultants. Furthermore, E&E is the only unitary proposal that does not have any service-specific savings; they are all corporate savings. This gives E&E the opportunity to potentially increase savings or to consolidate the current level of proposed savings. ii. Rural Devon has added in additional costs for diseconomies of scale. There is no evidence that there are diseconomies of scale in this specific circumstance or more generally in local government. The IFCs have discounted the proposed diseconomies of scale by 50% but we believe that they should be entirely deleted from the proposals on the grounds that they are unsubstantiated. There has not been consistent approach either in the current or previous rounds. iii. These adjustments should be reflected in the IFC's financial and risk models. ➢ **Risk Model** i. We have undertaken an analysis of the methodology used by the IFC's to assess the financial proposals and their risk: • Criterion 1 (Transitional Costs) should either be "pass" or "fail" because the criterion is trying to measure whether there are any	2008. ➢ Diseconomies of scale **are** likely to occur in disaggregating services into smaller units. IFCs have not audited figures in any submission, but taken a view by comparing submissions and exercising judgement, reflected in modelling when submissions did not reflect the 'norm'. Lead Officers were required to give limited assurance with regards to figures used. Page 169 of the Compilation of Background Information, November 2008, indicates that working papers were supplied to support the submission. The reduction was made in the light of the data provided by the lead officer. It would be unreasonable to disregard the data. No further advice from IFCs needed. ➢ The IFCs modelling has been consistently applied to all submissions based on evidence supplied. ➢ The risk model was applied to each element of the Secretary of State's affordability criterion. ➢ The risk model was designed to test the margins, when appropriate, by which a submission was "likely" or "unlikely" to achieve the affordability criterion. The IFCs neither audited the financial data provided nor did

additional net costs arising as a result of reorganisation. If the IFCs felt it was essential to have a risk rating for this criteria then it should be applied to gross expenditure and gross savings rather than to net savings.	they attempt to produce any form of budget. Submissions had to achieve a threshold, and the level over which the threshold was met provided a higher level of confidence. Net savings is an appropriate indicator of Criterion 1. No further advice from IFCs needed.
• Criterion 2 (Payback) is, in our opinion, the fundamental criterion because it measures the ability of the proposal to generate savings that can payback the transitional costs. Focussing on this criterion is most likely to identify those proposals which are sustainable in the long term.	➢ The payback period is only one of five criteria which make up the total affordability criterion and is included in the risk matrix used by IFCs. No further advice required from IFCs.
• There is the danger that by placing too much weight on Criterion 4 (effectively minimum reserves"), the IFCs are in danger of focussing too much on short-term considerations and eliminating proposals that are viable and robust in the longer term. Furthermore, in practice, there are a number of actions that a council could take to ensure that it retains a reasonable minimum level of balances (e.g. delaying expenditure). And, as we have discussed above, much will depend on historical decisions/ policies rather than future viability.	➢ Criterion 4 is the most restrictive of the 5 criteria, since the Secretary of State requires that "**in each year**", other transitional costs incurred are to be financed through a combination of criteria, eg In year revenue savings arising as a result of restructuring; and drawing on revenue reserves, subject to ensuring that satisfactory amounts remain …The Secretary of State also says that use of reserves should be the final option considered .
➢ **Aggregate Transfer** i. As we have seen, the IFC's have assessed the unitary proposals for Devon on an aggregate basis. It has been suggested by the IFCs that E&E will receive additional unallocated balances from Rural Devon so that it meets its target for minimum balances; E&E will transfer savings to Rural Devon.	➢ IFCs report of 20 January 2009 indicates that this would be the outcome of the 'in aggregate" affordability assessment of the Devon two unitary pattern. No further advice from IFCs needed.

ii.	The transfer of unallocated balances would be estimated based on the latest financial data (2009/10) and after a thorough review of earmarked reserves.	➢ There is no provision for such an approach within the affordability test as defined by the Secretary of State. No further advice from IFCs needed.
Iii	Finding a solution for savings will be more difficult. We would expect that the transfer of savings would be converted into a capital sum. A range of assumptions would have to be agreed in order to arrive at this capital sum, such as the number of years to take into account and the discounting of future savings.	➢ No advice from IFCs needed
➢	A detailed paper expanding on the above and detailed reasoning behind it.	➢ No additional advice from IFCs needed.

RESPONSE D4 REVIEW	
Author of response	**Date of response**
D4 Devon County Council **Chief Executive – Phil Norrey**	6 April 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ it is difficult to see how the financial assessment can retain any credibility. The case for the two unitary option for Devon was assessed by your consultants as high risk and unlikely to meet the affordability criterion. With no further work being done by sponsors, save the application of the Secretary of State's belated advice in relation to "in aggregate", to conclude now that it should be assessed as low risk and affordable is not tenable.	➢ The IFCs have recorded their reservations and risks concerning the application of the "in aggregate" approach. ➢ The' in aggregate ' approach set down by the Secretary of State requires the sharing of balances – where Exeter was weak , and the transitional net savings – where Rural Devon was weak – in aggregate we conclude they can meet the criteria. No further advice from IFCs needed.
➢ Your consultants have advised the Boundary Committee that, in their view the further "in aggregate" advice issued by the Secretary of State is so fundamentally different from that implied in the original guidance that, had this actually been the intention it would have been essential for her to make her intentions clear originally.	➢ Agreed, no further advice from IFCs needed
➢ the way that untested assumptions have been applied to the two unitary proposal to derive further levels of saving, the decision to publish the synopses in the way that you have done and then to assert in a letter to me that direct comparisons are not appropriate is not good enough. I see no	➢ This is an issue for the Committee.

warning to this effect in those published synopses and I know that people have already compared the two reports and drawn conclusions as a result. This will inevitably affect the views of respondents not only in relation to the affordability criterion but also for the value for money services criterion and the merits of the proposal as a whole. The issue in relation to comparability needs to be communicated clearly to all those who might access these synopses on your website, the synopses should be removed and a clear message sent to the Secretary of State to this effect. ➢ I also see nothing but a token indication of the levels of risk that your consultants have advised you are inherent within the application of the new "in aggregate" element of the affordability criterion. In their detailed reports to the Boundary Committee your consultants have been explicit about their grave concerns over the inherent risk of the new approach, which are above the normal level associated with such reorganisations, and rely upon pooling and redistribution of balances and savings from two separate authorities which there is no legal power to enforce. These grave concerns have not been reflected in a revised risk assessment. To not do so and then conclude that the resultant financial case is low risk is negligent and misleading and undermines the credibility and integrity of the current consultation process. ➢ I agree entirely that a legitimate comparison cannot be made on a like for like basis as the approach to opportunity modelling has not been applied consistently between the single and two pattern unitary proposals. The published	➢ The low risk conclusion is derived from applying the Secretary of State's "in aggregate" advice and IFCs concerns are fairly reflected. No further advice from IFCs is needed. ➢ No further advice from IFCs required

figures, in my view, materially misstate the real position but will already have been used on a comparative basis. ➢ The submissions made in September 2008 for both the Single Devon Unitary and the Devon Remainder Unitary in the two unitary pattern were based on the same assumptions. This is regarded as a significant strength of the approach which met our commitment to those preparing the Exeter and Exmouth submission that we would be consistent and transparent in calculating costs and savings, and reduced the potential for dispute had a more selective approach been taken. At a stroke this consistency has been lost. ➢	➢ The workbooks submitted in September 2008 were designed only to test whether or not a particular submission was likely to meet the affordability criterion. The only ranking applied was the designation of LOW, MEDIUM OR HIGH RISK. No further advice from IFCs needed. ➢ We fully understand that similar assumptions were used for both Devon County and Rural Devon. We took a consistent view that with a committed champion there was likelihood that there could be opportunity reductions to those costs levels. No further advice from IFCs needed.

RESPONSE D5 REVIEW	
Author of response	**Date of response**
D5 Devon County Council	14 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ The IFCs' concluded[1] in November 2008 that: *"After modelling for up to 10% increased expenditure and 10% reduced savings – and after also modelling for inherent risks specifically identified – the submission meets the affordability criteria. Our overall assessment…is that this is a low risk submission"*	➢ Agreed that was the conclusion of the IFCs
➢ In November 2008, the IFCs also observed that: • Single unitary patterns with populations between 560,000 and 900,000 demonstrate low risk.	➢ This was a general conclusion from the outcome of the IFC review but not a requisite of that review
• Of their assessments of the 16 unitary options in Devon, Norfolk	➢ Agreed that was apparent from both the submission and modelling

[1] "Detailed report for Devon County unitary submission" published on 21 November 2008 www.electoralcommission.org.uk/__data/assets/pdf_file/0007/68488/FinalReportsCompilation2.pdf

[2] "Synopsis of the Boundary Committee's assessment of affordability" published on 27 March. www.electoralcommission.org.uk/__data/assets/pdf_file/0005/73274/Devon-county-unitary-synopsis---final.pdf

[3] "Financial information submitted for the proposed Devon Unitary Authority" Available at www.electoralcommission.org.uk/__data/assets/pdf_file/0009/66771/Combined.pdf

[4] Page 54 of response to Freedom of Information request at www.electoralcommission.org.uk/__data/assets/pdf_file/0007/72079/FOI-0509-ONLINE-VERSION-DRAFT.pdf

[5] "Summary of the independent financial consultants "in aggregate" reports for the two unitary pattern in aggregate" www.electoralcommission.org.uk/__data/assets/pdf_file/0003/72750/Overview-Summary-report.pdf

[6] www.electoralcommission.org.uk/__data/assets/pdf_file/0006/73275/Devon-two-unitary-synopsis---final.pdf

and Suffolk, the single Devon unitary is the only one that is able to equalise council tax at the lowest level in place.	
• The single unitary authority for Devon makes significant provision for the costs of "localisation" to meet the Secretary of State's criterion that unitary authorities should empower citizens and communities.	➢ This was noted in the IFCs' summary report to Boundary Committee meeting in November 2008
• Submissions for two unitary patterns generally demonstrate difficulties with meeting all of the affordability criteria.	➢ This was an observation made by IFCs in the Summary Report but not a pre-requisite of affordability.
• The two unitary pattern for Devon may be unlikely to meet the criterion and has a high risk associated with it.	➢ IFC reports November 2008
• The Exeter and Exmouth unitary is high risk and may be unlikely to meet the affordability criterion.	➢ IFC reports November 2008
➢ The figures for the costs and savings of a single unitary authority for Devon that the Committee published in its March 2009 synopsis[2] differ significantly from those submitted to it in September 2008 by Devon County Council[3]. We are concerned that the Independent Financial Consultants have made their own assumptions about ICT and other expenditure and reduced the estimated savings from £28million to £22.5million. The IFCs have recast the figures without an understanding of the local context that informed the September 2008 financial case.	➢ The affordability review was to determine whether or not a submission was likely to achieve the affordability criterion threshold. Outcomes were ranked only in terms of risk: LOW, MEDIUM or HIGH. The figures used in the synopsis were as modelled and not intended for direct comparison. ➢ Page 140 of the Compilation of Background Information reflects questions and answers between the IFC and Devon County, and Graph A of the main report demonstrates that the Devon County submission provided for twice the level of savings anticipated by other single unitary submissions. The modelling proved that the submission would still be likely to meet the affordability criterion even if savings were optimistic. No further advice from IFCs required.
Affordability of Pattern B	

➢ The additional guidance that the Secretary of State issued to the Committee on 5 December 2008 required an assessment of the capacity of the two unitary pattern as a package to meet the affordability and broad cross section of support criteria "in aggregate". In doing so, the Secretary of State not only shifted the goal posts but tilted the playing field. The Committee's Independent Financial Consultants recognised this immediately and saw it as a "fundamentally different approach from that implied in the initial phase"[4] and were not clear "what powers the Secretary of State would use to effectively pool the balances of the constituent authorities and then redistribute them to some other authority".	➢ No advice from IFCs needed
➢ The IFCs admit that there is an additional level of risk in the in aggregate approach as it "requires a very strong level of cooperation and collaboration between two unitaries which may have different persuasions and aspirations"[5]. In making their assessment of the likelihood of Pattern B meeting the affordability criterion in aggregate, the IFCs assumed that: i) £2.8million of the savings generated by the Exeter and Exmouth unitary authority would be transferred to the Rural Devon unitary authority. ii) £4.2million of the balances available to the Rural Devon unitary authority would be transferred to the	➢ IFCs reported this to Boundary Committee within its overview report of 'in aggregate' reviews of two unitary submissions. No further advice from IFCs needed.

Exeter and Exmouth unitary authority. ➢ The IFCs concede however that "in practice it is unlikely that one authority would share benefits with another and so disadvantage its own stakeholders." <u>The IFCs did not include the implications of these assumptions in their risk matrix but recommended that the Boundary Committee consider them and take them into account when reaching their final conclusion</u>.	➢ No further advice from IFCs needed. ➢ This is an issue for the Committee.
➢ The IFCs conclude that Pattern B scores "low risk" on their matrix using the "in aggregate" approach, whereas the authorities previously scored "high risk" when assessed individually. We have a number of grave concerns about the Committee's approach to assessing and consulting on the affordability of Pattern B. Firstly, it is unfortunate that the IFCs conclusions were not communicated more clearly as part of the consultation. Unless readers took the time to read the 39 pages of the IFCs report, they would have no inkling that there are significant additional risks associated with the affordability of Pattern B in aggregate.	➢ No further advice from IFCs needed ➢ This is an issue for the Committee
➢ Secondly, there is no indication in the Committee's further draft proposals as to how it intends to assess those risks. It is hard to understand how the Committee can be "satisfied that the consultants' views are a reasonable reflection of the capacity of this pattern of local	➢ This is an issue for the Committee..

government to meet the Secretary of State's affordability criterion" (para 3.44) in the absence of that further work and analysis. ➢ Thirdly, the published "Synopsis of the Boundary Committee's assessment of affordability. Further draft proposal – Exeter and Exmouth and Rural Devon" [6] included a new presentation of figures for the costs and savings which, when presented together without further explanation, is grossly misleading.	➢ Comparison between patterns of relative financial outcomes is not appropriate Risk was the only ranking used by IFCs.
➢ Fourthly, the Committee has been at pains to stress that direct comparisons between synopses of the affordability of each further draft proposal are not appropriate. Given that the information in each of them is presented in an identical format, it would be difficult, if not impossible, for most respondents to resist the temptation to make such comparisons.	➢ This is an issue for the Committee
➢ ➢ Fifthly, the Committee has not given its own assessment of the likelihood of the two unitary pattern achieving the outcomes specified by the affordability criterion. We trust that the Committee will not ignore its IFCs and that before it formulates its advice to Government it will undertake the recommended further detailed review and risk assessment. We are concerned that it gave no indication of an intention to do so at the meeting it held with Devon local authorities in Exeter on 22 April 2009.	➢ This is an issue for the Committee

➢ Sixthly, the IFCs chose to model changes to the costs of the Rural Devon unitary authority but not model the impacts on the costs of the single unitary authority for Devon. This failure consistently to apply the same principles to both Patterns affects the figures used to assess affordability and distorts the IFCs' conclusions. ➢ Lastly, the IFCs have assumed, through their opportunity modelling, that the Rural Devon unitary authority can save a further £11.2million. The IFCs substituted their own judgement for the expertise and knowledge that the Devon local authority chief financial officers drew on in compiling the September 2008 financial submission. There is no evidence to show that these assumed further savings can be realised.	➢ The threshold nature of the affordability review used did not necessarily require the same adjustments to be modelled, since any ranking of one submission with another was based on perceived risks. ➢ The IFCs used experience and evidence from sponsored submissions to view non championed submissions for potential missed opportunities. It is agreed that there is no evidence that the assumed savings could be achieved or in the timescales modelled. However, opportunity modelling did not in fact change outcomes so far as likelihood of achieving the affordability criterion is concerned.

RESPONSE D6 REVIEW	
Author of response	**Date of response**
D6 East Devon District Council **Leader of the Council – Cllr Miss Sara Randall Johnson**	13 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ With particular regard however to the criterion of affordability referred to in paragraphs 2.49 – 2.56 of your further draft proposals I would comment that within the limited terms of reference that the Boundary Committee has set itself both the proposals appear to be low-risk. I do however make the common sense point that in the real world no organisation would rely upon out of date (and therefore unreliable) budget figures to produce high level financial forecasts informing a view on the likely financial affordability of new proposals. This is especially so when likely budgets cannot be foreseen by the Boundary Committee or the Secretary of State, (and which will need to be implemented by a body or bodies not even in legal existence). Experience to date from the most recent unitary councils should provide a clear warning in this respect.	➢ The IFCs have recommended that the Secretary of State is appraised of the latest financial position in respect of reserves and balances of authorities prior to making a final decision on any pattern. This is an issue for the Committee.
➢ I note your financial consultant's assessments that this particular pattern is low-risk in terms of its assessment of affordability and support "in aggregate".	➢ Agreed, that is the outcome of the affordability review 'in aggregate' for the Two Unitary pattern.

RESPONSE D7 REVIEW	
Author of response	**Date of response**
D7 Mid Devon District Council **Leader of the Council – Peter Hare Scott** **Chief Executive – Gerald Hirsch**	12 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ General support for two tier local government in Devon, or single unitary option as opposed to the Two Unitary option. No affordability issues raised.	➢ This is an issue for the Committee

RESPONSE D8 REVIEW	
Author of response	**Date of response**
D8 South Hams District Council **Leader of the Council – Cllr John Tucker**	12 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ The proposals for either a Unitary Devon or a Unitary for the remaining area of Devon would create an authority which is so large that, rather than improving strategic outcomes for the people of Devon, it will result in a democratic deficit, and create diseconomies of scale as the distance between the centre of the organisation and front line delivery increases. A single Devon council, or the alternative large rural Devon Unitary,	➢ This is an issue for the Committee
➢ Affordability is a key concern for stakeholders and the Council supports the drive to reduce costs. However there have not been financial comparisons of the savings which could be achieved from a new pattern of local government based on other concepts submitted, or indeed more rigorous shared service delivery under the current system.	➢ This is an issue for the Committee
➢ The financial model used to underpin the recommendations is based on a number of general estimates. High level assumptions have been made about future service delivery, service access arrangements and the size of the workforce. Rural sparsity may increase costs if a strongly centralised	➢ No advice from IFCs needed

pattern of service delivery is established rather than a local delivery approach as currently delivered. o Headline financial information may initially appear attractive but the financial information is based on historic assumptions, such as population figures from 2001, which significantly underestimates the population across Devon by nearly 50,000. The report uses outdated financial information, for example financial estimates which were formulated in late 2006 to inform the 2007/2008 budget estimates. They are out of date figures and not relevant to service demands that we now are confronting in a sustained recession, especially when our income and other revenue streams are much reduced. ➢	➢ Population figures for the analysis of the financial data are based on June 2007 (see Base Data worksheets in each workbook) ➢ The IFCs have recommended that if the Boundary Committee is minded to recommend patterns that the Secretary of State seeks assurance about the financial position of the authorities at that time. This is an issue for the Committee.

RESPONSE D9 REVIEW	
Author of response	**Date of response**
D9 North Devon Council **Leader of the Council – Cllr Des Brailey**	14 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ The response is concerned with whether or not the Boundary Committee has adequately reviewed and demonstrated better value for money from its proposals.	➢ The models used by the IFCs started with base information from existing constituent authorities, so the data had some potential for relative value for money assessment. ➢ However, the aim of all the IFCs work was to assess whether the affordability criteria have or have not been met, not whether value for money would be provided, which is a separate criteria in the Boundary Committee's process ➢ This is an issue for the Committee

RESPONSE D10 REVIEW	
Author of response	**Date of response**
D10 Torbay Council **Mayor and Leaders of 3 Political Groups**	May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ Submission concerns other options for Devon and does not raise financial issues.	➢ This is an issue for the Committee

RESPONSE D11 REVIEW

Author of response	Date of response
D11 West Devon Council **Leader of the Council – Cllr James McInnes** **Deputy Leader of the Council – Cllr Margaret Garton**	8 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ **These proposals are fraught with risk due to inadequate assessments of the real costs.** Our Councillors are alarmed that the independent financial reports have qualified their findings in the light of the revised DCLG guidance. This is particularly so in the case of the two unitary pattern and we note that there is little explanation on the make up of the £11.2M opportunity efficiency savings which are required to bring this pattern within the 'acceptable' risk thresholds. The absence of an obvious champion for the Rural Unitary seems to be a case of "hope over experience" in terms of the achievement of the expected outcomes from the two unitary pattern. We remain extremely concerned that these proposals have continued to be developed without a robust business plan, a comprehensive assessment of the need for change or a proper regard to the true costs and benefits of such change.	➢ IFCs did express concerns with the potential risks of 'in aggregate' assessment of two unitary patterns in their report to the Boundary Committee 12 March 2009. ➢ Possible opportunities were identified by comparing un-sponsored submissions with sponsored submissions. These were fully explained in the Compilation of Detailed Reports dated 19th November 2008. ➢ The modelling did not bring the submission 'within acceptable thresholds' as an individual submission, since net savings remained a concern. ➢ Without a sponsor those possible efficiency savings are high risk. No further advice from IFCs needed.
➢ **Cost assessments do not reflect that Councils' resources in Devon are far less than when this exercise started and have not adequately accounted for the effects of recession or its consequences for local authority finances. The predicted efficiency savings are based on out of date figures which bear little reality to current service demands**.	➢ The IFCs report has recommended that if the Boundary Committee is minded to recommend patterns the Secretary of State seeks assurance about the financial position of authorities at that time. This is an issue for the Committee.

➢ Public finances are now very different to the baseline data that was used in the financial workbooks by your consultants. This data was already substantively out of date when it was used last year. With the banking crisis over the winter and the consequences of lasting recession, financing of public services has changed dramatically. This will also be a continuing feature for public services for some time to come. Significant levels of local authority reserves have already been used this year to respond to increasing financial pressures and to maintain services at a time of increasing demand. We do not believe that these changed circumstances are properly reflected in your financial assessments and conclusions. ➢	➢ This is an issue for the Committee

RESPONSE D12 REVIEW	
Author of response	**Date of response**
D12 Teignbridge District Council **Leader of the Council – Cllr Alan Connett** **Deputy Leader of the Council – Cllr Ray Frost** **Leader of the Conservative Group – Cllr Stuart Barker**	14 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ The letter does not address affordability or other financial issues, but repeats the Council's views expressed in September 2008, and records that the majority of residents oppose the proposals. The two unitary proposal is the least favoured.	➢ This is an issue for the Committee.

RESPONSE D13 REVIEW	
Author of response	**Date of response**
D13 Plymouth City Council **Chief Executive – Barry Keel**	1 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ The City Council reaffirms its objections to both the single County Unitary and the two Unitaries options as conveyed to the Boundary Committee on 25 September 2008.	➢ This is an issue for the Committee
➢ Requests reply to its letter of 25 November 2008 which formally requested a boundary review of Plymouth.	➢ This is an issue for the Committee

RESPONSE D14 REVIEW	
Author of response	**Date of response**
D14 Devon County Council	26 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ **1.3 Affordability and the analysis undertaken by Local Government Futures** Exeter City Council's response to the Boundary Committee was accompanied by a report entitled "Local Government Reorganisation in Devon. Financial analysis of the two-unitary submissions (12 May 2009)" produced by Local Government Futures Ltd (LGF). ➢ LGF considers that, of all the affordability criteria used, payback is the key one for assessing the robustness or otherwise of the business case both in the short and longer term. LGF used the	➢ IFCs have responded to the LGF analysis under responses to D2 and D3. No further advice from IFCs needed. ➢ The payback period is only one of five criteria which make up the total affordability criterion and is included in the risk matrix used by IFCs. No further advice required from IFCs.

[7] From appendix 4 "LGF Risk/Probability Matrix" of 12 May 2009 Local Government Futures report
[8] Figures also corrected for LGF rounding of costs and savings
[9] From page 159 of www.electoralcommission.org.uk/__data/assets/pdf_file/0007/68488/FinalReportsCompilation2.pdf of IFC 19 November 2008 report
[10] From page 177 www.electoralcommission.org.uk/__data/assets/pdf_file/0007/68488/FinalReportsCompilation2.pdf of IFC 19 November 2008 report
[11] Payback using "Method A" from page 35 at www.electoralcommission.org.uk/__data/assets/pdf_file/0005/72752/Consolidated-report.pdf of IFC 20 Jan 2009 report
[12] Pages as numbered in the LGF report

September 2008 financial cases submitted by Devon County Council and Exeter City Council together with the Committee's own Independent Financial Consultants (IFCs) conclusions to develop an alternative model for assessing risk, based on the payback period.

- However, LGF appear to have calculated the payback periods on the assumption that estimated costs and savings (included in appendix 4 of their report) are for one year rather five and, as a consequence, the periods shown in their report (para 11.6) are wrong by a factor of five (see table below) . **It is concerning that such a flawed analysis is now in the public domain.**

	IFC assessment: payback period (years)	**Incorrect** payback periods included in LGF report (years)[7]	**Corrected LGF probability model: payback period (years)[8]**
Exeter and Exmouth unitary authority	1.5[9]	0.4	**2.1**
Rural Devon unitary authority	4.8[10]	1.3	**6.5**
Pattern B	3.5[11]	1	**5.1**

- However, if the LGF calculations are corrected then the pay back periods for Exeter and Exmouth, Rural Devon and the aggregated position (Pattern B)

- The payback periods in column 2 are as reported by IFCs in their reports of 19 November 2008, and the calculation is defined in that report. The payback period must be no more than 5 years. No further advice from IFCs needed.

- The IFCs report of 20 January 2009 pages 16 and 22 indicates that under 'in aggregate' Method A the Devon Two Unitary Pattern was only likely to achieve the payback period "after possible opportunity modelling" and under

become 2.1 years, 6.5 years and 5.1 years respectively (as shown in the table above). The corrected analysis, rather than demonstrating the strength of the two pattern case, undermines it. **The Rural Devon unitary authority and the two-unitary pattern in aggregate fail the affordability test as the payback periods are more than five years. The LGF assessment shows that the two-unitary option is high risk and confirms the IFC's original assessment.**	Method B Devon Rural was only likely to be achieved after possible opportunity modelling. No further advice from IFCs needed.
➢ LGFs report is partial and does not present the results of an objective analysis. In its examination of earmarked reserves, LGF have substituted their own judgement for Devon County Council's in suggesting the reclassification of some of the Council's earmarked reserves as unallocated balances (pages 5 and 17)[12]. LGF are, on the other hand, content to accept Exeter City Council's treatment of reserves as reasonable. This is unsatisfactory: the County Council's position on reserves was clearly set out in the financial case submitted to the Committee in September 2008 and their adequacy was examined by the IFCs.	➢ No advice from IFCs needed
➢ LGF reinforce the practical difficulties of transferring balances and savings between the two authorities. They suggest the need for a methodology for sharing aggregated costs and savings but admit that "this will be more difficult because it will rely on a number of assumptions". It is difficult to envisage that the two authorities would readily	➢ The IFCs have expressed concerns about this area and assume that if 'in aggregate' was applied in practice, the Secretary of State would need to have powers to enforce any 'in aggregate' financial arrangement. This is an issue for the Committee..

agree to exchange reserves and savings. The suggestion that a "capital sum" (however that is defined) could be transferred is new and untested (page 6). ➢ There is no reasonable case for assuming that a further £11.2m savings can be achieved from the Rural Devon unitary. The IFCs recognised the limitations of their approach and made it clear in their report that the figures they suggested need not suggest that affordability is demonstrated. The failure to apply the same principals in modelling both the Exeter and Exmouth and Rural Devon submissions has had a material effect on both the IFCs and LGFs conclusions. For the reasons set out in **appendix 1,** we disagree with adjustments to the projected costs and savings of the Rural Devon authority in the table on pages 32 and 33 of the LGF report. ➢ The LGF report includes (page 34) a critique of the work of the IFCs but nearly all of the comments and suggestions are aimed at improving the affordability assessment of the Exeter and Exmouth authority and weakening that for the Rural Devon authority. For example, LGF assumed that there are no costs associated with diseconomies of scale (pages 18 to 21) but accepted the assumptions underpinning the IFCs adjustments to costs and savings unquestioningly. This is not a balanced or objective approach and LGF appear to be trying to change rules of the game in favour of the two-unitary pattern. ➢ LGF are at odds not only with the IFCs	➢ The IFCs modelled possible opportunities in all "non-championed" submissions and did caveat the conclusions that could be drawn from this approach. The approach used by the IFCs was for the purpose of determining whether or not a submission was likely to achieve the affordability criterion. The only ranking used was LOW, MEDIUM or HIGH risk. No further advice from IFCs needed. ➢ In fact the comment ignores the overall effect of the IFCs modelling, which includes for possible increased costs arising from risk to certain provisions ➢ Whilst the submission as originally put forward showed a net saving over the transitional period of £1.2m, after modelling provision for increased costs and opportunity savings, the figure was revised in modelling to £1.3m (see page 180 of the Compilation of Detailed reports 19th November 2009) ➢ Diseconomies of scale **are** likely to occur in disaggregating services into smaller units. IFCs have not audited figures in any submission, but taken a view by comparing submissions and exercising judgement, reflected in modelling when submissions did not reflect the 'norm'. Lead Officers were required to give limited assurance with regards to figures used. Page 169 of the Compilation of Background Information indicates that working papers were supplied to support the submission. IFC reduction was made in the light of the data provided. It would be unreasonable to entirely disregard the diseconomies of

but also HM Treasury about diseconomies of scale in arguing that "there is no evidence to justify either the specific costs or the concept in general" (page 18). The Government's focus is on achieving £9bn savings (announced in the Chancellor's Budget on 22 April 2009) through the sharing of back office functions and shared services. The assessment of costs associated with diseconomies of scale for unitary authorities will be based on local factors and made on a case by case basis. The table on page 21 shows that such costs have been taken into account in the assessments of rural Devon, Norfolk and Suffolk.	scale submission and modelling reduced the submission by 50%. No further advice from IFCs required. ➢ All County submissions for all Rural two unitary submissions did demonstrate diseconomies of scale. No further advice from IFCs needed.
➢ LGF refer to local authorities' budgets being constrained by the Government's Formula Grant and by Council Tax (page 19). These considerations are about funding in the steady state but not relevant to transition costs.	➢ No advice from IFCs needed
➢ We note that LGF conclude that "there is the potential that the City Council has underestimated the transitional costs" (page 24) and that the costs have been re-profiled. This has the effect of reducing balances below the minimum recommended by the City Council's chief financial officer in years 1 to 3; once again exposing the fragility of the financial case.	➢ No advice from IFCs needed
➢ **Comments on the adjustments which the IFCs and LGF made to the costs and savings of the Rural Devon unitary authority.**	➢ No further advice from IFCs needed.

➢ **Rural Devon unitary: Staff release costs** • The IFCs unilaterally reduced the provision of £14.1million for redundancy and early retirement by 25%. Devon County Council's September 2008 financial case made assumptions about redundant posts and assumed that vacant posts will not have redundancy costs. That submission stated that "not all posts that become redundant will result in redundancy costs. Some post holders will transfer to other posts in the unitary structure; other posts will fall vacant and result in no severance costs at all and redeployment will reduce the need for severance and redundancy and reduce the total amount set aside for this purpose". • In the current economic climate, staff turnover is likely to reduce as jobs in the public sector will appear secure and staff who have some service are likely to wait for a severance package. The calculations acknowledged that the most expensive severance packages would be for those in the highest graded posts at director level and just below. These are the least likely to become vacant given the scale of pay off that will be received. Those of pensionable age are not likely to leave so the £6.7m for early retirement cannot be reduced. Even excluding the possibility	➢ IFCs have not changed submissions but have modelled perceived risks (and in some cases opportunities) to test how robust any submission was. The approach used by the IFCs was for the purpose of determining only whether or not a submission was likely to achieve the affordability criterion. The only ranking used was LOW, MEDIUM or HIGH risk. No further advice from IFCs needed ➢ See above, IFCs raised a number of questions of lead officers, and received answers, copies contained within the Compilation of Background Information. Comparisons with all submissions received were also used as guidelines, but IFCs did not reduce provisions, they applied modelling to assess the level of possible risk in a submission. No further advice from IFCs needed.

	that a significant proportion of the redundancy pay will be due to those who also are eligible for early retirement, the IFCs and LGF assumption that the provision for redundancy can be halved is not a tenable proposition if it is to flow from just an additional improvement in vacancy management. • The evidence from a neighbouring reorganised county unitary is that this is an area where costs have been underestimated. [In Cornwall the estimate for redundancy costs increased by 70% from £13m to £22m]. This calls into question the use of averages to estimate what is a reasonable provision for severance costs and suggests that the estimate made for the Rural Devon unitary is appropriate. • It would be unreasonable for the Rural Devon unitary to pick up, for example, all of the severance costs of district council senior officers in East Devon and Teignbridge should reorganisation take place. The very low level of Exeter and Exmouth provision in this area was remarked upon when Devon County Council's S151 Officer commented on the proposal. There are still significant reservations about	➢ No advice from IFCs needed. ➢ It was noted that Exeter and Exmouth staff release costs were below the average and some modelling was undertaken to reflect this. No further advice from IFCs needed.

the whether the revised modelled figure will be sufficient given that the Exeter and Exmouth case continues to rely on untested efficiency savings. • **Rural Devon unitary: Pay harmonisation** The IFCs unilaterally reduce the costs by £0.6million. Experience suggests that the administrative process is very expensive on an ongoing basis. There is no basis for overriding the judgements that have been based on recent local experience.	➢ No additional advice from IFCs needed
• **Rural Devon unitary: Executive Board** The IFCs unilaterally reduce costs by 50%. The model for the Executive Board in the September 2008 submission was not the most expensive model considered but reflected, in the judgement of the County Council, the structure needed to manage the responsibilities placed on it in a unitary environment. The view taken is that the same responsibilities need to be discharged by board members of each unitary as the level of responsibility would be the same. There is no evidence to indicate that a bottom up approach would have produced a different answer as responsibilities are unaltered. The notion that savings can be made on such limited evidence is rejected.	➢ No additional advice from IFCs needed
• **Rural Devon unitary: Diseconomies of scale** The IFCs have arbitrarily reduced the	

estimated costs of diseconomies of scale by 50%: saving £6.4million. LGF have gone a stage further and suggested that no diseconomies should be taken into account. There **will** be diseconomies brought about by dissagregation. The Rural Devon unitary will neither benefit from large urban areas where economies can be made nor be able to mitigate in full the costs associated with what will be one of the largest rural areas of any unitary in the country. It is disappointing that an arbitrary decision about the cost of managing services which will need to provide equality of opportunity to service users over a large geographical area has been made at such a remove from those who will have to mange them.	➢ Diseconomies of scale **are** likely to occur in disaggregating services into smaller units. IFCs have not audited figures in any submission, but taken a view by comparing submissions and exercising judgement, reflected in modelling when submissions did not reflect the 'norm'. Lead Officers were required to give limited assurance with regards to figures used. Page 169 of the Compilation of Background Information indicates that working papers were supplied to support the submission. IFC reduction was made in the light of the data provided. It would be unreasonable to entirely disregard the diseconomies of scale submission and modelling reduced the submission by 50%. No further advice from IFCs required.

RESPONSE D15 REVIEW	
Author of response	**Date of response**
D15 Mrs M White	2 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
➢ I work in a large organisation that has bought over 20 companies in 3 years. We are seeing efficiency scaling is not working. There is an optimal size for an organisation to be able to communicate and effectively manage it	➢ Devon County is already communicating with its employees (7.0k) who would make up the bulk of the unitary workforce - unitary county would be 10.7k ➢ Rural Devon would be at 7.7k ➢ Exeter and Exmouth staff numbers are estimated at 3.0k ➢ No further advice from IFCs needed
➢ When scaling an organisation to higher numbers, communicating and managing it requires more resources, which cost.	➢ Change management provisions exist in the submissions
➢ No-one is convinced that efficiency scaling will provide the necessary return in the worst financial crisis since 1929 …by creating a large unwieldy central authority such as Devon or an amalgamation of smaller authorities	➢ The County unitary and the in aggregate two unitary options (where they may have to share savings and balances which we have highlighted as a risk in itself) are likely to meet all the affordability criteria as set down by the Secretary of State
➢ You are proposing spending money we don't have and hence borrowing further	➢ The proposals as modelled do show savings over the transitional period in aggregate
➢ The public's view is that the civil services suffers from similar symptoms to be too large an organisation to be effectively communicated with	➢ No advice from IFCs needed
➢ It would be better to have rural and coastal councils who have similar issues amalgamated so that these issues do not have to be explained to city and large town councils and vice versa	➢ This is an issue for the Committee
➢ Large organisations can allow things to go undetected	➢ The size of the organisation is less of an issue. Appropriate governance arrangements are key. No further

	advice from IFCs needed.
➢ What will happen if local balances are insufficient? Will these monies come from central government at further costs to the tax payer?	➢ No - the Secretary of Sate has made it clear that there will be no central support if this happens. The position will need to be managed by the unitary or unitaries themselves.
➢ Figures in the proposals are now well out of date	➢ We have advised that the Secretary of State should review the latest financial standing of authorities before making her final decision. This is an issue for the Committee.
➢ How do you transfer monies to and from your proposed unitary authorities? How will you guarantee that any monies will be transferred? What powers have you after the event to force monies to be transferred?	➢ We have raised this issue as a risk.
➢ How will you ensure that Council Tax will not increase?	➢ This will have to be managed by the unitary or unitaries themselves but the figures predicate that Council Tax may not increase on average.
➢ Do not see any saving in IT as need to run each existing Council system and the new systems – it costs to merge systems - and many mergers have failed because of these costs (Morrison take over of Safeway's is a case in point)	➢ Both the County unitary and Rural Devon unitary include capital provision for IT, additional staffing and revenue costs, as well as significant savings, which were reduced in financial modelling by 25% - Exeter and Exmouth includes capital provision for IT, and the revenue consequences and no specific IT savings, but substantial savings from efficient working which will be enabled by IT which were equally reduced in financial modelling of risks.
➢ Cornwall's costs are escalating towards £90m	➢ The final figures are not yet known and responses quote a range of figures for this issue but our modelling aimed to test the likelihood that costs may rise whilst savings may fall from original estimates for all submissions
➢ Procurement contracts – extricate yourselves from current contracts – multiple suppliers ensures competition between suppliers	➢ Agreed there are issues which the unitaries will need to address
➢ The figures do not take into account effectively branding the new authorities	➢ There is provision for rebranding in Devon County Unitary's workbook(£0.8m) and in Devon Rural (£0.6m) and in Exeter and Exmouth (£0.2m)
➢ 5 criteria are not met – affordability - full costs are not described	➢ We were satisfied that after modelling the transition plan for the Unitary County was likely to meet the affordability criteria and that - only in aggregate – the two unitary option was also likely to meet the criteria , albeit this could require sharing of savings and balances

➢ Either come up with a proposal that allows the people to engage with local government or tell the Secretary of Sate that the current system isn't broken and doesn't need fixing	which we have highlighted as a risk in itself. ➢ This is an issue for the Committee.

RESPONSE D16 REVIEW

Author of response	Date of response
D16 Mary Tavy Parish Council ***Cllr T. Pearce***	13th May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
➢ This is a re-organisation that most people haven't asked for and don't want.	➢ This is an issue for the Committee.
➢ These proposals are fraught with risk due to inadequate assessments of the real costs.	➢ We considered all submissions and modelled net reductions to reflect our view of inherent risks, approaching 20% for the County Unitary and Exeter and Exmouth – opportunity modelling for Rural Devon offset this reduction
➢ Independent financial reports have qualified their findings in the light of the revised DCLG guidance.	➢ We have raised concerns about the risk of sharing savings and balances
➢ note that there is little explanation on the make up of the £11.2M opportunity efficiency savings which are required	➢ The opportunity modelling which we undertook is fully explained at table 3b page 180 of the Compilation of Detailed Reports 19th November 2009 – though we highlighted the risk that it should not be assumed that such savings can be achieved without a committed sponsor
➢ The absence of an obvious champion for the Rural Unitary seems to be a case of hope over experience	➢ No further advice needed form IFCs
➢ Without a robust business plan, a comprehensive assessment of the need for change or a proper regard to the true costs and benefits of such change	➢ The business plans for all submissions were carefully reviewed and the possible key inherent risks included in our financial modelling
➢ Public finances are now very different to the baseline data that was used	➢ We have advised that the Secretary of State should require up to date statement of Council's financial standing before making final decisions. This is an issue for the Committee.
➢ The Committee is directing the public towards only commenting on the unitary	➢ This is an issue for the Committee

options insisting that it has no locus with regard to the status quo.	
➢ The Court of Appeal judgement made it clear that the comparison with maintaining the status quo was a relevant consideration	➢ This is an issue for the Committee
➢ Unitary Devon will result in a system that is remote from most people, with democracy and public engagement irrevocably damaged.	➢ Devon County and Devon Unitary contain the highest provisions per head for localisation for County or Two Unitary submissions. This is an issue for the Committee.
➢ The ability of ordinary people to influence decision making will be eroded by the worst level of electoral representation in England.	➢ This is an issue for the Committee
➢ High quality services and good overall performance are being put in jeopardy for the achievement of theoretical marginal savings that may never actually be realised.	➢ This is an issue for the Committee
➢ Population figures in the proposals are based on the 2001 Census. This understates Devon's population by 45,000.	➢ Population figures used in the financial workbooks were June 2007 figures
➢ Costs of transition in Cornwall have trebled to more than £60 million.	➢ The final figures are not yet known and responses quote a range of figures for this issue but our modelling aimed to test the likelihood that costs may rise whilst savings may fall from original estimates for all submissions
➢ The consultation process has been flawed and its credibility in the mind of public is irretrievably damaged.	➢ This is an issue for the Committee
➢ These proposals are ill conceived, inadequately justified and will not deliver any tangible benefits to the people of Devon.	➢ This is an issue for the Committee

RESPONSE D17 REVIEW	
Author of response	**Date of response**
D17 Exeter City Council **Chief Executive – Philip Bostock**	4 June 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ Devon are suggesting that LGF have committed "serious errors" in their payback period calculations and have applied wrong methodology.	➢ The payback period is only one of five criteria which make up the total affordability criterion and is included in the risk matrix used by IFCs. The IFCs' calculation of the payback period (after modelling) was for Exeter and Exmouth 1.8 years and for Rural Devon 4.8 years, see pages 163 and 171 respectively of the Compilation of Background Information, November 2008.
o The Boundary Committee's independent financial advisors have already made adjustments to the budget model. It is too simplistic to multiply the ratios in the model by 5 in order to calculate the repayment in years. Other parts of the risk model - such as the annual cash flows – form no part of LGF's stress-testing.	➢ The payback period is only one criteria of the Secretary of State's Affordability criterion. Forecast cash flows will impact on the payback period.
o LGF's "base case" and the case developed by the Boundary Committee's independent financial advisers show that proposals for Exeter & Exmouth, Devon Rural and Combined are capable of paying back within 5 years (i.e. they have a ratio of 1.0 or less). These are the central scenarios that are judged the	➢ The IFCs did not develop a case, they only reviewed data provided to them by lead officers and undertook modelling based on identified possible risks or opportunities that became apparent from their review. In reviewing Pattern B 'in aggregate' they did qualify their assessment for Rural Devon with the words "only likely to be achieved after possible opportunity modelling". This applied

most likely to happen, and they are based on actual budgeted data. In these scenarios, Exeter & Exmouth would repay its transitional costs within roughly 1 1/2 to 2 years; Devon Rural within 5 years; and the Combined proposal within 4 years.	to three criteria: Transitional Plan, Payback and Balances.
o The estimated payback periods now being referred to by Devon County Council are based on some very pessimistic assumptions which LGF only examined in order to stress-test the proposals. These are risks, not real costs. The risks were based on rough-and-ready changes in assumptions to see how the proposals would perform. For the purpose of these tests LGF increased costs by an arbitrary 50% and reduced savings by 50%. These are extreme scenarios and are not based on firm financial plans – but even on these most pessimistic assumptions the aggregated proposals would still pay back in 5 years (a ratio of 1.0	➢ IFCs have read the LGF report and do not necessarily agree with the approach taken. However, stress testing is a reasonable approach in any form of modelling. No further advice from IFCs needed.
o Common sense tells most people that a reduction from nine local authorities to two will create significant efficiencies, save a lot of money and most definitely be viable. The expert financial analysis undertaken both by the Boundary Committee's own consultants and, more recently, by LGF on our behalf clearly demonstrates that that is, in fact, the case. o	➢ Agreed all unitary submissions demonstrated potential efficiencies, and resultant savings. No further advice from IFCs needed.