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 – N4

BACKGROUND FINANCIAL INFORMATION
RURAL NORFOLK REVISED SUBMISSION MAY09

REPORT OF THE INDEPENDENT FINANCIAL CONSULTANTS

Chris Wheeler CPFA and Tony Hall CPFA

10 June 2009

Contents

Purpose of this document **1**

ACKNOWLEDGEMENT LETTER **2**

REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 01– Comments from Norwich City **5**

REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 01– Comments from Norfolk County **10**

PAY HARMONISATION ANALYSIS **15**

PAY HARMONISATION - ADVICE TO NORFOLK COUNTY - HAY GROUP **18**

REDUCTION IN ADDITIONAL STAFF COSTS ANALYSIS **24**

REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 02 ..... **27**

REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 03 ..... **29**

RECORD OF CORRESPONDENCE BETWEEN NORFOLK COUNTY AND NORWICH CITY **34**

SECTION 2 – Detailed calculations **42**

RURAL NORFOLK Affordability indicators – ‘as submitted’ compared to ‘as modelled’ **43**

RURAL NORFOLK Council Tax comparators **44**

IN AGGREGATE MODELLING – applying the modelling used for the new submission March 09 ..... **45**

IN AGGREGATE MODELLING –25% variance to changes between March and May submissions **46**

IN AGGREGATE MODELLING –50% variance to changes between March and May submissions **47**

PROFILING ADJUSTEMENTS – Staff release costs and staff savings **48**

Purpose of this document

The revised submission for Rural Norfolk May 09 prepared by Norwich City was received on 15th May 2009. This revised figures used in the new submission March 09, for Rural Norfolk, though not for Greater Norwich.

The purpose of this document is to record the additional enquiries which we made following the receipt of the Rural Norfolk Revised Submission May 09, and the replies which we received from the lead authority for the submission , Norwich City.

It also records other correspondence with Norfolk County on related issues.

These documents are referred to in other reports in this suite of reports for this review.

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

REVIEW TO TEST WHETHER AFFORDABILITY CRITERIA ARE MET

ACKNOWLEDGEMENT LETTER

REVISED SUBMISSION MAY 2009

Name of Unitary pattern	**Rural Norfolk**
Authorities involved	**Breckland, Broadland, Great Yarmouth, Kings Lynn and West Norfolk, Norfolk County, North Norfolk, South Norfolk.**
Lead Contact officer and contact number and e mail	**Barry Marshall is S151 officer - barrymarshall@norwich.gov.uk –** RussellO'Keefe@norwich.gov.uk provided the workbook and supported documents PaulSpencer@norwich.gov.uk is the responsible Director

We acknowledge receipt of the financial workbook and supporting documents in relation to the above mentioned unitary pattern.

We will complete the review of the new workbook and supporting documents within the timescales set by the Boundary Committee, and to achieve the revised overall timescales set by the Secretary of State.

This requires us to produce an initial report for the Boundary Committee by 2/6/2008 and a final report by 10/6/2009 covering this and all other representations received relating to affordability for all three counties. Our understanding is that these reports will then be made publicly available by the Boundary Committee.

Where appropriate, we may need to seek additional information at any time, and any issues we feel will need further information or clarification will be raised as soon as possible. We will do this initially through the contact officers shown above if we think that appropriate.

Our immediate review shows that the following information should be provided to us **as soon as possible.**

We note some issues relating to IT costs and notably the cost of contract novation.

We note the comment on page 16 of the Deloitte report which says

'We understand the Council cannot calculate the exact costs of changing this contract as this will be determined by the commercial decisions in the future and the renegotiation with Steria. However the Council has estimated that the costs would be approximately 25% of the annual contract, which totals £2.800m'

Their conclusion on this is 'On the basis of our enquiry, the process used in the calculation of the Greater Norwich contract novation costs seems to be based on a considered approach using appropriate source documentation and on that basis we consider the process to be reasonable'

In response to our questions at the last review you said that the advice on the level of the Steria contract novation came from Deloittes. This was firmed up in your response to Norfolk's

queries. Deloittes appear to be saying that the figure comes from the Council – their wording does not imply that it is their calculation. Would you be good enough to clear up this issue please. Although this figure has not changed from the last submission in March, and we made significant additional provision in our modelling, we remain concerned that no substantive supporting information has been provided on this significant and material issue. Our understanding is that the annual contract sum is of the order of £11m and the range of variation in the resulting fee could be substantial.

We would ask for confirmation that Deloitte report has been shared with Norfolk County, and whether the adjustments made in the workbook have been made in conjunction with them and would ask through this e mail for Norfolk's view on the adjustments which have been made.

Our Response:

The advice on the level of cost to allow for the Steria contract renegotiation which was included in the greater Norwich workbook submitted in March 2009 came from Deloitte's specialist advisory and consultancy division who have unique experience and expertise in this type of work. They have also advised us on revising the rural Norfolk workbook that we recently submitted. To maintain the independence of the assurance review, this was carried out separately by Deloitte's audit and assurance division, hence the wording.

The total annual contract sum, as we stated in our original response is £8 million per annum and is not £11million per annum.

In regards to the approach to the renegotiation of the Steria contract we explained our approach to this in detail in our March submission:

"We are therefore not planning to terminate the current Steria PFI contract. However, we will no longer require the current transformational elements that are built into the Steria PFI current annual charge of c£8 million per annum. To give one example, within the current contract with Steria there are 1000 development days per year for ICT systems development/innovation (equating to over £1.2million per year). Significant elements of this deployment would no longer be needed under our new shared services approach. There are a large range of other elements within the contract that would also be replaced by services delivered through the shared services model.

This renegotiation with Steria to reduce the Steria contract back to a traditional managed ICT support service would be carried out as part of the contract renegotiation which we have scheduled for 2010/11. Based on the terms of the contract and our research looking at the experience of others councils carrying out similar exercises on similar contracts, we have projected that the revised baseline payments to Steria for residual services (i.e. excluding those services no longer required) could be reduced to £3.0 million per annum.

Whilst all such projections are of course subject to detailed negotiation, we believe the reasonableness of such estimates to be reinforced by the significant commercial potential afforded to Steria (either as a contractual partner and/or as a strategic ICT adviser) through the opportunity for participation in the delivery of the shared services solution. This approach to renegotiation of the Steria contract has been validated by the external expert advice we have sought (Deloitte's advisory and consultancy division) and is felt to be reasonable, given the nature of the current contract we have with Steria and wider developments in the growth of the market for shared service delivery to local government.

However, in order to be prudent we have provided for an additional £2.8 million against any unforeseen expenditure directly related to the renegotiation of the Steria contract.

For information, we have obviously shared these proposals with Steria and are in discussions with them on this broad approach."

It is also important to emphasize again that we are not proposing a contract novation, but a

fundamental renegotiation of the contract, and therefore the financial figure does not relate to a termination penalty, rather a renegotiation contingency. We believe that this is a prudent way to approach the financial modelling and this is why the assurance review carried out by Deloitte's assurance and audit division has considered it 'reasonable'.

We are obviously continuing to discuss these proposals with Steria. We remain convinced as do our external specialist advisors (Deloitte's advisory and consultancy division) that this is a sound and prudent approach.

The Deloitte report has been sent to Norfolk County Council, as have copies of the revised workbook. Unfortunately, no time has been available to jointly work on adjustments as they were informed by the assurance review.

However, full detail of why changes have been made have been included in our overall response document which has also been shared with Norfolk County Council who are obviously able to comment.

We have also initially reviewed the workbook to see if it has been properly or fully completed.

There are no issues relating to the workbook as such

Please copy all response to both of the Independent Financial Consultants dealing with this review , at the e mail addressees shown	*admin@cwwa-ltd.co.uk* *tony@stuton.co.uk*
In view of the timescale and the requirement to consult would you please also copy all responses to Norfolk County Council at the e mail address shown	*Paul.brittain@norfolk.gov.uk* *and* *anna.allison@norfolk.gov.uk*
Date of notification	*15/5/2009*

BOUNDARY COMMITTEE REVIEW OF LOCAL GOVERNMENT STRUCTURES IN NORFOLK SUFFOLK AND DEVON
REVIEW TO TEST WHETHER AFFORDABILITY CRITERIA ARE MET
REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 01– Comments from Norwich City
REVISED SUBMISSION MAY 2009

Name of Unitary proposal	**Rural Norfolk Unitary Authority**
Authorities involved	**Breckland, Broadland, Great Yarmouth, Kings Lynn and West Norfolk, Norfolk County, North Norfolk, South Norfolk.**
Lead Contact officer and contact number and e mail	**Barry Marshall is S151 officer - barrymarshall@norwich.gov.uk** RussellO'Keefe@norwich.gov.uk provided the workbook and supporting documents PaulSpencer@norwich.gov.uk is the responsible Director
Document reference number	**01**
Additional Information or Clarification requested – please provide an answer to this request or a reference to a supporting document, in the adjacent box	
1 **The revised submission assumes sharing of some management functions with the Greater Norwich authority. Would you please define the envisaged scope, i.e., the range of services to be delivered by the "Shared Service" arrangement between the two proposed authorities?**	In our covering statement that we submitted in March 2009 we explained the proposed scope of the Pattern B shared service arrangements. We clearly stated that "*it is based upon the provision of a jointly owned shared service company between the two new authorities which would include the following functions:* • *Customer services* • *Finance (including asset management)* • *HR* • *ICT* • *Legal* • *Procurement* • *Revenues and Benefits*" Furthermore, as we have also stated previously we believe there is scope for other back office functions to be included in the shared services organisation such as printing and graphics and admin support etc. Our submissions also make it clear that some other strategic or countywide services (e.g. fire services) might also be shared following negotiation and agreement.

	The final full range of services to be delivered by the shared service arrangement will be the result of detailed planning and implementation of both the reorganisation and the shared services programme that supports this. This March submission also explains how the two new shadow unitary authorities would be able to work hand in hand, alongside each other to ensure effective implementation of the shared service company. You will be aware that shared services (both front and back office) is now a common model, both amongst two tier authorities progressing 'Pathfinder' programmes, and other new unitary councils. We also note that shared services models are being actively promoted by Central Government policy. These programmes look to share services across a number of authorities for the purpose of delivering more efficient and effective services. Shared services are not, by any means, an unusual occurrence, and we fully expect to see more examples being developed over the coming months and years. We have therefore based many of our assumptions on this evidence, as well as the detailed business case itself. A crucial part of a successful shared service venture is the establishment of an 'intelligent client function' which can be a shared strategic management across a number of authorities.
2 **The revised workbook uses a different profile for redundancy and early retirement costs assuming that release of staff will happen less quickly than previously assumed. To what extent have you assumed that the profile of savings will also change?**	No assumption to the profile of savings has been made. This is because the key driver for the changing profile of redundancy costs within the Rural Norfolk case was the mis-match between the incidence of savings and the incidence of release costs. Our main response document (submitted on the 14 March) provides a full rationale behind this change and the cost driver being the existing profile of savings – thus no change was made.
3 **The current assumption for this submission is that IT will be based on the current County platform. How is it envisaged that Steria, as the proposed Greater Norwich provider, integrate with the platform assumed by this submission?**	Our previous submissions and responses to questions have set out how we expect to implement new ICT arrangements in both new unitary councils. Our research with similar reorganisations has shown that ICT will be one of the most important transfer issues. There is therefore considerable previous evidence to underpin

	the renegotiation or novation of existing ICT (and other) contracts, especially in 2 unitary models such as Cheshire and Bedfordshire. After further review, we have concluded that our estimations and contingencies in the financial submission include a prudent, reasonable and comparable recognition of the need to renegotiate such contracts, and the potential cost of contract renegotiation. We would expect all third party supplies to work productively to ensure successful integration of ICT platforms, applications and networks. This will be a key work stream of the lead-in period to reorganisation.
4 **We note that Deloitte's give no assurance with regards to the assumptions made in the business cases for either of the Norfolk Pattern B submissions, using throughout their report the qualification: "we have not tested underlying assumptions or processes used". Also there is a further caveat on P3 of their report as follows: "We have not reviewed the Council's implementation plans, and therefore not assessed whether the expected timetable for the shared service implementation is realistic, nor whether the savings can be achieved through those implementation plans." In view of this, would you please indicate whether or not you have consulted with the County Council on the changes to this submission for Norfolk Rural?**	We can confirm that the Deloitte report has been sent to Norfolk County Council, as have copies of the revised workbook. Unfortunately, no time has been available to jointly work on adjustments as they were informed by the assurance review. You will be aware that our shared services proposals are derived from the original County Council submission and proposals, which included extensive details about how shared services could work in a 2 unitary model. We have therefore used this to validate our understanding where necessary in making financial assumptions and changes. As part of our deliberations, we have received detailed advice from Deloitte's specialist advisory and consultancy division in revising the rural Norfolk workbook. Deloitte have extensive previous experience and expertise in this type of work. To maintain the independence of the assurance review, this was carried out separately by Deloitte's audit and assurance division who have completed the review in line with the methodology and scope described in the report.
5 **Pay Harmonisation** **With regards to the attached paper would you please indicate the following:** **(a) Have Norfolk County Council been consulted on the changes amounting to 56%?** **(b) Have you had access to the work undertaken by Hays who were retained to give advice on Pay Harmonisation**	We have directly responded to your attachment on pay harmonisation in a separate note (see other attachments). In answer to your specific questions: (a) Yes - Norfolk has had full copies of all the reports and submissions (b) No – we believe that this report has not been in the public domain. This is explained in the attached response on

as remuneration specialists? **(c) In the light of our analysis would you please reconsider your reduced figures?**	pay harmonisation. (c) As requested we have reviewed our conclusions. However, as explained in the attached response on pay harmonisation, we remain strongly of the opinion that based on current information our approach in this area is prudent and reasonable.
6 **Additional Staffing Analysis** **We note that in your submission that you have reduced the provision for additional staffing by some 50%.** **This appears to be drawn from your interpretation of the Deloitte report – your 6th bullet point on page 5 refers apparently to the comment in the Deloitte report on page 8 relating to additional costs. We attach a paper on this analysis setting out some further background.** **Also, we would ask that you note that in our modelling for Rural Norfolk that we made adjustments for the CFA which is part of the ongoing cost total which Deloittes have highlighted and for a reduction in the provision for additional staff – contrary to page 5 of your report.** **(a) Would you please consider the attached paper?** **(b) Would you please confirm whether or not you shared your conclusion on the Deloitte work that the additional staffing costs are high with Norfolk County Council?** **(c) Did you take into account the analysis that Norfolk undertook relating to their provision for additional staffing costs which the Boundary Committee published as part of our report dated 19 November 2008 "Compilation of Background Information" page 256?** **(d) What is the basis for the reduction by 50% of the provision for additional costs which you included in your new submission, March 2009?** **(e) Would you please indicate which staff included in the Norfolk County Council submission would not be required?**	We have directly responded to your attachment on additional staffing analysis in a separate note (see other attachments). In answer to your specific questions: (a) Yes - this has been set out in the answer on your separate attachment (b) Yes - Norfolk has had full copies of all the reports and submissions. (c) The methodology and rationale for changing the financial submission has been fully set out in our previous response and in the attached additional information. As this mentions, we took account of a number of sources that led us to come to the conclusion that it was prudent to address the highlighted risk that these costs were overstated. (d) This has been set out in the attachment answer. (e) Norfolk has not made available the detailed list of the exact 47 personnel that would be recruited in its financial submission therefore this is not possible. However, the rationale for a lower requirement of net additional staff at management level has been provided in the attached.
7. **We note that you have reduced the provision for additional staffing by some 50%.** **This appears to be drawn from your interpretation of the Deloitte Report – your 6th bullet point on page 5 refers apparently to the**	This is an identical question to question 6.

comment in the Deloitte Report page 8 relating to other additional costs. We attach a paper on this analysis setting out some further background. We ask that you note that in our modelling for Rural Norfolk that we made adjustments for the CFA which is part of the ongoing total which Deloittes have highlighted for a reduction in the provision for additional staff – contrary to your statement on page 5 of your report. **Would you please consider the attached paper:** **(a) Did you share your conclusion on the Deloitte work that additional staffing costs are high with Norfolk County?** **(b) Did you take into account the analysis which Norfolk County undertook relating to their provision for additional staffing costs, which the Boundary Committee published as part of our report dated 19 November 2008, Compilation of Background Information, page 256?** **(c) What is the basis for the reduction by 50% of the provision for additional costs which you included in your 'new' submission in March 2008?** **(d) Would you please provide an analysis of which staffing included by Norfolk County in their original submission will not be required in your revised view?**	
Please copy all response to both of the Independent Financial Consultants dealing with this review , at the e mail addressees shown	*admin@cwwa-ltd.co.uk* *tony@stuton.co.uk*
In view of the timescale and the requirement to consult would you please also copy all responses to Norfolk County Council at the e mail address shown	*Paul.brittain@norfolk.gov.uk* *Paul.adams@norfolk.gov.uk* *Anna.allison@norfolk.gov.uk*
Date of request	*16/05/09 – Questions 1-4, and 7* *18/0509 – Questions 5-6*
Date of response	*20/05/09*

BOUNDARY COMMITTEE REVIEW OF LOCAL GOVERNMENT STRUCTURES IN NORFOLK SUFFOLK AND DEVON
REVIEW TO TEST WHETHER AFFORDABILITY CRITERIA ARE MET
REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 01– Comments from Norfolk County
REVISED SUBMISSION MAY 2009

Name of Unitary proposal	**Rural Norfolk Unitary Authority**
Authorities involved	**Breckland, Broadland, Great Yarmouth, Kings Lynn and West Norfolk, Norfolk County, North Norfolk, South Norfolk.**
Lead Contact officer and contact number and e mail	**Anna.allison@norfolk.gov.uk**
Document reference number	**01**
COMMENTS FROM NORFOLK COUNTY COUNCIL	
Additional Information or Clarification requested – please provide an answer to this request or a reference to a supporting document, in the adjacent box	
1 **The revised submission assumes sharing of some management functions with the Greater Norwich authority. Would you please define the envisaged scope, i.e., the range of services to be delivered by the "Shared Service" arrangement between the two proposed authorities?**	
2 **The revised workbook uses a different profile for redundancy and early retirement costs assuming that release of staff will happen less quickly than previously assumed. To what extent have you assumed that the profile of savings will also change?**	We note that the profile of savings has not been amended even though the profile of the costs has moved. Whilst some of the staff reductions could occur in later years, the majority of the savings and associated costs relate to Senior management where logically staff reductions would occur in Year 1 if not before. In practical terms the re-profiling of staff release would require less staff to be released in Year 1 and a correspondingly larger number to be released in Year 2 compared to the original profile. This has the effect of smoothing costs thereby reducing Year 1 release costs and increasing Year 2 release costs. At the same time of course the savings arising from staff release will be correspondingly less in Year 1 and more in year 2. We note that the claimed savings in Year 1 have not been reduced in spite of the re-profiling. We have re-profiled our original staff release costs and their related savings over a 2 year period. We have spread the non -CDC staff cost and savings equally over the 2 years. We do not however think that it is possible to spread the CDC staff costs and savings over the 2-year period because the new councils will only require one Chief Executive, one Director of Corporate Services and so forth and these appointments would have to be made early in the

<table>
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<td>process. The costs of release of these CDC staff and the consequential savings would therefore inevitably arise in Year 1 only.
We have calculated the costs and savings profiled over Years 1 and 2 with the proviso that CDC staff will be released in Year 1 and other staff will be released equally over the 2 years as shown below. The figures used are based on the original figures we used to support the Affordability Workbook which are slightly different from the figures that the City Council appear to be relying upon.
<table>
<tr><th></th><th>Year 1</th><th>Year 2</th></tr>
<tr><td>Costs CDC</td><td>£4.206m</td><td>£0.0m</td></tr>
<tr><td>Costs other staff</td><td>£2.947m</td><td>£2.083m</td></tr>
<tr><td>Total Costs</td><td>£7.153m</td><td>£2.083m</td></tr>
<tr><td>Savings CDC</td><td>£3.069m</td><td>£0.0m</td></tr>
<tr><td>Savings other staff</td><td>£3.842m</td><td>£7.909m</td></tr>
<tr><td>Total Savings</td><td>£5.553m</td><td>£7.909m</td></tr>
<tr><td>Net Effect</td><td>£1.600m</td><td>-£5.826m</td></tr>
</table>
It can be seen that there remains a significant strain on reserves in Year 1 even after smoothing costs over years 1 and 2.</td>
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<td>3
The current assumption for this submission is that IT will be based on the current County platform. How is it envisaged that Steria, as the proposed Greater Norwich provider, integrate with the platform assumed by this submission?</td>
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<td>4
We note that Deloitte’s give no assurance with regards to the assumptions made in the business cases for either of the Norfolk Pattern B submissions, using throughout their report the qualification: “we have not tested underlying assumptions or processes used”. Also there is a further caveat on P3 of their report as follows: “We have not reviewed the Council’s implementation plans, and therefore not assessed whether the expected timetable for the shared service implementation is realistic, nor whether the savings can be achieved through those implementation plans.” In view of this, would you please indicate whether or not you have consulted with the County Council on the changes to this submission for Norfolk Rural?</td>
<td>There was no consultation.</td>
</tr>
</table>

5 **Pay Harmonisation** **With regards to the attached paper would you please indicate the following:** **a) Have Norfolk County Council been consulted on the changes amounting to 56%?** **b) Have you had access to the work undertaken by Hays who were retained to give advice on Pay Harmonisation as remuneration specialists?** **c) In the light of our analysis would you please reconsider your reduced figures?**	(a) There was no consultation The Hay report gave a cost range of £2.5 to £4.9m. The mid point is £3.7m, but we used a lower figure of £3m for the single Unitary County and prorated £2.25m (75%) for the Pattern B Remainder County. If the figure for the Remainder County is £1m, this implies that the total for the single Unitary County is £1.3m – which is well below the bottom end of the range advised by Hay. (b) Norwich did not ask us for a copy. However, when we initially sent a copy to the Financial Consultants we assumed that it was in the public domain. We have since sent another copy directly to Norwich City Council on 20 May 2009
6 **Additional Staffing Analysis** **We note that in your submission that you have reduced the provision for additional staffing by some 50%.** **This appears to be drawn from your interpretation of the Deloitte report – your 6th bullet point on page 5 refers apparently to the comment in the Deloitte report on page 8 relating to additional costs. We attach a paper on this analysis setting out some further background.** **Also, we would ask that you note that in our modelling for Rural Norfolk that we made adjustments for the CFA which is part of the ongoing cost total which Deloittes have highlighted and for a reduction in the provision for additional staff – contrary to page 5 of your report.** **a) Would you please consider the attached paper?** **b) Would you please confirm whether or not you shared your conclusion on the Deloitte work that the additional staffing costs are high with Norfolk County Council?** **c) Did you take into account the analysis that Norfolk undertook relating to their provision for additional staffing costs which the Boundary Committee published as part of our report dated 19 November 2008 "Compilation of Background Information" page 256?** **d) What is the basis for the reduction by 50% of the provision for additional costs which you included in your new submission, March 2009?** **e) Would you please indicate which staff included in the Norfolk County Council submission would not be required?**	(b)There was no consultation '(d) Each new council in a two unitary model will have to ensure that critical services currently delivered by the County Council like children's and adult care are properly managed. The County Council's extensive experience in managing these services has resulted in management structures that are considered appropriate. The Rural Authority will be responsible for approximately

	75% of the same citizens who are currently served by the County Council and we therefore believe that a reduced but still substantial management structure will be needed. We do not believe that 25 additional staff will be adequate.
	General Comment: Norwich has made adjustments in order to present a workbook for the Remainder County that, considered "in aggregate" with the Norwich workbook, appears to maintain sufficient minimum reserves. The process of continual adjustment and resubmission is in danger of focusing attention purely on the headline numbers required to meet the specified criteria for the selective (necessarily so) analysis of quantifiable risks. The overall assessment of affordability is more sophisticated than this. The apparent comfort provided by presenting figures that "look right", at last, may well be spurious. o The headline risk assessment based on the matrix is only a partial assessment of quantifiable risks only. Qualitative risks that cannot be included in the assessment matrix should be given due weight, to complete the overall risk assessment. o We have concerns about the deliverability of key aspects of Norwich's plans, for example: BPR savings; the renegotiation of the Steria contract; and the re-profiling of staff release costs and savings. o Deloitte are careful to clarify that they have not audited Norwich's figures, nor reviewed the deliverability of savings. The independent financial consultants have previously stated similar caveats to their work on all the Patterns. There is therefore no assurance that assumptions behind the figures in the workbooks are well-evidenced. o The Norwich financial case for Pattern B is very sensitive to changes in costs and savings. Ironically, the effect of the latest refinement of selected figures is itself evidence of this sensitivity. (A similar argument does not apply to the single Unitary County case because its affordability is not sensitive to even 20% adverse variations in costs and savings.) o Ensuring a satisfactory level of minimum balances is not simply a question of maths in the affordability work book. It is about ensuring authorities have sufficient contingency to meet future pressures unrelated to the local government review. In the period since the review itself began and the criteria were framed, wider economic events have brought to the fore the

	importance to local authorities of preserving balances against potential risks, that may be more likely to crystallise in a difficult economic climate. We note that the affordability criteria specify that the "use of revenue reserves should be the final option considered". The spirit of the guidance, and the economic situation that has since developed, suggest that ensuring a satisfactory level of balances is a particularly important criterion.
Please copy all response to both of the Independent Financial Consultants dealing with this review , at the e mail addressees shown	*admin@cwwa-ltd.co.uk* *tony@stuton.co.uk*
In view of the timescale and the requirement to consult would you please also copy all responses to Norfolk County Council at the e mail address shown	*Paul.brittain@norfolk.gov.uk* *Paul.adams@norfolk.gov.uk* *Anna.allison@norfolk.gov.uk*
Date of request	*16/05/09*
Date of response	

PAY HARMONISATION ANALYSIS

Norfolk Revised Submission May 2009

IFC Analysis

Norwich as lead officer for the revised bid have reduced Norfolk's provision for pay harmonisation by £5m from the £9m included in the March 2009 submission. This is a reduction of 56%.

This has been undertaken using the outcome of the benchmarking exercise undertaken by Deloittes.

Deloittes work says that there is an over provision in the pay harmonisation figure for rural Norfolk

Page 8 says

'The Rural Norfolk ongoing pay harmonisation costs of £9m are significantly higher than all the other unitary submissions included in our benchmarking analysis. The average benchmarking costs included in the other unitaries included in our benchmarking is £0.738m' To reduce to this level would be a reduction of 92%.

Deloittes make it clear in their caveats that they 'have not assessed the reasonableness of the methodology used to determine the amounts included in the Rural Norfolk workbook because they were largely based on previous submission by Norfolk County and therefore were outside the scope of our procedures.' (page 2 of their report)

Benchmarking by Deloittes

The benchmarking used by Deloittes includes Norfolk two unitary - we assume this is pattern B – Devon two unitary and Suffolk two unitary, but it also includes Cheshire and Bedfordshire two unitary. Both these latter submission had no provision at all for pay harmonisation costs. Consequently the average calculated is very low.

Our Benchmarking and issues arising

Our analysis did not include Cheshire and Bedfordshire. We were aware that neither of the bids that were put in for these unitaries included any provision for pay harmonisation. Substantial provision was made when the figures were modelled for final consideration by DCLG officials however. It is not known if any provision was made in their final budget.

It appears that this is an area which has in the past been underestimated by new unitaries. We therefore in the advice to the lead officers submitting workbooks to the Boundary Committee emphasised that they should consider the effect of pay harmonisation. **All** bids, (apart from Exeter and Exmouth) having considered that advice, made some provision, supporting the view that the financial impact of pay harmonisation is likely to be significant and material.

Results of our analysis

We analysed the costs per average staff in place and the resulting graph is attached. Here we have looked only at the Rural County Unitary options, excluding the District Unitary options.

External advice used by Norfolk County

The original provision for pay harmonisation was put in by Norfolk County on the advice of advice from Hays, remuneration specialists. This was provided to us as part of the responses to our questions relating to their first submission in July (our report to the Boundary Committee dated 19th November 2009 Compilation of Background Information page 10). We took this advice into account in our assessment of the need or otherwise for modelling adjustments in our reviews.

In their report, Hays made it clear that the base data on grades was not fully available from all of the authorities in Norfolk. They therefore estimated a range of costs – for the County unitary this ranged from £2.5m per annum to £4.9m per annum. Norfolk took the midrange and pro rata'd this down to staff numbers in Rural Norfolk Pattern B, equating to £2.25m per annum.

Population

The rural county areas in the remaining two unitary patterns have populations as follows

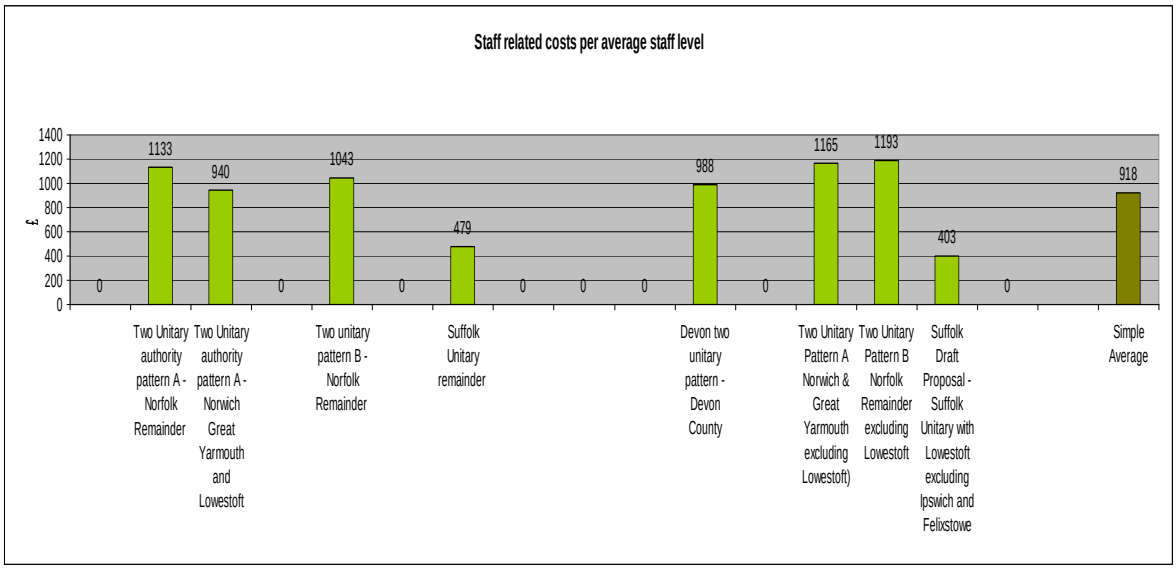
Rural Devon	562k	76% of County population
Rural Suffolk	412k	70% of County population
Rural Norfolk	607k	73% of County population

Conclusion

The actual costs of pay harmonisation will depend on a range of issues which are specific to the area itself. Devon and Norfolk's costs are broadly similar, whilst Suffolk's is lower. We took the view that Norfolk submissions were based on specialised external advice and had made provision as best they could for these costs.

We have undertaken our own benchmarking which indicates that they are the highest of the three Rural County Unitaries, but by a much closer margin than that indicated by Deloitte's benchmarking.

We consider, therefore, that to reduce the provision for pay harmonisation in an authority as big as Rural Norfolk on the basis of benchmarking total costs only, and including in that overall averaging authorities who did not make provision for pay harmonisation, when every one of the 16 bids made to the Boundary Committee did make some provision, is a substantial risk in itself. To reduce the provision by nearly 60% would appear to be excessive.



Norwich City Council Response

We welcome the agreement that your response provides in assessing the area of pay harmonisation costs as having a risk of over-statement as per your own benchmarking. We note that the graph you attach provides a higher rate for Norfolk related proposals than those returned in Devon and (specifically) Suffolk.

We also note the reference to work that was undertaken by Hays providing an estimation of potential cost liabilities for the county of Norfolk. The County Council did not make this report available to us until 3pm on 20 May, so we have calculated our estimate without knowledge of this piece of work. Now that we have seen it, we agree with your comment that it was completed on incomplete data.

We also note that this work was obviously done on the basis of a County Unitary and as you point out many complexities exist to the estimation of these costs – especially when the parameters of the cost coverage are changed (i.e. removing the impact of equalisation without the City Council).

Therefore, we acknowledge the work that was commissioned on the potential single unitary model but also highlight both the IFCs and Deloitte have identified a risk of over-statement in this area. Furthermore, no detailed study has been undertaken in the time available for the potential Rural Norfolk unitary, which further makes precise estimation problematic. This will be a key area to undertake a detailed analysis and implementation during reorganisation.

In conclusion, therefore, after further review we believe that based on current information our approach in this area is prudent and reasonable.

PAY HARMONISATION - ADVICE TO NORFOLK COUNTY - HAY GROUP

HayGroup

Norfolk County Council

The Cost of Transferring District Council Staff

This note comments on the potential salary cost of transferring district council staff onto the County Council's pay ranges during the creation of a county-wide unitary authority. It provides an initial estimate only and we hope that more informed calculations can be made later.

Background

It is important for the County Council to understand the potential cost of equal pay commitments to staff who might transfer to a new unitary authority.

In practice, it is very difficult to get a clear picture. The district councils have been asked to provide information relevant to cost modelling but they are at best reluctant participants in this exercise.

Only five of the seven districts in Norfolk provided information for this analysis; only two of those
provided any real detail about actual salaries and staff numbers and even in those cases there was not sufficient material for comprehensive modelling.

However, it is possible to base some estimates on this limited data. In addition, we know the number of staff employed by each council. Altogether, there are around 3200 staff, which implies salary costs in the region of £80 million. Readily available information shows the population covered and the top structure – which allows us to estimate how the size of some of the senior posts compares with jobs at the County Council. We can also draw on experience of structures and salary costs at many other district councils throughout the country.

Method

Against this background, we have:

- Used information from two districts (Great Yarmouth and Broadland), our understanding of staffing patterns in other local authorities and data on the size of the Norfolk districts to estimate the employment profile of each of the district councils. We have aligned our estimate of staff numbers to the grading structure recently agreed for the County Council under the modern reward strategy project.

- Used local and national data to create a pay structure for each of the districts. The only certain ground is provided by the structures at Great Yarmouth and Broadland, which we have been able to extract from their salary information and to check against a range of recent published job adverts. The Great Yarmouth grading and pay structure is fairly close to the core structure published as a starting point for all local authorities in the country. However, it is clear that Yarmouth is a relatively inexpensive labour market and would not be representative of the county as a whole. For modelling purposes, we have assumed that Great Yarmouth would be the lowest paying; that Breckland and South Norfolk would be medium payers within local government in the county; and that King's Lynn and Norwich City would be both the biggest and the best paying authorities. From the information available, we believe that North Norfolk may be alongside Great Yarmouth for the majority of staff but a medium payer at professional and managerial level; and Broadland is a medium payer for most staff but in the highest paying group for professional and managerial staff.

- .. Modelled various assumptions about salary structure and average salary by grade, to provide a range of plausible costs.

Throughout, we have used 2007 salary structures – because local government has not yet settled for 2008. We have also used the full new structure for the County, including the transitional points for professional and managerial grades.

Findings

The table below shows possible costs based on three sets of assumptions. It is tempting to describe Model A as a worst case but this is not strictly true. There are areas of potential expenditure of which it takes no account: it assumes that all districts use the national pay spine, whereas some do not and a move from one spine to another always costs money; and it has no additional costs for changing terms and conditions or assimilating manual jobs from those authorities which have not yet moved to single status. Nonetheless, Model A is based on relatively pessimistic assumptions in which all the district councils currently pay less than the County for all levels of role. From the data we have seen and from practice in other counties this is unlikely.

Model B assumes that the medium payers have salary levels which are slightly more competitive
one increment above that of Model A.

Model C assumes that: the districts we have taken to be medium payers have a more aggressive pay policy for their junior professional and professional positions by increasing those ranges by one increment; also that King's Lynn and Norwich City have pay scales that are so similar in level to Norfolk CC that there are no assimilation costs but that all employees can be transferred across on their existing salary. Overall, it indicates the impact if salaries are more competitive at principal officer level – and it is clear from at least a couple of Norfolk districts and from practice elsewhere that there is competitive pressure to recruit and retain the professionals who are vital to policy development, casework and service management.

The figures behind the models are in an appendix at the back of this paper.

Model	Full salary cost
A	£4,895,000
B	£4,005,000
C	£2,555,000

Notes:

- Assumes immediate transfer to the County Council rates established under the Modern Reward Strategy (i.e. with no phasing)
- All staff move to the nearest County Council increment above their current salary
- Takes no account of changes to structure and the savings they might bring

In all the models, the highest costs are naturally associated with the lower paying councils. The largest populations, which would be in Norfolk CC grades E to I, contribute the most cost across all the district councils.

There may be some surprise at the scale of these figures but it is worth bearing in mind that a major local reform to an organisation's pay system – such as introducing single status – can often cost 3% of salary, which for the group of districts would be about £2 million. In this case, there is an additional requirement to move to another salary structure.

The main reasons for the size of the costs are:

- Some of the district councils are low payers compared to many local authorities and they certainly appear to offer less than the County Council.

- The County Council's new pay structure has fairly narrow ranges, with three or at most four incremental points per grade (except for a few which have additional, temporary points). If the ranges had been longer and started lower, the gap between district and County pay would have been smaller.

On the other hand, there are ways in which the County could make savings on the figures shown above. The most obvious is that our calculations take no account of savings from restructuring – so for example all three cost models include chief executives and directors from districts in their current numbers. It would also be possible to transfer staff in stages and/or to modify the pay structure slightly to lengthen the salary scales at critical points.

Conclusions

Given the limited information available, it is not possible to draw other than cautious conclusions.
However, we have identified a range of potential costs from around £2.5 million to £4.9 million and feel that the model at the top end of this range is the least plausible.

There is sufficient data to indicate that the cost of harmonising pay and grading arrangements across Norfolk County and district councils is likely to be between about £2.5 million and £4 million, and experience shows that the authority would have some control over the detailed costs within that. Until more information becomes available, provision in that range would seem reasonable.

Hay Group

September 2008

Appendix

Model A

		Low	Medium	Medium/ high	High	Low/ medium	High	Medium			
Know how level*	Band	Great Yarmouth	Breckland	Broadland	King's Lynn	North Norfolk	Norwich City	South Norfolk	Low average position	Medium average position	High average position
57	1	7	5.90	4.98	11.80	5.79	14.80	7.05	11577	11737	11907
66	2	6.5	5.48	4.62	10.96	5.38	13.74	6.54	11907	12291	12678
76	3	23	19.39	16.35	38.78	19.03	48.63	23.15	13062	13336	14197
87	4	23	19.39	16.35	38.78	19.03	48.63	23.15	14492	14882	15153
100	5	45.5	38.36	32.34	76.72	37.65	96.19	45.80	15153	15470	16217
115	6	46	38.78	32.70	77.56	38.06	97.25	46.30	15842	16217	17154
132	7	48	40.47	34.12	80.93	39.72	101.48	48.31	17781	18430	19463
152	8	45	37.94	31.98	75.88	37.24	95.14	45.29	20099	20736	22122
175	9	36	30.35	25.59	60.70	29.79	76.11	36.23	22845	23749	25320
200	10	29	24.45	20.61	48.90	24.00	61.31	29.19	26067	26835	28172
230	11	16	13.49	11.37	26.98	13.24	33.83	16.10	28172	29728	31606
264	12	22	18.55	15.64	37.09	18.20	46.51	22.14	31606	33291	34991
304	13	15.5	13.07	11.02	26.13	12.83	32.77	15.60	35852	37543	39528
350	14	13	10.96	9.24	21.92	10.76	27.48	13.08	40101	41823	43556
400	15	7	5.90	4.98	11.80	5.79	14.80	7.05	55656	57756	59489
460		1	1.00	1	1.00	1.00	2.00	1	83397	87567	87567
528		1	1.00	1	1.00	1.00	2.00	1	98973	103922	103922
608					1		1				109118
	No. FTE emps.	385.5	325	274	650	319	815	388			

* An indicator of job size which relates to the County's grading structure

Model B

		Low	Medium	Medium/ high	High	Low/ medium	High	Medium			
Know how level*	Band	Great Yarmouth	Breckland	Broadland	King's Lynn	North Norfolk	Norwich City	South Norfolk	Low average position	Medium average position	High average position
57	1	7	5.90	4.98	11.80	5.79	14.80	7.05	11577	11907	11907
66	2	6.5	5.48	4.62	10.96	5.38	13.74	6.54	11907	12678	13062
76	3	23	19.39	16.35	38.78	19.03	48.63	23.15	13062	14197	14492
87	4	23	19.39	16.35	38.78	19.03	48.63	23.15	14492	15153	15470
100	5	45.5	38.36	32.34	76.72	37.65	96.19	45.80	15153	15842	16536
115	6	46	38.78	32.70	77.56	38.06	97.25	46.30	15842	16536	17781
132	7	48	40.47	34.12	80.93	39.72	101.48	48.31	17781	18907	20099
152	8	45	37.94	31.98	75.88	37.24	95.14	45.29	20099	21412	22845
175	9	36	30.35	25.59	60.70	29.79	76.11	36.23	22845	24545	26067
200	10	29	24.45	20.61	48.90	24.00	61.31	29.19	26067	27594	28919
230	11	16	13.49	11.37	26.98	13.24	33.83	16.10	28172	30598	32436
264	12	22	18.55	15.64	37.09	18.20	46.51	22.14	31606	34140	35852
304	13	15.5	13.07	11.02	26.13	12.83	32.77	15.60	35852	38404	40101
350	14	13	10.96	9.24	21.92	10.76	27.48	13.08	40101	42687	44478
400	15	7	5.90	4.98	11.80	5.79	14.80	7.05	55656	57756	59489
460		1	1.00	1	1.00	1.00	2.00	1	83397	87567	87567
528		1	1.00	1	1.00	1.00	2.00	1	98973	103922	103922
608					1		1				109118
	No. FTE emps.	385.5	325	274	650	319	815	388			

* An indicator of job size which relates to the County's grading structure

Model C

		Low	Medium	Medium/ high	High	Low/ medium	High	Medium			
Know how level*	Band	Great Yarmouth	Breckland	Broadland	King's Lynn	North Norfolk	Norwich City	South Norfolk	Low average position	Medium average position	High average position
57	1	7.00	5.90	4.98	11.80	5.79	14.80	7.05	11577	11907	11907
66	2	6.50	5.48	4.62	10.96	5.38	13.74	6.54	11907	12678	13062
76	3	23.00	19.39	16.35	38.78	19.03	48.63	23.15	13062	14197	14492
87	4	23.00	19.39	16.35	38.78	19.03	48.63	23.15	14492	15153	15470
100	5	45.50	38.36	32.34	76.72	37.65	96.19	45.80	15153	16217	16536
115	6	46.00	38.78	32.70	77.56	38.06	97.25	46.30	15842	17154	18907
132	7	48.00	40.47	34.12	80.93	39.72	101.48	48.31	17781	19463	21412
152	8	45.00	37.94	31.98	75.88	37.24	95.14	45.29	20099	22122	23749
175	9	36.00	30.35	25.59	60.70	29.79	76.11	36.23	22845	25320	26067
200	10	29.00	24.45	20.61	48.90	24.00	61.31	29.19	26067	28172	29728
230	11	16.00	13.49	11.37	26.98	13.24	33.83	16.10	28172	31606	33135
264	12	22.00	18.55	15.64	37.09	18.20	46.51	22.14	31606	34991	36555
304	13	15.50	13.07	11.02	26.13	12.83	32.77	15.60	35852	39528	40914
350	14	13.00	10.96	9.24	21.92	10.76	27.48	13.08	40101	43556	46308
400	15	7.00	5.90	4.98	11.80	5.79	14.80	7.05	55656	59489	59703
460		1.00	1.00	1.00	1.00	1.00	2.00	1.00	83397	87567	89533
528		1.00	1.00	1.00	1.00	1.00	2.00	1.00	98973	103922	103793
608					1.00		1.00				110114
	No. FTE emps.	385.50	325.00	274.00	650.00	319.00	815.00	388.00			

* An indicator of job size which relates to the County's grading structure

REDUCTION IN ADDITIONAL STAFF COSTS ANALYSIS

Reduction in additional staff costs

Rural Norfolk Revised Submission May 2009

IFC Analysis

Norwich's view

In their revised submission, Norwich make the following statement - Page 5

'*most significantly, there were several key areas identified in the rural Norfolk case (that was based upon the county council original rural Norfolk submission) that are considered to be high risk in regards to the over statement of costs. Whilst we have identified a number of anomalies, we have not made wholesale changes to the rural Norfolk workbook. We have particularly focussed on the two most significant areas of variance:*

- ongoing pay harmonisation costs and
- other additional ongoing costs.

***These inconsistencies have not been addressed in the IFC's modelling**, and so we have made some adjustments to the workbooks to reflect the variances we have found with other benchmarked unitary models (for details see section below and revised workbook at Annex B).'*

*(*With regard to 'other ongoing costs' this is not correct – this category includes the Combined Fire Authority as well as additional staffing arising from the disaggregation of county service for both of which we modelled the effect of significant possible reductions *)*

However, as a result of this view, Norwich have reduced the costs for additional staff from £8.0m to £4.0m – a reduction of 50%.

Deloittes report

This is based on work which has been carried out on benchmarking by Deloittes
Page 8 of their report shows the following

'Our Benchmarking shows the Greater Norwich other ongoing costs of £16.9m and other ongoing costs for Rural Norfolk of £14.652m to be significantly higher than all other unitaries in the comparison . The average other additional costs in the other unitaries in our comparison is £4.213m.'

Other additional costs include

- Other additional staff
- Other additional costs including the Combined Fire Authority
- It also includes additional IT costs in the Greater Norwich submission
- Greater Norwich also includes £2.6m for members allowances

Deloittes make it clear in their caveats that they 'have not assessed the reasonableness of the methodology used to determine the amounts included in the Rural Norfolk workbook

because they were largely based on the previous submission by Norfolk County and therefore were outside the scope of our procedures.' (page 2 of their report)

Deloittes benchmarking

The benchmarking used by Deloittes includes Norfolk two unitary - we assume this is pattern B – Devon two unitary and Suffolk two unitary, but it also includes Cheshire and Bedfordshire two unitary.

Devon already has a CFA in place as do Cheshire and Bedfordshire - the costs for CFA in Norfolk and Suffolk should logically therefore be excluded from the comparison. For Norfolk these figures equate to (£5.7m Rural Norfolk and £1.6m Greater Norwich £1.6m) £7.3m.

Greater Norwich's ongoing costs include IT provision for the new in house element of the service at £2.5m per year, £10m in total. This is offset by the savings in the ongoing reductions, and is one reason why Deloittes also highlight ongoing reductions as out of line with their sample. When we did our benchmarking we netted off one against the other for better comparative purposes.

With these adjustments, a different average and comparison for the 'ongoing costs' total would have been arrived at.

Deloittes recommend reviewing –

- CMT support
- Combined Fire Authority costs
- 'setting out exactly which elements of the new Unitary Council ICT provision are expected to be provided by Steria and internally by the Council'

We agree with all this – we have modelled significant reductions in the provision Norfolk made for CFA costs , (50%) and we have asked for confirmation about which services are to be undertaken relating to IT.

We also modelled a reduction in the ongoing additional staffing costs which Norfolk had provided for.

Background to the costs for additional staffing which Norfolk had provided

We obtained an explanation from Norfolk as to the basis of their additional costs provision. This is shown in detail in our report dated 19th November 2008 Compilation of Background information page 257.

Despite this, we felt there was an opportunity to reduce these additional costs if there was a committed sponsor for the rural Norfolk pattern, as we had done for Pattern A - but due to the size of the authority (73% by population of the whole County) felt that the reduction should be less in this instance. We modelled a 10% reduction.

Conclusion

The Deloittes report does not in itself indicate that the provision for additional staffing in Rural Norfolk made by Norfolk is overstated.

Their conclusion relates to overall other additional ongoing costs, and appears to be drawn from an amalgamation of costs shown above. We have shown that with appropriate adjustments, different averaging and benchmarking would have been arrived at.

Contrary to the Norwich comment, we have modelled reductions for both the CFA and the additional staffing provisions

We agree that the provision for additional staff in the Rural Norfolk workbook - put together in the first instance by Norfolk, but accepted in the new submission of March 2009 by Norwich – may be too high and have modelled a 10% reduction. It is not clear how the above analysis supports a 50% reduction in the figure.

Our Response

We welcome the confirmation provided by the IFCs in identifying this area of cost at a high risk of overstatement. We also acknowledge that the IFCs have also performed a re-modelling of this area of cost based upon it's own opinion and benchmarking methodology that improves the affordability of the Rural Norfolk case.

Within the IFC response it has set out the order of magnitude that it feels is appropriate to re-model this identified risk of over-statement and the basis it has come to its conclusions.

In the time available to us prior to the re-submission deadline we were invited to also consider the financial submission and set out our revised opinion or further justification across the financial submissions.

We believe that the Deloitte independent review is robust, and its conclusions fully justify a review of key areas of the rural Norfolk workbook. In the time available, we have not reviewed all of the areas of concern highlighted. However, we did feel it was reasonable and prudent to adjust the cost involved in estimating the additional management requirement estimated by the case for the 'effects of disaggregation'. Our reduction is not based solely on the risk review of the financial submissions but our ability to consider the case again in some additional time available.

Therefore, the highlighting of this area as at a high risk of overstatement by both the previous modelling undertaken by IFCs and also the review undertaken by Deloitte provides a reasonable basis to re-visit the assumptions underpinning this area of cost.

We have not halved the cost as a method per se, rather re-examined the magnitude of additional management posts that would be needed in light of the overall approach to disaggregation that has led to a halved total cost.

Therefore, the reduced provision for costs for additional staff (as a direct result of disaggregation) has occurred because:

- The IFCs and Deloitte both identified it as an area at risk of overstatement;
- The estimate of some 47 additional management posts being needed did not reconcile with our fundamental approach to reorganisation – through adopting leaner processes, shared service delivery and partnership working (a similar basis to the approach taken by the Bedfordshire region);
- The inability for us to reconcile a net increase of 2 management posts as a result of a reduction of 8 councils currently in the Norfolk region to a proposed two unitary councils – as was proposed in the original submission.

Therefore, in the time we had available we responded to these points through profiling these additional costs of added management positions with an estimate that only 25 will needed to account for disaggregating County services.

After further review, we still believe that our proposals are very prudent in comparison to other submissions but accept the importance in importing additional expertise into both new councils to provide added capacity where appropriate.

BOUNDARY COMMITTEE REVIEW OF LOCAL GOVERNMENT STRUCTURES IN NORFOLK SUFFOLK AND DEVON
REVIEW TO TEST WHETHER AFFORDABILITY CRITERIA ARE MET
REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 02
REVISED SUBMISSION MAY 2009

Name of Unitary proposal	**Rural Norfolk Unitary Authority**
Authorities involved	**Breckland, Broadland , Great Yarmouth, Kings Lynn and West Norfolk, Norfolk County, North Norfolk, South Norfolk.**
Lead Contact officer and contact number and e mail	**Barry Marshall is S151 officer - barrymarshall@norwich.gov.uk** RussellO'Keefe@norwich.gov.uk provided the workbook and supporting documents PaulSpencer@norwich.gov.uk is the responsible Director
Document reference number	**02**
Additional Information or Clarification requested – please provide an answer to this request or a reference to a supporting document, in the adjacent box	
1 Your response to request 01 relating to IT issues said As part of our deliberations, we have received detailed advice from Deloitte's specialist advisory and consultancy division in revising the rural Norfolk workbook. Deloitte have extensive previous experience and expertise in this type of work. Would you be good enough to forward a copy of that advice	There is no additional written advice to forward. We have already sent you a copy of the Deloitte assurance report, which sets out the rationale for the amendments we have made to the rural Norfolk workbook. We have approached the revision of the workbook in partnership with Deloitte, and they have allocated specialist advisers to work alongside us as we have reviewed and amended the figures.
2 Your response to request 01 also said Our research with similar reorganisations has shown that ICT will be one of the most important transfer issues. There is therefore considerable previous evidence to underpin the renegotiation or novation of existing ICT (and other) contracts, especially in 2 unitary models such as Cheshire and Bedfordshire. Would you be good enough to forward a synopsis of your research, highlighting the previous evidence you have used to support your conclusions.	Again there is no additional written research to forward. Our research has involved discussions with officers at Councils which have been preparing to become unitary in April 2009. In particular, we have had extensive discussions and meetings with colleagues from Central Bedfordshire about a wide range of transfer issues. This included consideration of the effects and costs of disaggregating countywide Bedfordshire County Council ICT systems and contracts into a 2 unitary pattern (i.e. exactly the scenario that would apply in

	Norfolk should Pattern B be adopted). We have not entered into formal research for 2 reasons – (i) because this would be premature until a decision had been made to formally implement Pattern B, and (ii) because the ICT arrangements for those councils which went live in April 2009 had not been finalised at the time of the research and discussions. Nevertheless, now that these new councils have gone live, there will be considerable knowledge and previous examples to use as the basis for renegotiation of Norfolk County Council systems and contracts onto a 2 unitary pattern.
Please copy all response to both of the Independent Financial Consultants dealing with this review , at the e mail addressees shown	*admin@cwwa-ltd.co.uk* *tony@stuton.co.uk*
In view of the timescale and the requirement to consult would you please also copy all responses to Norfolk County Council at the e mail address shown	*Paul.brittain@norfolk.gov.uk* *Paul.adams@norfolk.gov.uk* *Anna.allison@norfolk.gov.uk*
Date of request	*22/05/2009*
Date of response	*29/05/2009*

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

REVIEW TO TEST WHETHER AFFORDABILITY CRITERIA ARE MET

REQUEST FOR ADDITIONAL INFORMATION OR CLARIFICATION 03

REVISED SUBMISSION MAY 2009

Name of Unitary proposal	**Rural Norfolk Unitary Authority**
Authorities involved	**Breckland, Broadland , Great Yarmouth, Kings Lynn and West Norfolk, Norfolk County, North Norfolk, South Norfolk.**
Lead Contact officer and contact number and e mail	**Barry Marshall is S151 officer - barrymarshall@norwich.gov.uk** RussellO'Keefe@norwich.gov.uk provided the workbook and supporting documents PaulSpencer@norwich.gov.uk is the responsible Director
Document reference number	**03**
Additional Information or Clarification requested – please provide an answer to this request or a reference to a supporting document, in the adjacent box	
1 **In response to Request for Information 01 Q1, you said** In our covering statement that we submitted in March 2009 we explained the proposed scope of the Pattern B shared service arrangements. We clearly stated that "*it is based upon the provision of a jointly owned shared service company between the two new authorities* **Could you indicate the amount of provision you have made for the set up of the new company in the two workbooks and indicate where the provision is made please?**	We are rather baffled by this request, as your detailed report (February 2009) clearly indicates that you already know we have not included any provision. On page 12 of your detailed report you note that "*No provision has been made for set up costs of Special Purpose Company or costs of commercial risks. We are not able to take a view on what the set up costs would be at this time, but in our view higher balances would be essential to cover this and other risks in a time of major change*." As a consequence of this, page 12 of your report then goes onto make adjustments to our figures in order to reflect the absence of any set up costs, by changing the prudential level of reserves that was endorsed by our S151 officer at 3.25% to a considerably higher level of 5%. We believe that this adjustment is excessive. We envisage that the new Special Purpose Company would be created as a part of the existing Norse Group, and so the set up costs and administration would be minimal.

	However, your adjustments constitute an additional 1.75% requirement on the minimum level of balances, which equates to several million pounds in additional cost for the Pattern B model. We believe that the set up costs would never run to anything like this magnitude, and the effect of your excessive adjustments is to unnecessarily weaken the strength of the Pattern B financial case. We would ask that you review this adjustment, as it simply does not properly reflect the likely set up costs of an SPC. Our previous submissions have identified as the costs of establishing and running the shared service venture as being derived from the Shared Services business case set out in the Norfolk CC submission. The County Council document explicitly identified a two unitary Norfolk as being a viable option and therefore we took those costs forward into our submissions. Our previous supplementary note provides significant narrative around the approach to shared services and its financial treatment in our workbooks.
5 **Pay Harmonisation** **In response to Request for Information 01 Q5, you said** As requested we have reviewed our conclusions. However, as explained in the attached response on pay harmonisation, we remain strongly of the opinion that based on current information our approach in this area is prudent and reasonable. **Please would you provide a properly costed assessment of the figures which you have included in the revised May 09 submission**	As outlined in the supplementary notes to our May submission, the review of the total and annual harmonisation costs for Rural Norfolk was based upon the benchmarking and risk review work that was undertaken in the short time available before re-submission. It has not been possible to undertake a detailed costing exercise in the very limited time provided. We would also highlight that we were not made aware of the work that was undertaken by Hays providing an estimation of potential cost liabilities for the county of Norfolk until 20 May (ie the deadline day for our response), even though we understand now that it was available from October 2008 ! We were therefore not able to take account of it in our work. Nevertheless we also note (and concur) that, now we have seen it, that the IFCs concluded that this work was based on incomplete data, leading to a significant risk of overstatement of costs (as also identified by Deloitte). Furthermore, the detailed costing exercise was done on the basis of a County Unitary and consensus was found that many complexities exist to the estimation of these costs – especially when the parameters of the cost coverage are changed (i.e. removing the impact of equalisation without the City

	Council). If implementation is agreed for Pattern B then this will obviously be a key area of focus in the lead-up period whereby detailed planning and implementation can be undertaken. As no detailed estimate exists for the Rural Norfolk Unitary, and the basis of the County Unitary model being based upon different parameters and incomplete data, we advised you in our previous answer that this was a prudent and reasonable estimate when all these factors were taken together. We openly explained that this was the basis and rationale for our calculation. In the time available we have had to use the best possible method as to adjust the basis of this calculation. This answer is consistent with the supplementary note provided in May and answers to your previous questions on this matter. We therefore continue to believe that our estimation works as a prudent derivation from the following: 1. The base work done by Hays on a County Unitary Model, on partial data. 2. The findings of the benchmarking and risk review comments of Deloitte. 3. The findings and comments of the IFCs. .
6 **Additional Staffing Analysis** **In response to Request for Information 01 Q6, you said** Norfolk has not made available the detailed list of the exact 47 personnel that would be recruited in its financial submission therefore this is not possible. However, the rationale for a lower requirement of net additional staff at management level has been provided in the attached. **The note you provided to our note on additional staffing said** We have not halved the cost as a method per se, rather re-examined the magnitude of additional management posts that would be needed in light of the overall approach to disaggregation that has led to a halved total cost.	. The acceptance of the figure in the March submission relates to that point in time. At the request of this process we have been encouraged (in limited time) to reflect upon the Rural Norfolk case and re-submit – this was in the form of the May re-submission. As explained in the detailed supplementary note and answers to your previous questions, we have used the extensive work undertaken by the IFCs and Deloitte to review key areas of risk. The 'Additional Staffing Costs' was an area where we agreed with the IFCs and Deloitte that there was a risk to overstatement of costs. Without having the benefit of being able to submit 'scenarios' or 'sensitivities' on our financial submission we utilised the opportunity to amend the figure to account for this risk and clearly explain the basis of it.

The paper from Norfolk - which the Boundary Committee published as part of our report dated 19 November 2008 "Compilation of Financial Information" page 256 – http://www.electoralcommission.org.uk/__data/assets/pdf_file/0008/68489/financial-report-pages-amended.pdf on this issue identified the individual posts , though not their grades, and showed the calculation of the staff costs which they included and you accepted in the March submission. **Would you please provide a properly costed statement supporting the figures you have included in your revised submission for May 09 for additional staffing?** **Does this now still include provision for Norfolk Learning for Life £375k, Skills Institute £100k, Public Sector Leadership Academy £300k as stated in the notes to your revised submission?**	The basis of this figure was set out previously but centred on the fact that: • The IFCs and Deloitte both identified it as an area at risk of overstatement; • The estimate of some 47 additional management posts being needed did not reconcile with our fundamental approach to reorganisation – through adopting leaner processes, shared service delivery and partnership working (a similar basis to the approach taken by Bedfordshire region); • The inability for us to reconcile a net increase of 2 management posts as a result of a reduction of many more councils currently in Norfolk region to a proposed two unitary councils – as was proposed in the original submission. Therefore, in the time we had available we responded to these points through profiling these additional costs of added management positions with an estimate that only 25 will needed to account for disaggregating County services. This, we still believe, is prudent in comparison to other submissions but accepts the importance in importing additional expertise into both the regions to provide added capacity to County services. We accept that during the lead-up period detailed workforce planning and management recruitment & retention strategies will need to be in place – to ensure the retention of talent in the region and enhancing new ways of working. This would, of course, be a significant part of the design and planning process. However, in the short time available, to conduct an analysis of only a small number of employees would be misleading as it would be necessary (as we will need to do in the lead up period) to look across all management tiers, in all authorities to identify the net requirement/reduction.
Please copy all response to both of the Independent Financial Consultants dealing with this review , at the e mail addressees shown	*admin@cwwa-ltd.co.uk* *tony@stuton.co.uk*
In view of the timescale and the requirement to consult would you please also copy all responses to Norfolk County Council at the e mail address shown	*Paul.brittain@norfolk.gov.uk* *Paul.adams@norfolk.gov.uk* *Anna.allison@norfolk.gov.uk*
Date of request	*26/5/2009*
Date of response	*29/05/09*

RECORD OF CORRESPONDENCE BETWEEN NORFOLK COUNTY AND NORWICH CITY

which has a bearing on the review as to whether or not the affordability criteria are likely to be mett

RE: Request for information 03

From: **Adams, Paul** (paul.adams@norfolk.gov.uk)
Sent: 01 June 2009 08:01:46
To: Spencer, Paul (PaulSpencer@norwich.gov.uk); admin@cwwa-ltd.co.uk; tony@stuton.co.uk
Cc: Brittain, Paul (paul.brittain@norfolk.gov.uk); Allison, Anna (anna.allison@norfolk.gov.uk); Marshall, Barry (barrymarshall@norwich.gov.uk); O'Keefe, Russell (RussellO'Keefe@norwich.gov.uk); Alison Wildig (awildig@electoralcommission.org.uk)

Paul,

I must just register a different view of the meeting with Deloitte's, as I was there. We believe we did raise significant issues (which we had previously put in writing) which were not resolved,

Paul.

From: Spencer, Paul [mailto:PaulSpencer@norwich.gov.uk]
Sent: 29 May 2009 17:48
To: admin@cwwa-ltd.co.uk; tony@stuton.co.uk
Cc: Brittain, Paul; Adams, Paul; Allison, Anna; Marshall, Barry; O'Keefe, Russell; Alison Wildig
Subject: FW: Request for information 03

The following covering e mail to the response to request for information 03 was treated as a formal response and our analysis of it is included in the Response report for Norfolk Page xx

I attach responses to the latest round of questions. We have been surprised at the level of detailed information and analysis that you have asked for, both simply because it would be impossible to produce of all this in the limited time available, and 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 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 don't want to get into a ping -pong of claim/counter claim, but I would like to make a few comments on this:

- 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, this seems like a rather large oversight to not share it with us until 20 May 2009 !
- 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
- 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.

Best wishes.

Paul Spencer
01603-212238

From: Chris Wheeler
Sent: 25 May 2009 11:49
To: Spencer, Paul; Marshall, Barry; O'Keefe, Russell
Cc: paul adams; paul brittain; Anna Allison; alison wildig; tony hall
Subject: Request for information 03

Paul, Barry, Russell

Please find attached a further request for information arising from your responses to our Request for Information 01, which reflects the expectation that , whilst benchmarking is a useful tool to indicate areas to review, figures included in submissions to the Boundary Committee should be supported by properly costed statements. No doubt you have these available in the areas indicated.

Request for Information 02 was sent on Friday 22nd May - could you confirm receipt please

Best wishes
Chris Wheeler and Tony Hall

RE: Boundary Committee Review

From: **Spencer, Paul** (PaulSpencer@norwich.gov.uk)
Sent: 22 May 2009 12:53:55
To: Bede-Cox, Michelle (michelle.bede-cox@norfolk.gov.uk); johbaker@deloitte.co.uk
Cc: nsartorio@deloitte.co.uk; tony_stuton@btinternet.com; cwwheeler@hotmail.com; awildig@boundarycommittee.org.uk

Paul

We understand that the meeting with Deloitte has now been re-arranged for Tuesday next week. I am sure these matters will be further discussed then.

We have quickly reviewed the legal advice you have received. We note that this advice is based on no actual knowledge of the contract itself, and seems to take little recognition of the intended comprehensive approach to renegotiation that we have explained in our submissions. Inevitably it also takes no account of the discussions and work that have been already undertaken in this respect. This advice therefore feels rather premature, and indeed rather speculative in nature.

In contrast Deloitte's advisory and consultancy division have been specifically involved in advising us on the approach to the renegotiation of this contract. Deloitte also have extensive experience of advising on very similar exercises elsewhere.

We therefore remain convinced that the approach set out in our submissions is prudent and reasonable.

Paul Spencer
Director of Transformation
Norwich City Council

18 May 2009

Boundary Committee Review

From: **Bede-Cox, Michelle** (michelle.bede-cox@norfolk.gov.uk)
Sent: 18 May 2009 12:20:14
To: johbaker@deloitte.co.uk
nsartorio@deloitte.co.uk; PaulSpencer@Norwich.gov.uk;
Cc: tony_stuton@btinternet.com; cwwheeler@hotmail.com;
awildig@boundarycommittee.org.uk

1 attachment

Letter De...doc (33.4 KB)

Dear John

Please see attached letter from Paul Adams, here at Norfolk County Council.

Many thanks

Kind regards

John Baker
Director
Deloitte

Dear John,

Boundary Committee Review of Local Government in Norfolk

I was surprised to see published on Friday the Deloitte Report on Norwich City Council's unitary authority financial case.

As you know, at the request of Norwich City Council, I was very happy to meet with you to discuss this issue. Indeed a meeting was arranged for last Monday 11th May with you and a colleague, which you will recall you cancelled at very short notice. My expectation was that you would be re-arranging, as we discussed, but that has not happened.

Unfortunately we are now faced with a report commenting on financial assumptions and calculations, many of which were originally made by the County Council, which you have not given us a chance to discuss with you. I am very disappointed by this and feel it potentially puts all parties in a very difficult position.

Our finance leads are currently working through Norwich's revised financial case, and your comments on it. However, I wanted to draw two issues to your attention immediately.

Steria Contract.

We have serious concerns about the financial assumptions on this. Unfortunately, despite an expectation by Norwich City Council that the two new authorities would share support services from day one, we have been refused access to the contract on grounds of commercial confidentiality.

However, Norwich City Council did helpfully answer a number of questions we put to them, in which they state that much of their advice on this matter comes directly from Deloitte. Attached is a paper detailing the questions we put to them, their responses and comments by David Woods, Head of the Corporate and Commercial Department at Greenwoods Solicitors LLP, who has extensive experience in advising on I.T. contracts. Clearly his advice appears

different from the advice that Norwich City state they have received from you. Your clarification on such matters would be helpful.

Pay Harmonisation costs

It is not clear from your report whether or not you understood that the pay harmonisation costs were arrived at as a result of an independent report by the Hay Group If you were not provided with it, we would be happy to provide a copy. It is unfortunate that this appears not to have been taken into account. It is also worth noting that there would have been no incentive for the County Council to attempt to exaggerate these costs as they were key to the financial case for a single County Unitary which we prepared.

I am still happy to meet to discuss these issues.

Yours sincerely,

Paul Adams
Director of Corporate Resources
And Cultural Services
Norfolk County Council
County Hall
Martineau Lane
Norwich
NR1 2DH

c.c.:-
Neil Santario - Deloitte
Paul Spencer - Norwich City Council
Alison Wildig - Boundary Committee
Chris Wheeler – Consultant to Boundary Committee
Tony Hall - Consultant to Boundary Committee

QUESTIONS TO NORWICH CITY COUNCIL FROM NORFOLK COUNTY COUNCIL ON THE STERIA CONTRACT; NORWICH CITY COUNCIL'S ANSWERS, AND COMMENTS BY DAVID WOODS, SOLICITOR, ON THESE ANSWERS.

Question One.

Question to Norwich: Does the Steria contract include a provision giving you the contractual right to terminate the contract as regards that part of the services that you intend to remove from the Steria contract (£5m annual cost)? If so could please provide a copy of it.

Answer from Norwich: No, this would be done through the change control process.

Comment from David Woods, Solicitor : Norwich do not have the right to change the contract in the manner proposed. It depends on going through a contract variation process with Steria. That process will include Steria indicating the cost that Norwich will have to pay to achieve the change requested and the impact that the change requested will have on the ongoing charges. There is no obligation on or incentive for Steria to do otherwise than fully price the cost of the change requested. The change requested will be a very substantial reduction in the services provided under the contract. The contract contains a formula for assessing compensation on termination (already stated to be in the order of £14.6m); the changes requested are akin to the termination of over half of the scope of the contract. The Deloitte Report refers to an initial capital investment by Steria of £25m, "the repayments of which were front loaded"; Steria will, no doubt, want to ensure that they recoup those costs.

Question Two.

Question to Norwich: Have you received legal advice that you can terminate that part of the contract in that manner incurring compensation and other costs not exceeding £2.8m? Would you let us know which law firm or lawyers provided that advice, if it has been obtained.

Answer from Norwich: Our advice has been provided by Deloitte. Deloitte are currently involved in a number of other similar ICT contract renegotiations

Comment from David Woods, Solicitor : It appears that legal advice has not been obtained by Norwich. No evidence or substance has been put forward by Norwich to support, let alone validate, the assumption that they will be able to make the major changes to the contract that are being proposed for costs not exceeding £2.8m. The £2.8m figure does not appear to be based in fact. Deloitte's Report does not support the contention that Deloitte have provided that advice; it states "We understand that the Council cannot calculate the exact cost of changing this contract as this will be determined by commercial decisions in the future and renegotiation with Steria. However the Council has estimated that the cost would be approximately 25% of the annual contract value, which totals £2.800m." Deloitte identify an Intermediate Risk from their review of the process used to determine these one-off cost items. Deloitte's benchmarking indicates that the one-off "novation" costs are significantly higher than the other submissions but comment that "this difference is likely to be because of the specific local issue in respect of the Steria contract"; it is not clear what they mean by "the specific local issue" but they probably mean that it depends entirely on the terms of the contract and that the other authorities may not have had 15 year ICT contracts worth £83.4m. No two contract situations or renegotiations are likely to be the same.

Question Three.

Question to Norwich: You have indicated that Steria are "aware" of the proposals and that "discussions are continuing". I would be grateful to know what is Steria's position on that? Has Steria confirmed that your proposal will be acceptable?

Answer from Norwich: Steria has worked with the City Council throughout the unitary bidding process, and has provided advice and guidance on our transformation proposals. We have had several meetings with Steria to discuss our proposals, and more are planned. No firm conclusions have been reached yet.

Comment from David Woods, Solicitor : The answer is notable for what it does not say, rather than what it does say. There is no evidence at all that Steria have even indicated that they might be prepared to agree to the changes that will have to be requested by Norwich, let alone that they agree with the statement that the cost to Norwich of achieving this will not exceed £2.8m. Whilst at this stage one would not expect to see a firm commitment to that effect from Steria, if the figures and statements put forward by Norwich are to be credible one would expect them to be able to confirm that Steria have at least given an indication that Steria will be prepared to agree those changes to the contract and that the cost to Norwich will not exceed £2.8m. The answer falls a very long way short of that. This is the key point; Norwich do not have the right under the contract to dictate the change and the cost of it - Steria have to agree those things. As Deloitte say in their Report, "the cost of changing this contract …. will be determined by commercial decisions in the future and renegotiation with Steria".

Question Four.

Question to Norwich: With the annual revenue for Steria under the contract being between £5 - £8m until 2017, and given your own recent assessment of compensation/interest for terminating the contract being £14.6m, we cannot understand how it is "very plausible" that Steria will be willing to forego all of that and allow the contract to be changed so that the annual charges for the balance of the contract are so significantly reduced for a payment of no more than £2.8m. We would welcome your comments on this.

Answer from Norwich: This is based on information and advice provided by Deloitte.

Comment from David Woods, Solicitor : What is this information provided by Deloitte? Have Steria told Deloitte that they will be prepared to agree the necessary changes for a cost to Norwich not exceeding £2.8m - it appears not. As noted above, the cost is very much for Steria to propose and agree. The relative bargaining position of the two parties appears to be weighted heavily against Norwich. Why would a private sector company agree (when it is under no compulsion or pressure to do so) to accept such a substantial reduction in its income. The size of the compensation payment in circumstances where Norwich terminate the contract early is a pre-estimate of the loss that will be suffered/costs that will be incurred by Steria if the contract is terminated early; there is no incentive for them to absorb those losses/costs by agreeing a payment of not more than £2.8m in respect of them (when the pre-estimate of their amount is £14.6m). The Deloitte Report indicates that the £2.8m figure comes from Norwich (not from Deloitte) and is Norwich's estimate. The Deloitte Report does however conclude that "On the basis of our enquiry, the process used in the calculation of the Greater Norwich contract novation costs seems to based on a considered approach using appropriate source documentation and on that basis we consider the process to be reasonable"; what is this "source documentation"?

Question Five.

Question to Norwich: You refer to a "contract review point" at 2010/2011 and say that it will be used as the opportunity to remove the services to the tune of £5m pa from the contract. Could you please provide details of the contractual terms of that review? Does it specifically give you the right to withdraw those services from the contract?

Answer from Norwich: There is a 10yr break clause option in the contract. It does give us the right to withdraw but this would incur termination charges.

Comment from David Woods, Solicitor : This "contract review point" is therefore a red herring in this context. Norwich has the right to bring the contract to an end using this break clause at the 10 year point but to do so would incur a substantial termination charge. It is only in that context and by incurring that charge that it might be "used as an opportunity" to do this.

Question Six.

Question to Norwich: Have you confirmed with the Government sponsoring department that you will continue to receive the PFI credit of over £1 million per annum, if you reduce the contract as proposed, and could we have a copy of that confirmation please?

Answer from Norwich: Discussions have not advanced far enough to explore this yet.

Comment from David Woods, Solicitor : The PFI credits are a key issue as regards affordability. The Norwich position appears to operate on the assumption that these credits will remain available - but this has not been checked and may not be the case.

SECTION 2 – Detailed calculations

RURAL NORFOLK Affordability indicators – 'as submitted' compared to 'as modelled'

COMPARES INDICTORS AS SUBMITTED AND AS MODELLED

BOUNDARY COMMITTEE TWO UNITARY AUTHORITY PATTERN (B) NORFOLK REMAINDER (EXCLUDING LOWESTOFT) - NEW SUBMISSION

Transition plan additional expenditure and expenditure reductions

			New Unitary Council - submitted	New Unitary Council - modelled	New Unitary Council - differences
Affordability measure 1 - net savings to 2013/14			£m	£m	£m
Gross additional costs		percentage of base costs	36.7	34.7	2.1
Gross reduced expenditure	Modelled	-3.0%	60.0	48.2	11.8
Net expenditure reduction over additional expenditure 2008/9- 2013/14	Submitted	-5.1%	-23.3	-13.6	-9.7
Affordability measure 1a - net savings to 2013/14					
Gross additional costs per head of population			60.46	57.08	3.4
Gross reduced expenditure per head of population			98.81	79.44	19.4
Net expenditure reduction over additional expenditure 2008/9 - 2013/14 per head of population			-38.36	-22.37	-8.11
			£m	£m	£m
Affordability measure 2 – net ongoing savings			-15.2	-12.3	-2.9
			£ p	£ p	£ p
Affordability measure 3 – net ongoing savings per head of population			-24.98	-20.21	-4.8
			%	%	%
Affordability measure 4 – net ongoing savings as a percentage of base costs			-3.4%	-2.7%	-0.7%
			%	%	%
Affordability measure 5 – net ongoing savings as a percentage of gross transitional costs			-41.3%	-35.4%	-5.9%
Payback period					
					years
Affordability measure 6- payback period			3.3	3.7	-0.4
			years	years	
Balances					
Affordability measure 7 – net use of balances over the transitional period			£m	£m	£m
Used (-) or increased (+) over the period to 2012/13			2.7	-7.9	10.6
			£m	£m	£m
Remaining at end of 2012/13			20.5	9.9	10.6
			%	%	%
Affordability measure 8 – net balances as a percentage of base costs			4.6%	2.2%	0.0
Is this in line or better than the S151 Officer's advice?			yes	no	
Balances at the end of year 1			9.3	6.8	
Affordability measure 8a – net balances as a percentage of base costs			2.0%	1.5%	
Is this in line or better than the S151 Officer's advice?			no	no	
Council Tax			1197	1196	1
Council Tax year 1					
Council tax prior to inception - average			1197	1197	
Population - LAs estimate as at June 2007	Col 1		607.2	607.2	

Additional expenditure and expenditure reductions analysis - AS SUBMITTED

Gross expenditure analysis	£m	Gross reductions analysis	£m
Staffing	23.2	Corporate & Democratic	30.5
IT	0.8	Service Costs	0.0
Change management and shadow planning	1.5	Other	29.5
Other	11.2		60.0
	36.7		

Staffing issues

	Number	Percentage staffing change
Initial staffing numbers as at 1/4/2007	7,673	
Staff effect per additional expenditure plans	109	-3.7%
Staff effect per expenditure reductions	-393	
Assessed staffing at 31/3/2013	7,390	

	£m
Redundancy to 2012/13	3.0
Early Retirement and pension fund cont'ns to 2012/13	6.1
Average cost of staff reduction per transitional plan	£23,124

THE ABOVE INDICATORS WILL HAVE TO BE PUT IN MANUALLY IN SOME CASES

Additional expenditure and expenditure reductions analysis - AS MODELLED

Gross expenditure analysis	£m	Gross reductions analysis	£m
Staffing	23.2	Corporate & Democratic	28.3
IT	1.6	Service Costs	0.0
Change management and shadow planning	1.5	Other	20.0
Other	8.3		48.2
	34.7		

Staffing issues

	Number	Percentage staffing change
Initial staffing numbers as at 1/4/2007	7,673	
Staff effect per additional expenditure plans	105	-2.5%
Staff effect per expenditure reductions	-297	
Assessed staffing at 31/3/2013	7,481	

	£m
Redundancy to 2012/13	3.0
Early Retirement and pension fund cont'ns to 2012/13	6.1
Average cost of staff reduction per transitional plan	£30,535

THE ABOVE INDICATORS WILL HAVE TO BE PUT IN MANUALLY IN SOME CASES

RURAL NORFOLK Council Tax comparators

BOUNDARY COMMITTEE TWO UNITARY AUTHORITY PATTERN (B) NORFOLK REMAINDER (EXCLUDING LOWESTOFT) - NEW SUBMISSION - Revised 3-3-09	COMPARISON OF COUNCIL TAX FIGURES - BEFORE AND AFTER UNITARY IN PLACE

Base Data	Column references relate to Finance and General Statistics 2007-8 Budgets	Breckland	Broadland District - transferred from Broadland District apportionment	Great Yarmouth	Kings Lynn and West Norfolk Borough	North Norfolk	South Norfolk District - transferred from South Norfolk apportionment	Total
		£000	£000	£000	£000	£000	£000	£000
D1 Council Tax base	Col 9	41.447	17.281	30.900	48.636	40.362	37.524	216.2
D2 Council Tax	Assessed Council Tax - Local Spend (inc parishes)	£109.56	£154.94	£142.10	£140.88	£153.61	£175.74	
	Assessed Council Tax - Major Preceptor	£1,052.10	£1,052.10	£1,052.10	£1,052.10	£1,052.10	£1,052.10	
		£1,161.66	£1,207.04	£1,194.20	£1,192.98	£1,205.71	£1,227.84	
Council Tax yield		48,147,652	20,858,875	36,900,890	58,021,936	48,664,860	46,073,285	258,667,498

				Year 1	Year 2
COMPARISON - Council Tax in Year 1 as shown in the workbook				£1,197	
COMPARISON - Council Tax in Year 2 as shown in the workbook					£1,197
Method 1 - Average Council Tax calculated using present individual Council Taxes for constituent authorities, and apportioned (where necessary) Council Tax bases for the constituent authorities, arriving at an average Council Tax for the total Council Tax yield for the new unitary		£1,197	**Is the modelled Council Tax below that calculated using method 2?**	yes	yes
Method 2 - Average Council Taxes using present individual Council Taxes only		£1,198	**Is the modelled Council Tax below that calculated using method 2?**	yes	yes
Method 3 - Average Council Taxes using Apportioned Base expenditure and external finance for the constituent authorities, brought together for the new unitary	as calculated by the workbook	£1,197	**Is the modelled Council Tax below that calculated using method 3?**	yes	yes
Comparison to the lowest Council Tax in place in 2007-8	Breckland	£1,162	**Is the modelled Council Tax below this?**	no	no
Cost of moving to lowest Council Tax in 2007-8		£7.6 m per annum			

IN AGGREGATE MODELLING – applying the modelling used for the new submission March 09

Norfolk Pattern B Without Lowestoft

Pattern Number 2 **KEY OUTCOMES**

Assessment of appropriate level of reserves

Base budget before transitional plan

14	Norfolk remainder without Lowestoft	84.7	457.3	457.3	457.3	457.3	#
		84.7	**457.3**	**457.3**	**457.3**	**457.3**	

Balances required per relevant S 151 officer

14	Norfolk remainder without Lowestoft	3.25%	3.25%	3.25%	3.25%	3.25%

Balances assessed from base budget

14	Norfolk remainder without Lowestoft	2.8	14.9	14.9	14.9	14.9
	Total minimum balances	**2.8**	**14.9**	**14.9**	**14.9**	**14.9**
	Calculated Percentage	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**
Balances available per modelling in aggregate	*see line 18 above*	19.8	14.6	16.0	19.3	23.1
Shortfall(-), Surplus (+) of balances from minimum level needed		17.1	-0.3	1.2	4.4	8.2
	Percentage - balances available of base budget	23.4%	3.2%	3.5%	4.2%	5.0%

AFFORDABILITY CRITERIA 4							
Reserves compared to minimum level	Calculated Percentage *see line 34 above*	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**	
	Percentage over(+), under (-) minimum level	20.1%	-0.06%	0.3%	1.0%	1.8%	

Additional balances needed to meet Risk assessment Criteria 4 - balances at Medium level

Between 0.25% and up to 2.5% above recommended level

Calculated minimum percenatege	**3.5%**	**3.5%**	**3.5%**	**3.5%**	**3.5%**
Percentage - balances available of base budget	23.4%	3.2%	3.5%	4.2%	5.0%
Difference	19.9%	**-0.31%**	**0.00%**	0.7%	1.5%
Differences in balances - £m	16.8	**-1.4**	**0.0**	3.3	7.1

Total additional balances needed over 2 years **1.4** m

IN AGGREGATE MODELLING –25% variance to changes between March and May submissions

Norfolk Pattern B Without Lowestoft

Pattern Number 2 **KEY OUTCOMES**

Assessment of appropriate level of reserves

Base budget before transitional plan

14	Norfolk remainder without Lowestoft	84.7	457.3	457.3	457.3	457.3	#
		84.7	**457.3**	**457.3**	**457.3**	**457.3**	

Balances required per relevant S 151 officer

14	Norfolk remainder without Lowestoft	3.25%	3.25%	3.25%	3.25%	3.25%

Balances assessed from base budget

14	Norfolk remainder without Lowestoft	2.8	14.9	14.9	14.9	14.9
	Total minimum balances	**2.8**	**14.9**	**14.9**	**14.9**	**14.9**
	Calculated Percentage	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**
Balances available per modelling in aggregate	*see line 18 above*	19.8	13.4	15.1	17.7	21.0
Shortfall(-), Surplus (+) of balances from minimum level needed		17.1	-1.5	0.2	2.9	6.1
	Percentage - balances available of base budget	23.4%	2.9%	3.3%	3.9%	4.6%

AFFORDABILITY CRITERIA 4	Calculated Percentage *see line 34 above*	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**
Reserves compared to minimum level	Percentage over(+), under (-) minimum level	20.1%	-0.32%	0.04%	0.6%	1.3%

Additional balances needed to meet Risk assessment Criteria 4 - balances at Medium level

Between 0.25% and up to 2.5% above recommended level

Calculated minimum percenatege	**3.5%**	**3.5%**	**3.5%**	**3.5%**	**3.5%**
Percentage - balances available of base budget	23.4%	2.9%	3.3%	3.9%	4.6%
Difference	19.9%	**-0.57%**	**-0.21%**	0.4%	1.1%
Differences in balances - £m	16.8	**-2.6**	**-1.0**	1.7	5.0

Total additional balances needed over 2 years **3.6** m

IN AGGREGATE MODELLING –50% variance to changes between March and May submissions

Norfolk Pattern B Without Lowestoft

Assessment of appropriate level of reserves

Base budget before transitional plan							
14	Norfolk remainder without Lowestoft	84.7	457.3	457.3	457.3	457.3	#
		84.7	**457.3**	**457.3**	**457.3**	**457.3**	
Balances required per relevant S 151 officer							
14	Norfolk remainder without Lowestoft	3.25%	3.25%	3.25%	3.25%	3.25%	
Balances assessed from base budget							
14	Norfolk remainder without Lowestoft	2.8	14.9	14.9	14.9	14.9	
	Total minimum balances	**2.8**	**14.9**	**14.9**	**14.9**	**14.9**	
	Calculated Percentage	**3.25%**	**3.25%**	**3.25%**	**3.25%**	**3.25%**	
Balances available per modelling in aggregate	*see line 18 above*	19.8	12.2	13.9	16.0	18.7	
Shortfall(-), Surplus (+) of balances from minimum level needed		17.1	-2.7	-0.9	1.2	3.8	
	Percentage - balances available of base budget	23.4%	2.7%	3.0%	3.5%	4.1%	
AFFORDABILITY CRITERIA 4	Calculated Percentage *see line 34 above*	**3.25%**	**3.25%**	**3.25%**	**3.25%**	**3.25%**	
Reserves compared to minimum level	Percentage over(+), under (-) minimum level	20.1%	-0.59%	-0.20%	0.3%	0.8%	

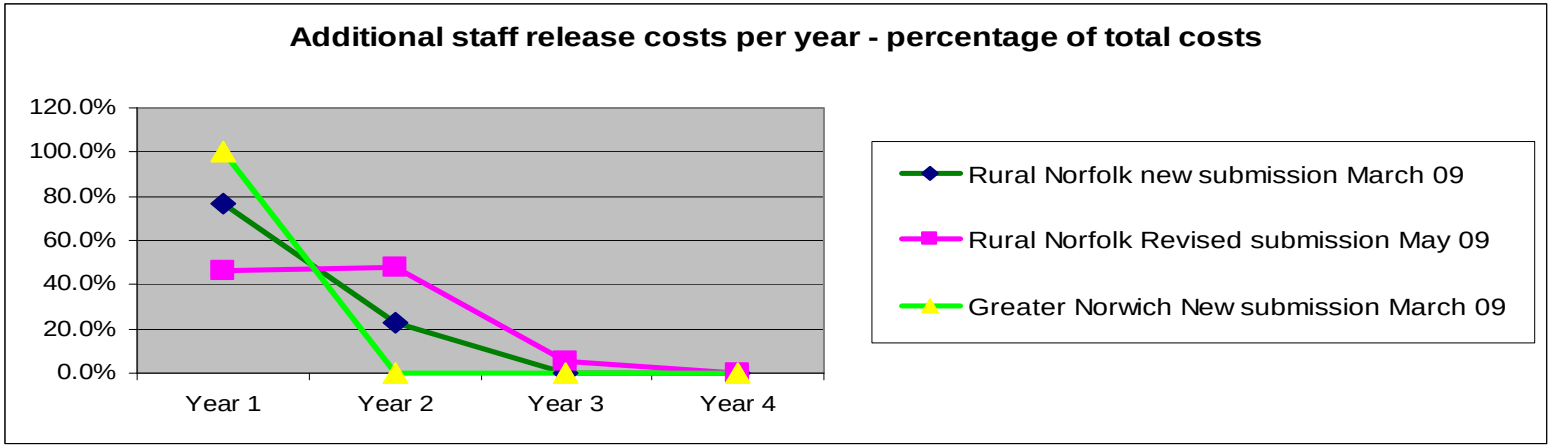
Additional balances needed to meet Risk assessment Criteria 4 - balances at Medium level

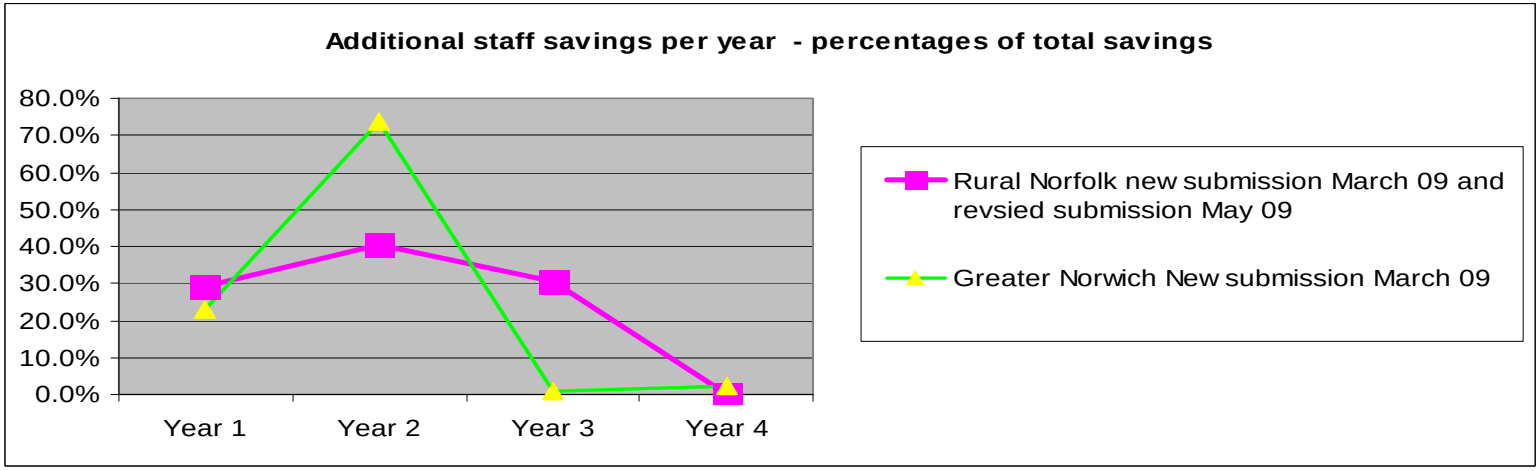
Between 0.25% and up to 2.5% above recommended level

Calculated minimum percenatege	**3.5%**	**3.5%**	**3.5%**	**3.5%**	**3.5%**
Percentage - balances available of base budget	23.4%	2.7%	3.0%	3.5%	4.1%
Difference	19.9%	**-0.84%**	**-0.45%**	0.0%	0.6%
Differences in balances - £m	16.8	**-3.8**	**-2.1**	0.0	2.7

Total additional balances needed over 2 years **5.9** m

PROFILING ADJUSTEMENTS – Staff release costs and staff savings





The graphs show the changes in profiling that is included in the Rural Norfolk revised submission May 09, and compare these to the Greater Norwich submission.

Profiling of staff release costs ahs been smoothed, reducing costs in year 1.Profile of staff savings has not changed.

In contrast, Greater Norwich submission expected all staff release costs to fall in year 1