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

NORFOLK COUNTY – N2

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 N1 REVIEW

Author of response	Date of response
N1 Borough Council of King's Lynn and West Norfolk **Local Government Review – Norfolk Pattern B, February 2009** **Ray Harding – Chief Executive**	25 March 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ **Sensitivity Analysis –** (1) What precisely are each of the 'range of percentages' used where additional expenditure levels may be exceeded and expenditure reductions under achieved? (2) What contingency levels have been assured for the 'interest risks likely to arise'?	➢ (1) Percentages of 10%, 15%, and 20% were applied unless a submission appeared unlikely to meet the affordability criterion at a lower level. ➢ In clarifying e mails this question was altered - "interest" should be "inherent". In our report 17th November we said: 2.1.3.11 We have taken a view on whether or not sufficient financial provision has been made for inherent risks that are likely to arise from reorganisations of the type being considered. We have made broad assessments of what may be reasonable additional provision for such items. In so doing we have assessed the impact on meeting the affordability criterion as determined by the Secretary of State. The levels of risk, arising from each of these considerations is specific to the individual risk being looked at.
➢ **Confirmation of Integrity of figures –** Could you please confirm whether or not Norwich City's consultants have now provided satisfactory	➢ The report by Norwich City's Consultants was supplied to the Boundary Committee on 14 May

confirmation of the integrity of their figures?	2009, and is published on their website. A full review of the report is shown in our Summary report 10th June 2009

RESPONSE N2 REVIEW	
Author of response	**Date of response**
N2 Norfolk County Council **Structural Review in Norfolk** **David White – Chief Executive**	7 April 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ The newly published summaries do not give readers sufficient context to understand that a simple comparison of costs and savings figures between Patterns could be misleading. They appear to show that the two unitary Patterns in Norfolk, Suffolk and Devon will deliver more savings than single County Unitaries. This runs counter to common sense.	➢ Agreed, the Boundary Committee issued further guidance indicating that the synopses were not directly comparable. This is an issue for the Committee.
➢ The figures in the synopsis could be construed as representing estimated or even maximum savings that a unitary Pattern would or could achieve. In fact it is more appropriate to consider them as the minimum savings that each different unitary Pattern must achieve in order to be affordable. This is not made clear in the summaries.	➢ The figures are not necessarily the minimum savings that each different unitary Pattern must achieve.
➢ Higher savings figures in the two-Pattern could be construed as representing better value for money when in fact they mean that unless those high targets are achieved, the Pattern will not be affordable. In the single Unitary, a lower savings figure is actually a positive thing because it means the County Unitary has a very low target to meet in order to be affordable. In reality, when a budget is prepared, it could	➢ The figures should only be construed as an indication as to whether or not a particular Pattern is likely to meet the affordability criterion. The figures should not be used for any other purpose, and do not purport to be the budget for a new authority.

well achieve much higher savings. ➢ The simple comparisons prompted by the summaries are likely to generate misunderstanding. The use of gross savings figures for cumulative savings in the first five years could be interpreted as the two unitary pattern "doughnut" being better value for money than the single unitary whereas the single unitary net savings figure over that period is over £10m more than the "doughnut". In addition there is no mention of risk.	➢ No additional advice from IFC's needed. This is an issue for the Committee.
➢ The summaries implicitly invite to directly compare and rank the proposals based on levels of costs and savings (as modelled), but figures were not derived for that purpose and are not sufficiently standardised to support a ranking exercise. The terms of reference for the financial consultants indicate that the affordability test (to determine the likelihood that a Unitary Pattern would meet the affordability criterion or not). It was not a ranking exercise. Our understanding of the financial consultants' report is that they do not give any opinion or conclusion that one unitary pattern is "more affordable" than another.	➢ Agreed, the intention was only to determine whether or not the submission for a Unitary Pattern was likely to meet the affordability criterion. The only indication of ranking that could be deduced was by "LOW", "MEDIUM" or "HIGH" RISK opinion contained within each report.
➢ Assumptions about inherited base budget levels, Council Tax and population are consistent in the workbooks, but transition costs and savings reflect different assumptions, not only about value but also type. For example, if they can be made, savings on the Norwich Steria contract would clearly be available to the single Unitary County as well as to Unitary Norwich, but they are not reflected in the Unitary County workbook.	➢ No additional advice from IFCs needed
➢ The financial consultants' modelling approach does not involve validation of the costs and savings figures initially provided by various lead authorities. This means that that where initial estimates of savings	➢ Agreed that the approach used was a threshold approach, although risk assessments were influenced by the use of comparative data obtained

and costs are very high they remain high even after modelling. The items selected for modelling are linked to perceived risk and as the risks in the various patterns are different there is a differential effect, meaning that savings and costs have been amended but not standardised across the board. This is an entirely satisfactory way of conducting a threshold test, but does not create figures that are suitable for direct comparison or a simplistic ranking exercise. ➢ It is not possible to compare savings and costs as derived in a meaningful way without reference to the risks attaching to achieving them. We take the view that: • The Unitary County is easily affordable, as it requires relatively low net savings per head of population. There is a low risk that this Unitary would not be affordable. It was not necessary to make less prudent assumptions in order to establish the case. It is so affordable that it can absorb high variations in these assumptions and remain a low risk proposal with realistic prospects of delivering more savings than are included in the proposal. • Pattern B is not readily affordable, as it requires 95% more net savings per head of population than the single unitary county option. There is a high risk that this Pattern would not be affordable. It was necessary to make less prudent and higher risk assumptions in order to make the case. • Assumptions about the availability of particular costs and savings are not consistent between the Patterns (although clearly certain items of spend or saving could in fact be exactly the same in both, e.g. Steria savings) • Proposed savings and costs should be compared in terms of the risk of deliverability as well as cash value. • The savings in the synopsis	from all submissions. ➢ No additional advice from IFCs needed

	would be more fairly presented as the minimum levels that must be achieved to ensure affordability, rather than as the best estimates of the maximums that could be achieved.	

RESPONSE N3 REVIEW

Author of response	Date of response
N3 Kings Lynn and West Norfolk Council **Ray Harding – Chief Executive**	14 April 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ Notes that Boundary Committee has published synopsis of the assessment of affordability for both the County Unitary and the Greater Norwich and Rural Norfolk Unitaries. Informs that an independent consultant is to be commissioned and unlikely that a response will be available for 14 May deadline, and asks for date of Boundary Committee meeting.	➢ No advice from IFC's required
➢ Why is there no reference in the Boundary Consultees' assessment of the level of risk associated with the Greater Norwich/Rural Norfolk proposal highlighted in both the reports of the IFC and the Peer Reviewer?	➢ This is an issue for the Committee
➢ Why is there no reference to the significant gaps in the back up evidence supporting the new submissions presented by Norwich highlighted by the Peer Reviewer?	➢ This is an issue for the Committee
➢ How have the Boundary Committee dealt with the fact that the IFCs have "tried" to work around these gaps and how precisely has the Boundary Committee dealt with the IFCs concerns on each of these elements?	➢ This is an issue for the Committee
➢ How have the Boundary Committee assessed the risks related to the lack of sponsor for the Norfolk remainder element?	➢ This is an issue for the Committee

RESPONSE N4 REVIEW	
Author of response	**Date of response**
N4 Borough of Kings Lynn and West Norfolk **Ray Harding - Chief Executive**	29 April 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ Follow-up to request for information about questions raised about the methodology used by the Boundary Committee and its consultants on how matters raised have been treated by either or both	➢ This is an issue for the Committee

RESPONSE N5 REVIEW	
Author of response	**Date of response**
N5 Norwich City Council **Chief Executive – Laura McGillivray**	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	
➢ Primarily a covering letter enclosing Main Response Document, Report by Deloitte's on the Council's Unitary Authority Financial Case, and revised Rural Norfolk workbook.	➢ Receipt was acknowledged by IFC's on 15 May 2009.and initial clarification questions raised
➢ Both parts of Pattern B comfortably meet the initial four Government criteria – broad cross section of support, strong leadership, empowerment of citizens and communities, and value for money	➢ This is an issue for the Committee.
➢ On the affordability criterion:	
o The proposed greater Norwich unitary, on its own, meets all five parts of the IFC's affordability tests	➢ Refer to IFC Report "Detailed Report for Norfolk Pattern B – Greater Norwich Unitary Submission" New Submission February 2009
o The proposed rural Norfolk unitary, on its own, with some amendments to reflect where Deloitte have highlighted that costs do not benchmark with other cases, meets four of the IFC's affordability tests, but marginally fails the "levels of reserves" test. We do not believe this to be a significant risk given the minimal impact compared to the large scale of the new council's budget, and will	➢ Questions were raised by the IFCs on 16 May 2009, updated on 18 May 2009, with further queries on 24 and 26 May 2009 ➢ The 'some amendments' total £9m over the transitional period, reducing the net transitional plan as submitted to £23m – a reduction of 28% of the figure before these reductions ➢ The revised workbook and supporting evidence has been reviewed by the IFCs in the same manner as previous submissions and a further report presented to the Boundary Committee on 10 June 2009 ➢ The minimum balances needed for the Rural Norfolk unitary are £14.9m, but the

be easily addressed by the pooling arrangements envisaged under the statutory "in aggregate" approach	figures as submitted show balances of only • year 1 - £9.3m • year 2 – £7.3m • year 3 – £13.6m ➢ Without the 'in aggregate' approach, and scored alone, the revised submission for Rural Norfolk would therefore be unlikely to meet the affordability criterion with regard to balances.
o As per the statutory guidance, the proposed Pattern B "in aggregate" meets all the affordability tests	➢ The comment disregards the modelling which we undertook and published, and which they have accepted for both the Norwich and the Rural Norfolk submissions in the light of the Deloitte report, with the exception of pay harmonisation and additional staffing levels. This is dealt with in detail in our report 10 June 2009
o Norwich City Council's financial track record and performance has now improved significantly, and cannot be considered to represent any risk to the implementation process.	➢ We have not considered this issue
➢ In conclusion we believe that the Pattern B "doughnut" model for Norfolk meets the five Government criteria, and should therefore be recommended to the Secretary of State for formal consideration. We would be happy to answer any further queries, or help you further with your deliberations.	➢ Further comments from IFCs are shown in our report 10 June 2009. Further queries were sent on 15, 16, 22, 26 May 2009, - 15 in all. These and the Norwich responses are contained as Background Financial Information annexed to our 10 June 2009 report.

RESPONSE N6 REVIEW	
Author of response	**Date of response**
N6 Norwich City Council – Main Response Chief Executive	15 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ Overview of the Boundary Committee and Independent Financial Consultant's opinion on affordability	➢ The response is accompanied by revised workbook for Norfolk Rural and report from Deloitte. Both are part of the IFC further review and full responses are contained in the analysis shown in the IFCs' report to the Boundary Committee on 10 June 2009.
➢ Summary of findings from an independently commissioned risk review	➢ The risk review has been reviewed by IFCs with above, a full analysis and comparison with our own modelling is included in our report 10 June 2009
➢ An overview of the rationale behind the changes that Norwich have made to the Norfolk Rural financial submission ➢ Other considerations on affordability and sustainability ➢ Comment on revised affordability of Pattern B Case	➢ IFCs have reviewed this and have commented in the 10t June report
➢ Supporting information and opinion for the Norfolk Pattern B submissions.	➢ No advice from IFCs needed

RESPONSE N7 REVIEW

Author of response	Date of response
N7 Norwich City - Deloitte	15 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ Executive summary provides overview of work undertaken and key findings and potential risks:	➢ No advice from IFCs needed
➢ Indicates that the Council has employed a reasonable approach based on appropriate source documentation and enquiry	➢ No advice from IFCs needed
➢ Indicates that they have not assessed the reasonableness of the methodology used to determine the amounts included in the Norfolk Remainder workbook.	➢ A full analysis of the summary of the Deloitte review, highlighting its substantial caveats, comparing it with the Norwich presentation of the outcome, and the modelling we have undertaken arising from our own review is contained in our report 10 June 2009
➢ Undertook benchmarking analysis for the data included in both the Greater Norwich and Norfolk Remainder workbooks, and any risks and issues identified from that analysis.	➢ Much of the benchmarking outcome is consistent with information supplied by other external consultants to Norfolk County Council in support of the submissions of July 2008. ➢ The changes to the Rural Norfolk figures contained in the submission relating to pay harmonisation and additional staff are not in themselves derived from the benchmarking. No properly costed statement to support these changes has been provided.
➢ Risk analysis included.	➢ Noted, IFCs have commented on this in their report to the Boundary Committee on 10 June 2009

➢ The Deloitte annex highlights and caveats any assurance given, and in respect of Steria says: "On the basis of our enquiry, the process used in the calculation of the Greater Norwich Steria cost saving is based on **management judgement in the absence of further information**. **We have therefore identified a risk in Section 3 in respect of this gross reduction".**	➢ In seeking clarification to the February 2009 submission for Greater, the IFCs asked Norwich the following question: "Could you let us know who provided the advice, bearing in mind that in your response to the Boundary Committee in January 2009 (8g) you included the full cost of the contract Novation which you calculated at £12.3m plus £2.3m interest" The response from Norwich was as follows: "The advice has been provided by Deloitte, who have considerable experience in contract novations and negotiations of this type." When asked for a copy of this advice, Norwich's response was that there was no written advice.
➢ The report raises a number of issues with regards to gross additional expenditure and gross reductions.	➢ IFCs requests for information 01, 02, and 03 and Norwich's replies are contained in the Background information to the 10 June 2009 report...

RESPONSE N8 REVIEW	
Author of response	**Date of response**
N8 Norwich City **Revised workbook for Rural Norfolk**	15 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ Revised workbook in respect of Norfolk Rural	➢ IFCs sent formal acknowledgement on 15 May 2009, and further queries were sent on 15, 16, 22, 26 May 2009 - 15 in all. These and the Norwich responses are contained as Background Financial Information relating to our 10t June 2009 report. ➢ A full analysis of the outcome of our review is contained within our 10 June 2009 report.

RESPONSE N9 REVIEW	
Author of response	**Date of response**
N9 South Norfolk Council **Leader of the Council, John Fuller and Chief Executive, Sandra Dinneen**	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	
➢ There should be no change to the local government structure in Norfolk	➢ This is an issue for the Committee
➢ Norwich City Council the only supporter of Unitary local government in the County. Notes weak position of Norwich City in financial and reputational terms.	➢ This is an issue for the Committee
➢ Stresses high reputation of Norfolk County and South Norfolk Council	➢ No advice from IFCs needed
➢ Lack of support for Unitary patterns across the County	➢ This is an issue for the Committee
➢ Base financial data used is now out of date and IFC's have indicated unacceptable risks with the Pattern. Notes apparent deterioration of financial balances across Norfolk authorities.	➢ The IFCs report dated 12 March 2009 provides a view of potential risks and recommends that the Secretary of State seeks assurance about the financial position of constituent authorities before making a final decision on implementation. This is an issue for the Committee.
➢ Notes intention to join other District Councils in the County to commission consultants to carry out due diligence review.	➢ No advice from IFCs needed

RESPONSE N10 REVIEW	
Author of response	**Date of response**
N10 Broadland District Council **Leader of Council – Simon Woodbridge** **Leader of Liberal Democrat Group – James Joyce** **Leader of Independent Group**	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	
➢ Supportive of Lowestoft remaining in Suffolk	➢ This is an issue for the Committee
➢ The option of Status Quo needs to be put to Secretary of State	➢ This is an issue for the Committee
➢ Reservations about the "in aggregate" approach to affordability and lack of sponsor for Rural Norfolk	➢ The view is consistent with IFCs report. No further advice from IFCs needed
➢ Reviewed financial data and note comments made in IFC's report regarding risks	➢ No further advice from IFCs needed
➢ Decline in global economy and financial position compared with Base figures used in submissions	➢ We have already recommended that the Secretary of State should review current state of finances of constituent authorities prior to making any decision on submissions. This is an issue for the Committee.
o Concerns with regards to the robustness of the revised figures used in the revised submission from Norwich City and commitment to its revised proposals in respect of shared services between Greater Norwich and Rural Norfolk Unitaries.	➢ No further advice from IFCs needed.
o Concerns that Unitary Council would because of deteriorating economic situation would be compelled to centralise budgets	o No advice needed from IFCs

	and raise Council Taxes in order to recover Transitional Costs		
o	General concerns about the lack of support for other than Status Quo, and intention for Norfolk Districts to commission due diligence exercise based on current financial data.	o	This is an issue for the Committee
o			

RESPONSE N11 REVIEW	
Author of response	**Date of response**
N11 Great Yarmouth Council **Leader of the Council – Barry G Coleman**	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	
➢ Support no change in the pattern of local government in Norfolk.	➢ This is an issue for the Committee
➢ Critical of Boundary Committee conduct of review	➢ This is an issue for the Committee
➢ Secretary of State's guidance and possible effect that it may have had if issued earlier	➢ This is an issue for the Committee.
➢ Opposed to Rural Norfolk option	➢ This is an issue for the Committee

RESPONSE N12 REVIEW	
Author of response	**Date of response**
N12 Leaders Joint **King's Lynn & West Norfolk, Breckland, Broadland, North Norfolk, South Norfolk**	15 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ Confirmation that the Councils have retained consultants to undertake independent financial review which they expect to make available to the Boundary Committee by shortly after 22 May 2009.	➢ No advice from IFCs needed
➢ Date that Norwich City's further financial information would be available?	➢ Further financial information received from Norwich on 15 May 2009.
➢ Deeply unhappy about conduct of review and indigestible presentation of financial information.	➢ The financial information provided by the IFCs was intended to demonstrate whether or not a submission was likely to meet the Affordability Criterion. It was not intended for the purpose of making direct comparisons of relative affordability between submissions. This is an issue for the Committee.
➢ Assertion that neither proposal is acceptable and that Boundary Committee should make no recommendation for change of local authority structure in Norfolk.	➢ This is an issue for the Committee

RESPONSE N13 REVIEW	
Author of response	**Date of response**
N13 Norfolk County Council	15 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ Overview of the case supporting single Norfolk Unitary option.	➢ No advice from IFCs required
➢ Expresses concerns and reservations about "in aggregate" assessment of affordability.	➢ No further advice or comment from IFCs required. This is an issue for the Committee.
➢ Affordability, risk and efficiency of the Greater Norwich/Norfolk Rural; underestimation of the costs of change in years 1 to 4 by £13.029m; and annual costs thereafter; over-estimated savings; provided for levels of reserves that are too low; assumed re-negotiation of 15 year PFI with minimum financial penalty; over relied on two authorities of different persuasions reaching immediate agreement on shared services; provides for no margin for over runs or delays.	➢ IFCs undertook and reported the impact of these issues in its reports of 12 March 2009. No further advice from the IFCs is required
➢ Lack of sponsor for Norfolk Rural increasing risks.	➢ IFCs have noted and attempted to model some opportunities that might have been realised if the Norfolk Rural pattern was sponsored or championed. No further advice from the IFCs is required.
➢ Prospects threatened by deteriorating global economy.	➢ This is an issue for the Committee. needed
➢ Notes the Committee's reservations about recommending the establishment of a pattern of unitary local government in which one of the authorities is	➢ No advice from IFCs needed.

not likely to be affordable. ➢ Quotes risks and reservations expressed in IFCs' reports of 12 March 2009 and the subsequent report of the Peer Reviewer.	➢ Generally supportive of the conclusions and content of IFCs' reports of 12 March 2009. No further advice or comment from IFCs required

RESPONSE N14 REVIEW

Author of response	Date of response
N14 North Norfolk District Council **Leader of the Council – Councillor Virginia Gay** **Leader of the Conservative Party – Councillor Angie Tillett**	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	
➢ Concerns about the review process	➢ This is an issue for the Committee
➢ The risk that high start up costs will not be recovered	➢ The affordability criterion requires that start-up costs are recovered within 5 years. Financial modelling of submissions tests the likelihood of this being achieved. No further advice required from IFCs
➢ The risk that major IT changes will over-run in cost and time	➢ IFCs have sought to assess these risks by modelling and comparing assumptions in different submissions. No further advice from IFCs.
➢ "In aggregate" assessment of affordability.	➢ No further advice from IFCs needed
➢ Further permutations of the financial model for the "doughnut" option to be received after 14 May 2009 means that the financial modelling upon which the affordability data relies is incomplete.	➢ No advice from IFCs needed
➢ Support for two tier system of local government	➢ This is an issue for the Committee
➢ Out of date base data used for affordability modelling	➢ The IFCs, in the report of 12 March 2009, recommended that "the Secretary of State seeks assurance about the financial position of authorities". No further advice from IFCs needed. This is an issue for the Committee.

➢ Synopsis and comparison of Single Unitary and Two Unitary savings of Corporate and Democratic costs	➢ The process undertaken for affordability was to test whether or not submissions were likely to meet the affordability criterion. It is not appropriate to assume that figures are directly comparable. No further advice from IFCs required. This is an issue for the Committee
➢ Extract of observations and conclusions of IFCs from reports of 12 March 2009.	➢ No further advice from IFCs required

RESPONSE N15 REVIEW	
Author of response	**Date of response**
N15 Joint **Chief Executives:** **Kings Lynn & West Norfolk BC,** **Breckland DC,** **Broadland DC,** **North Norfolk DC,** **South Norfolk DC**	28 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 lack of a sponsor and a business model for the Rural Norfolk council within the doughnut option 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.	➢ The IFCs, in their reports of 19 November 2008, expressed reservations about a number of submissions that were led by Counties because there was no obvious sponsor or champion for a particular pattern. The effect of this was that the submissions were primarily a 'disaggregation' of the financial plan for Unitary County submissions. IFCs did some opportunity modelling to compensate for this, but nevertheless concluded in their report on the new Norfolk Pattern B submissions 12 March 2009: "….. it should not be assumed that the model applied is sustainable, without further detailed work, and especially without a sponsor." No further advice from IFCs needed.
• The cost of securing a 'greater Norwich' is to the detriment of the rural communities, under any of the financial analyses	➢ This is an issue for the Committee
• It is an obvious concern that there is no champion for this model, because there is no basis of active support for this – in contrast to a 2-tier arrangement	➢ This is an issue for the Committee

➢ The multiplicity of financial models and analysis provides no clear case for affordability or sustainability of any of the models – indeed the data is unreliable and different modelling has rendered the various exercises non-comparable and undermined any attempts at consultation. We believe the Boundary Committee should have drawn the attention of the general public to: • The risks assessed by their independent consultants • The fact that the summary financial data for each option published on the website are non-comparable • The fact that a significant proportion of the savings can be achieved without setting up new unitary councils.	➢ This is an issue for the Committee
➢ Fundamentally, the financial workbooks provided by the proponents of each option • assume proposed savings, which might be overstated, will be delivered • assume proposals to share "back-office" services can be delivered • assume a significant PFI contract can be renegotiated within the finances set out • assume services will not be disrupted and does not allow for the cost of this • assume the proposed Rural Norfolk council can be delivered in practice • assume front line council services will not be affected by further delays in setting up any new unitary councils • assume transfers of significant amounts of savings and balances between new councils can be guaranteed	➢ The IFCs did recognise potential and undertake modelling as reported in the reports "Detailed Report for Norfolk Pattern B – Greater Norwich Unitary Submission Paragraph 7, and the Detailed Report for Norwich Pattern B Remainder Paragraph 3 (New Submission February 2009) 12 March 2009. No further advice from IFCs needed.
➢ ***Affordability*** How comfortable are you recommending a two-unitary solution in which one council is dependant on the other for its financial solvency, and what	

evidence do you have that this arrangement will enable the residual council to deliver against the other four criteria? In particular, we would assume you have seen and considered evidence that consciously creating this dependency does not emasculate the rural authority and its leadership from exercising any real strategic leadership or from delivering quality, value for money services? ➢ **The response attaches a report produced by an independent consultant engaged through Solace. The report should be read in conjunction with this IFC advice on affordability issues raised. Below is a number of key points extracted from that report:** ➢ **NORFOLK LGR - SUMMARY OF BASE FINANCES FROM PROPOSALS AS REMODELLED BY INDEPENDENT FINANCIAL CONSULTANTS (Appendix 1(a))** ➢ **NORFOLK LGR - SUMMARY OF BASE FINANCES AS PROPOSED AS REMODELLED BY INDEPENDENT FINANCIAL CONSULTANTS AND WITH RE-SUBMISSION MAY 2009 RE RURAL NORFOLK (Appendix 1(b))** ➢ **NORFOLK LGR - SAVINGS DETAIL FROM PROPOSALS AS REMODELLED BY IFCs (Appendix 2)** ➢ **NORFOLK LGR - UNALLOCATED BALANCES (Appendix 3)** ➢ **NORFOLK LGR - UNIDENTIFIED SAVINGS/EFFICIENCIES (Appendix 4)** ➢ IFC COMMENTS ON NON-QUANTIFIABLE RISKS Extracts from the IFCs' detailed report, March 2009 (Appendix 5) ➢	➢ The report is generally supportive of the IFCs work and conclusions though seems to miss the point that the process we followed assessed whether or not the figures as modelled were likely to meet the criteria – having met that threshold there was no need for us to model further changes.

The following is extracted from Pages 50 – 52 of this response. Footnotes have been inserted for the purpose recording IFCs responses and follow at the end of each page.

Single County Unitary		'Doughnut'	Status Quo [1]
Affordability	• A separate response has been prepared on the affordability of the Boundary Committee's Draft Proposals. This was required as the financial work book data does not constitute a coherent or adequate exposition of the affordability of the models. The Independent Financial Consultants report whilst helpful in addressing issues of risk, is of itself complex and does not address the Boundary Committee's own responsibility to proposals address and explain issues of affordability.[2] We have serious concerns concerning the adequacy of the Boundary Committee's own published 'synopsis' of affordability which is wholly inadequate in terms of explanation and level of detail for the purpose[3]. Furthermore, there is no excuse whatsoever, given the additional time made available by the Secretary of State for the models to be	• The publication of further substantive alterations by Norwich City Council to the financial data on the closing date for the submission of responses to the Consultation exercise has rendered it impossible to prepare a well researched response to either affordability or value for money of this model. Notwithstanding this, in addition to the concerns raised in relation to the Single County Unitary there is no rational or credible explanation of the Boundary Committee's assessment that the savings for Corporate and Democratic costs (primarily staff savings) are greater for the two unitary model (£52.7m) than for the Single County Unitary (£39.3m). This is counter intuitive and frankly not plausible[5]. •Furthermore, there is no reference in the	**This model is eminently affordable, it is tried and tested, requires no multimillion pound investment of start up capital and delivers efficient, cost effective, quality services tailored to local needs and requirements throughout Norfolk.** • There are no transition costs associated with the retention of the two tier system and funds earmarked or such expenditure can be better directed towards tackling the impact of the recession and/or improving local services. • Council tax levels for district services in Norfolk outside of Norwich City are generally significantly below the average for all districts.

[1] The base information used in the workbooks was confirmed by Sec 151 officers of constituent authorities as being correct. Any cost reductions or increases calculated by Lead Officers were projected from that base data, and supported by extensive working papers for the submissions received in July 2008. The premise of the statements, in this column, is that "Status Quo" is already affordable, however they do not reflect the affordability criterion determined by the Secretary of State in her request to undertake the review.

[2] The role of the IFCs was to: "Assess the workbooks completed by local authorities and provide the Boundary Committee with a written analysis of the information received and a view on **the likelihood of each of the patterns identified meeting the affordability criterion** as set out in the Secretary of State's advice." The outcome of the IFCs work was to advise only whether or not the affordability threshold was likely to be met.

[3] The modelled figures arising from the IFCs reports were not comparable, the only ranking undertaken was Low, Medium, High Risk

built onto a 2007/8 financial base line when post credit crunch figures and budgets were readily available for 2008/9 (baseline) and 2009/10 onwards (budgets). The financial world in which local government operates has changed so greatly and income has fallen subsequently. To be using pre-recession data for this exercise is inexcusable[4].

Boundary Committee's assessment, of the high levels of risk associated with the Greater Norwich/Rural Norfolk proposal which are highlighted prominently in the reports of both the Independent Financial Consultants and the Peer Review. There is also no explanation as to how the Boundary Committee have dealt with the fact that the independent financial consultants have 'tried to work around these gaps'[6]. Finally there is no explanation as to how the Boundary Committee have assessed the risks related to lack of sponsor for the Rural Norfolk Authority. It is clear that the Boundary Committee have over simplified their financial assessment and in so doing have ignored substantial areas of concern, risk and weakness in the proposals. Given that the Greater Norwich/Rural Norfolk two unitary model is considered to be high risk and the single county unitary is considered to be low risk it is remarkable that the Boundary Committee is expressing no preference between the two[7].

• The Rural Norfolk model has no sponsor and should not be assumed to be sustainable. (Source: Boundary

- Services costs in two-tier Norfolk are on a par with or substantially below the average costs for similar services provided by unitary authorities with similar geographical and population characteristics.

- Norfolk authorities are working positively and constructively towards the creation of additional shared services arrangements across and between the two tiers, building on the successful arrangements which are already in place, despite the distraction of the local government review process.

- The Norfolk Councils are committed to work more closely together whilst preserving local distinctiveness and choice.

- There will be no disruption or dislocation of services in retaining and improving the two tier system.

- Norfolk Councils have an excellent record of achieving efficiency/Gershon savings and are committed to meeting new, higher government targets.

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[4] The 2007/08 financial baseline was used at the commencement of the affordability review which commenced at April 2008, and IFCs in their report to the Boundary Committee dated 12 March 2009 recommended "that if the Boundary Committee is minded to recommend either of the patterns that the Secetary of State seeks assurance about the financial position of the authorities at that time."
[5] See footnote 2 above. No further advice from IFCs needed.
[6] Extracted from conclusions of IFCs report of 12 March 2009. No further advice from IFCs needed
[7] No advice from IFCs needed.
[8] The eight paragraphs that follow are extracts from the IFCs reports of 12 March 2009.

Committee's Independent Financial Consultants)[8].

• The figures are optimistic both in timing and in saving levels and are based on a business plan which would require a high level of cooperation and consultation for which there is no evidence forthcoming.

• There may be more risks in the new (shared services) approach put forward by Norwich City and 'we find it hard to see how prudential levels of balances should be reduced at such a time of potential uncertainty'

• New submissions (from Norwich city) have been constructed and developed within a short timescale utilizing a 'very recently developed outline business case, overtly developed to meet the Secretary of States (December 2008) guidance.

• The shared services costs are based upon an apportionment of costs and savings developed by Norfolk County Council for the single county unitary model and then applied to an entirely different model consisting of two separate Councils.

• The Donut proposal included an allowance for the reduction of their existing Steria contract (annual value £8m) which runs to 2017 (down to £3m) per annum of just £2.8m

- There is no risk associated with the retention of the two tier system.

- **The retention of the two tier system does not require an investment of between £42m and £64m therefore the payback period is instantaneous.**

- The ‘in aggregate’ approach requires transfers of savings of unallocated balances and savings from Greater Norwich to Rural Norfolk... This would mean that savings achieved by Norwich by finding efficiency savings, which are likely to involve staff reductions, are expected to be handed over to another Council run by a completely different administration. The financial consultants, not surprisingly, consider that such an approach is likely to increase the levels of risk involved in a major administrative reorganisation.

- The consultants ‘strongly point out’ that the lack of a committed champion for the Rural Norfolk authority brings with it its own risk in view of the difficulty of the unitary process’. They consider that it ‘should not be assumed that the submission meet the affordability criteria without further work led by a committed champion for the area’.

- **All of these issues point clearly to the rushed timescales faced by all concerned and highlight fundamental and potentially serious weaknesses with the two unitary model promoted by Norwich City Council in particular.**

RESPONSE N16 REVIEW	
Author of response	**Date of response**
N16 Norwich City Council **Paul Spencer - Director of Development**	29th May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised	
➢ We have been surprised at the level of detailed information and analysis that you have asked for, both simply because	➢ The questions that have been asked for this Revised May 09 submission – the second time that Norwich have been lead officer for Two Unitary Norfolk submissions – concentrated specifically on the changes that Norwich have put forward and asked for justification for them, and for evidence of statements made by Norwich about the provision of advice to them. This is consistent with the approach used by IFCs for all submissions, revised and originals. This is done to assist with understanding of the revised submission.
➢ it would be impossible to produce all of this in the limited time available, and	➢ Norwich have been working on these submissions since at least December 2008 when they notified the Boundary Committee that they would be making a new submission. It is not understood why there is therefore limited time available in responding to such questions
➢ also because checking back to the last round of IFC analysis none of the other submissions has been subject to this level of analysis, or expectation of detailed information. ➢ The response period has also coincided with half term/bank	➢ This is not accepted at all – in reviewing the original submissions we received 400 detailed documents and asked 200 detailed questions – in this particular instance the initial lead officer - Norfolk – for this

holiday, when key people have been on leave. Nevertheless, we have done our best to answer your questions. ➢ In passing we have obviously also seen the County Council's response to our response to the first set of questions. ➢ I note that Norfolk County have responded after the very tight deadline that we were given - I am not sure why we seem to be working to different deadlines/timescales ➢ Most of the County Council response seems to be simply opinion - we have checked our figures and we have a different opinion (which has been confirmed by Deloitte). ➢ There has been no time for consultation, although we have sent copies of all our information to Norfolk CC. Furthermore, Deloitte have now met with the County Council, where we understand that no significant issues were raised ➢ I must challenge the outrageous comment at Question 5(b) that we "did not ask to see a copy" (of the Hay report) - how can we ask to see something that we did not even know existed? Given that the report appears to have been available since October 2008,	submission supplied detailed calculations for both pay harmonisation and additional staffing when requested – Norwich have supplied neither ➢ Norwich are the lead officer - questions asked of them and their replies need to be available before other interested parties can review and comment on them ➢ The deadline is set by the Boundary Committee in order for them to meet the timetable set down by the Secretary of Sate and should come as no surprise. ➢ The Deloitte report does not in itself provide assurance for any of the figures which have been adjusted by Norwich, since it is a benchmarking report only, with substantial caveats ➢ If this comment relates to the provision for PFI contract commutation or renegotiation, then we have asked for but not received any confirmation that the figure has been confirmed by Deloitte ➢ It is difficult to believe that no significant issues were discussed at this meeting – the issues are well known, and included wide divergence on the levels of financial provision and the legal aspect of contract commutation and renegotiation- it is unfortunate that we have not seen minutes of the meeting, but Norfolk have indicated that they do not share the view that no significant issues were discussed. ➢ We asked Norfolk for the justification of the pay harmonisation figure in Request for Information 01 in September and this was provided in October 2008. We would expect that an authority assuming the lead officer role would ask the original lead officer how the figure for such a provision was

this seems like a rather large oversight to not share it with us until 20 May 2009!	arrived at – certainly before putting a figure in the March submission then changing it by £5m in the May submission. Norfolk have said that they thought the data was available as it had been provided through the process.
➢ On 6(d) our point is that Norfolk CC already use a substantial management sub-structure to deliver these services (eg 5 children's areas and 6 adult services areas, each with their own Area Directors and management teams), so we do not believe that lots of extra management staff would be needed for a rural Norfolk unitary. It would simply be a case of disaggregating and redistributing what is already there	➢ It would have been helpful to see an organisation statement which showed the effect of this. ➢ We asked Norwich to provide a properly costed statement to support their reduction of the additional staffing provision and this has not been forthcoming
➢ Finally, in section 7 we are pleased to note that the County Council agree that in aggregate our adjustments "appear to maintain sufficient minimum reserves". We accept that there are risks with estimates - but then similar risks would apply to all other models both in other counties, and including the single Norfolk County unitary. The advantage of the Pattern B model is that allows for the 2 new unitary councils to be designed alongside each other, and issues such as reserves/balances etc can then be worked through collaboratively and be balanced out through the "in aggregate" approach.	➢ No further advice needed from the IFCs – risk analysis has been specifically undertaken in relation to each issue within each submission. ➢ We have highlighted the problems with such collaborative working, which seems not to be in place at the moment, and without a champion for Norfolk Rural there is no certainty that the two authorities will be able to work alongside one another.

RESPONSE N17 REVIEW	
Author of response	**Date of response**
N17 Paul Hewett	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	
Draft proposals – March 2009	
Para 1.30. There is an important issue here – you say representations do not make a comparison of the merits of the existing system over unitary local government, and yet people have not been able to compare the two – unitary vs two tier – to make that comparison in an informed choice**. In fact, you state in your web site that financial models which underpin the two unitary frameworks are incomparable.** How on earth can people make an informed choice?	➢ The role of the IFCs was to advise the Boundary Committee whether or not a submission met a threshold that indicated that it was likely to achieve the affordability criterion. The only ranking indicated was Low, Medium or High risk. The financial data, after modelling, was not therefore comparable between submissions or Patterns.
Para 1.31. Again, how can anyone comment in a meaningful way on something new if they cannot compare with the status quo? And how can you offer meaningful advice, irrespective of your terms of reference, that, for example, "A is better than B" when you do not have a frame of reference for either A or B. Or where the financial models for A and B are incomparable (as you state).	➢ The base financial data was derived from published data of all the authorities that make up the 'status quo', so savings identified in new submissions in principal are savings compared with the 'status quo' at a point in time. IFCs were not asked to review the status quo. No further advice from IFCs needed.
Para 2.4. You say that 1600 responses were received from residents. What were their responses, please? You say in para	➢ This is an issue for the Committee

2.9 that "most residents" preferred a single unitary approach. I understand this was a small handful of replies, with the majority of responses preferring no change. Could you confirm this, please?	
Para 2.23. If you are not allowed to listen to a majority view ("volume of representations"), how do you know if you have a representative view of residents? Certainly, none of the residents from my village, nor the Parish Council, have been "engaged" by yourselves.	➢ This is an issue for the Committee
Para 2.33. This appears to be an abdication of one of your five criteria. Please explain. Similarly, para 2.47 also seems to down play the requirement for value for money.	➢ This is an issue for the Committee
Para 2.50. There is much importance over the financial models used to assess the costs and viability of the unitary proposals which will need to be seen as sound and realistic. From para 2.55 I note the independent consultant reports are available on your web site and I have examined them. The content of the reports is in no way accessible by average members of the public, and the underlying financial models are incomparable (as you yourselves state). This makes a mockery of any practical assessment of comparable affordability.	➢ 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. ➢ Although there was a great deal of detailed consideration and data, the outcome of the review of each submission was shown clearly in the summary of the 19th November 2009 report. (*Summary report of the Independent Financial Consultants 19th November 2009 para 1.2.2 page 2*) This indicated clearly whether, for each individual criteria, the relevant submission was likely or not likely to meet each of the 5 criteria set down by the Secretary of State, by the threshold test we clearly set out in that report. ➢ It was not therefore necessary to compare the financial data, after modelling, between submissions or Patterns and no part of our work aimed to do so.
Affordability report Pattern B –	

February 2009 new submission Paras 1.3.1 – 1.3.3. Even with "optimistic figures" the doughnut is a high risk approach which fails to pay for revenue transition costs out of revenue savings or revenue reserves. But those criteria which might possibly be met can only be done so by fanciful and "highly optimistic" (para 3.1.4.1) means:	➢ This is précised from the Summary Report of 12 March 2009. The accompanying detailed report said: "…, in the light of this and the supporting information provided is optimistic, in assuming that two new unitary authorities might share equally both the will and direction to initiate a shared service arrangement that would deliver the levels of savings indicated in the timescales presumed against a business plan of only one of the 'partners'." No further advice from IFCs needed.
Para 3.1.1.1 – I understand the "new" "cost savings" of £18.1m are, in part, a result of a freeze in IT spending for 10 years. Is this right?	➢ The conclusion drawn is not correct. The submission assumes a change in the way that IT services are delivered, moving from an existing contracted service currently in place in Norwich City to a shared service arrangement between the proposed Greater Norwich Unitary and the Rural Norfolk Unitary, and further changes to business processes. No further advice from IFCs needed.
Para 3.1.2 – I understand that Council Tax will rise as a result – is this right?	➢ The assumed levels of Council Tax would be higher than those proposed in the previous submissions made in September 2008. They would, however, be less than the average of all existing constituent authorities. No further advice from IFCs needed.
Paras 3.1.3 – 3.1.5 I understand that risk will increase in the new unitary – is this right?	➢ The risk matrix used by the IFCs indicated that in the terms of affordability as defined by the Secretary of State using the 'in aggregate' analysis Method B that the Greater Norwich Unitary would be Medium Risk and the Norfolk Rural Unitary would be High Risk. (Report New submission 12th March 2009 page 4) It is not correct to assume that risks are necessarily different from those currently borne by existing authorities. No further advice from IFCs needed.
Para 3.1.7 – I understand parties are aiming for different implementation dates – is this right?	➢ All submissions were made on the assumption of an implementation date of 1 April 2010. Norwich City in its new submission indicates that it assumes an implementation date of 1 April 2011. No further advice from

	IFCs needed. This is an issue for the Committee
Para 3.2.4 – I understand that the integrity of Norwich's figures has not been confirmed, and that financial information is optimistic (para 3.2.7), even though Norwich "completely stand by" them (letter dated 9 January). Is this right? What is the true position?	➢ The comment that Norwich 'completely stand by' their figures was made in respect of the first submission for Greater Norwich in September 08. Later submissions completely changed the basis of the submission. ➢ No assurance had been received from Norwich City's advisors at 10 March 2009, although it had been promised, with regard to their new submission March 09. A revised submission May 09, from Norwich City Council, in respect of Rural Norfolk was submitted and accompanied by an external review which is available on the Boundary Committee's website and which also looked at the new submission March 09 for Greater Norwich only. No further advice from IFCs needed. ➢ The revised submission in respect of Norfolk Rural has been submitted to the Boundary Committee on 14 May 2009, and will be the subject of a further report to the Committee on 15 June 2009. No further advice from IFCs needed.
➢ In the light of the above, the financial viability of Pattern B cannot be proven	➢ That was the conclusion of the IFCs as reported in their Summary Report 19 November 2008
Affordability report Single unitary From the introduction "overall outcome" (paras 1.2 ff) I understand that criterion 1, 2, and 5 are only achievable after "opportunity modelling", and that criterion 4 is unlikely to be achieved in a "wedge option" but that a single unitary without Lowestoft is likely to be achieved with a low risk. This appears contrived and warrants a further look at the underlying data. Para 3.2.6.2 - 3 suggests	➢ This referred to the lack of sponsor or champion for a number of Two Unitary submissions, which suggested that possible savings may have been understated when compared with other submissions. IFCs undertook limited modelling to reflect these concerns. Quality issues were resolved by IFCs raising approximately 200 detailed questions of clarification in respect of the 16 submissions received. See Compilation of Background Information 19 November 2008.

that ”apparently unviable submissions have been made”, and that “quality has been hampered” by “a variety of reasons”. What was the outcome of the clear and present risk on the unitary models as a result of this? Para 4.4 I understand that none of the unitary options can equalise at the lowest Council Tax levels. Does that mean Council Taxes will rise as a result of either unitary model? Para D8 I note that Norwich once again has produced questionable financial data. In the light of the above, the financial viability of the Norfolk unitary model cannot be proven, and the conclusions that all criteria are met at a low risk are spurious. ➢	➢ All of Norfolk submissions would be likely to be able to reduce to the average Council Tax of constituent authorities but not the lowest. No further advice from IFCs needed. ➢ Norwich City and Norfolk County had not been able to agree certain disaggregation of grants between the proposed Pattern B authorities. The problem is now resolved. No further advice from IFCs needed. ➢ The conclusion cannot be drawn from the above questions since they refer to the Two Unitary Patterns A and B submissions. ➢ The IFCs concluded that the Norfolk County Single Unitary proposal was likely to achieve the affordability criterion and was Low Risk in that respect.

RESPONSE N18 REVIEW	
Author of response	**Date of response**
N18 Norfolk County Council **Leader of the Council – Daniel Cox**	28 May 2009

Task B: **Advice to the Committee on the general questions that have been received not directly relevant to the workbooks.**	
Issues raised ➢ I have set out below a small, but telling, selection of examples where statements from the City Council in support of their submission simply do not square with the facts. However, I have purposely not included in this letter the many examples of clear financial discrepancies in Norwich City Council's submission. County Council officers and your own financial consultants have already pointed these out in considerable detail. ➢	➢ IFCs have highlighted their concerns most recently within their report of 12 March 2009 on the New Submission February 2009 paragraph 3.2. No further advice from IFCs needed.