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

REVIEW TO TEST WHETHER AFFORDABILITY CRITERIA ARE LIKELY TO BE MET

DETAILED REPORT FOR NORFOLK PATTERN B – TWO UNITARY OPTION – N3

REVISED SUBMISSION MAY 2009

Report of the Independent Financial Consultants to the Boundary Committee
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10th June 2009

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1. NORFOLK TWO UNTARY PATTERN - REVIEW, ACTIONS TAKEN AND CONCLUSIONS

1.1 Terminology

1.1.1 For the purposes of identification, we have used the following terminology relating to submissions relating to this pattern:

Original Submission	That put forward by Norfolk County in July 2008
New Submission	That put forward by Norwich City in March 2009
Revised Submission	That put forward by Norwich City in May 2009

1.1.2 On 14th May 2009 as part of the response to the Boundary Committee's consultations, Norwich City put forward a changed set of figures relating to Rural Norfolk (previously called Norfolk Remainder in our reports) – the Revised Submission May 09 .

1.2 Background and Context

1.2.1 It should be noted that this is the fourth set of figures than Norwich has submitted (including their original submission). The revised submission May 2009 uses the same basis as the new submission March 2009

- An approach that uses the original figures produced by Norfolk for the County Unitary submission, pro rata adjustments being made for allocation of certain costs and savings to the two unitaries
- a new jointly owned shared service company between the two new authorities
- and the renegotiation of the present PFI contract with its own service provider
- bringing some element of the outsourced IT in house
- anticipating significant savings from this approach

1.2.2 In our report 12th March 2009 we found the submission to be high risk, and highlighted some risks which we are not able to take into account sufficiently in our risk matrices

- the risk inherent in the 'in aggregate' approach,

- the further delay over and above our modelled levels which could arise due to the co-operative working which would be necessary, of which there is little evidence so far, and the risk to smooth implementation which that would bring.

1.2.3 In our view these risks have increased with our review of the revised submission May 2009.

1.2.4 We have undertaken our standard review of the revised submission for Norfolk Two Unitary Pattern as represented by the revised submission from Norwich. This is included at Section 2 to this report.

1.2.5 Norwich have made no changes to their figures for Greater Norwich, but have selected two areas for change from their figures based on the Deloitte's benchmarking report they have commissioned – pay harmonisation and additional staffing arising from the disaggregation of County services.

1.2.6 In addition they have reprofiled staff release costs, assessing that more will fall into later years, whilst retaining the present profile of staff savings. Norwich says this brings the two profiles better into line, though this issue is not mentioned by Deloitte.

1.2.7 There is no agreement between Norwich, who have revised the figures, and Norfolk who prepared the original figures on any of these changes.

1.2.8 Our modelling applied to the new submission March 2009 totalled £8.9m. We also highlighted a shortfall in balances after applying our modelling of £5.1m in year 1. The changes result in an increase in the net savings of £9m, and in year 1 balances of £4.9m.

1.2.9 The changes Norwich have put forward appear overtly aimed to meet the arithmetic tests of the 'in aggregate' analysis. Their changes equal virtually exactly the modelling we undertook and the change to year 1 balances means that without further modelling criteria 4 would be so close as to be deemed acceptable, though there is no leeway for margin of error.

1.2.10 But despite the changes, applying only the modelling which we undertook for the new submission March 2009, it would still score High Risk on our risk matrix as balances are below the 0.25% above the minimum that the risk matrix requires in order for the submission to score 'medium'.

1.2.11 In view of the lack of supporting evidence, we have tested reasonable adjustments to the Norwich changes and find then that the submissions in aggregate are High Risk.

1.2.12 This then deals with the process, but the process itself relies on amongst other things properly costed business plans and supporting financial statements being available, reasonable implementation plans, and high levels of consultation with interested parties. We have not seen sufficient evidence that these are properly in place.

1.2.13 Risks which in our view could be over and above those include in our arithmetic process include not only the two key issues identified in the March 2009 report :

- the risks inherent in the 'in aggregate' approach, (which are significant in that Norwich will need to pass £13.3m to Rural Norfolk in years 1 and 2)
- and the further delay over and above our modelled levels which could arise due to the co-operative working which would be necessary and the risk to smooth implementation which that would bring

  - but also further risks that

- Rural Norfolk, which would presumably inherit the Norfolk County shared services plans and ownership of the 'Norse' Group of trading companies, and being by far the larger of the two unitaries will 'go it alone' seeking financial independence, and not initially, at least, wish to operate on a shared service basis with another new authority from vesting day - this would undermine the principles of the Norwich version of the Rural Norfolk plan

- The lack of evidence on costings and proper advice could mean substantial further delays, both to service implementation and savings predicted.

1.3 Key Issues

We list below the key issues which we think show themselves in considering the revised submission -

1.3.1 Acceptance of our modelling for Greater Norwich by Norwich

Our modelling undertaken in respect of the Greater Norwich new submission, February 2009, was based on the identification of 14 significant risks and 5 significant reservations (see our report of 12 March 2009) This resulted in modelling the effect of reductions of net savings by £11.5m (46% of the net transitional plan as submitted). This has been accepted by Norwich, with the explanation that the risks identified by Deloitte have "*already been fully addressed by the IFCs in their modelling and so no further adjustments have been made.*"

1.3.2 Use of benchmarking without properly costed support -

Benchmarking is not a substitute for a properly costed assessment of the proposals, since it assumes that the base situation and implementation plans between authorities are roughly similar, and there is no evidence provided to indicate that this is the case.

1.3.3 Need for properly costed supporting statements

No evidenced case has been supplied for the three major changes despite specific requests.

- Norfolk County, the previous lead for the Norfolk Rural submission, commissioned a detailed review for Pay Harmonisation which resulted in the original costs being built up on an apparently reasonable basis.(*see the separate report Background Financial Information*)

- Norwich have reduced this provision by £5m (56%).In response to our specific question asking for a properly costed statement, Norwich say, '*It has not been possible to undertake a detailed costing exercise in the very limited time provided.' Request for Information 03 – See separate report Background Financial Information*. It is difficult to understand this when Norwich have been lead officer for this submission since at least January 2008.

- We have not seen satisfactory supporting evidence for the reduction in additional staffing (originally included by Norfolk County, supported by documentation - *see Page 256 of Compilation of Background Information, November 2008* - and accepted in the March 2009 new submission by Norwich). We have always taken the view that this provision may be high and have consistently modelled it at 10% less than the figure included by Norfolk.

- In response to our specific request for a properly costed statement Norwich has said '. *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.' Request for Information 03 – see separate report Background Financial Information*

- With regard to the timing of redundancy and pension contribution payments we note that the profile of staff release costs has been changed to move costs into year 2, whilst the profile of the savings has not changed. Norwich says that the profile has been altered to better reflect the profile of the staff savings contained in their new submission March 09. We note that the profile for the Greater Norwich submission showed all staff release cost in year 1, with savings in years 1 and 2. We have graphed the changes in profile in the separate report *Background Financial Information*

- There are conflicting views on this issue between Norfolk – who calculated the original figures – and Norwich about when these costs would fall and the profile of savings which would arise from them. Norfolk makes the point that CDC costs would have to be incurred early for the new structure to achieve savings. We have been provided with no proper costing by Norwich on this issue.

1.3.4 **Lack of evidence of advice –** The following are the key points of the exchange of questions and answers with Norwich to seek evidence of advice and research:

- We have asked to see the advice that Norwich indicated had come from Deloitte's specialist advisory and consultancy division regarding the Norwich City IT issues and the renegotiation of the Steria PFI contract.

- In response to our specific request for sight of that advice the Norwich response says '*There is no additional written advice to forward.' Request for Information 02 see separate report Background Financial Information*

- Norwich also told us '*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.'*

- When we asked to see a synopsis of that research Norwich replied: '*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.'Request for Information 01 - see separate report Background Financial Information*

1.3.5 **Lack of Sponsor –** There remains the problem of no sponsor or champion for the Norfolk Rural pattern.

1.3.6 **Implementation plan** - No outline implementation plan has been made available to support specific proposals relating to Rural Norfolk. Given that the business plans are in theory the same there must be a risk that the two need to move at the same pace so that delays in one authority may cause delays in the other.

1.3.7 **Cooperation between the two authorities -** Since the revised submission continues to assume joint working with the Greater Norwich Authority, there remains high risks about the assumptions made and the sparseness of supporting information on how long the achievement of savings is likely to take

1.3.8 **Rural Norfolk may 'go it alone'**
There is no recognition that a 'championed' Rural Norfolk authority may not share the 'shared service vision' of Greater Norwich, or other issues in the approach and may 'go it alone' leading to a substantial Replanning requirement for Greater Norwich

1.3.9 **Level of prudential balances**
In our view the S151 officer of the new Rural Norfolk unitary, taking into account the risks shown in this review, if this approach were approved, may for prudency wish to recommend a higher level of balances than the

3.25% which is included in this analysis. Each 0.5% would require additional balances of some £2.5m.

1.3.10 Implementation Date

All workbooks are submitted on the basis that the implementation date would be 2010. But Norwich has indicated that they are working to an implementation date of 2011.

1.4 External Consultancy – Caveats and views

1.4.1 Norwich appointed an external consultancy, Deloitte, to independently review their submissions.

1.4.2 Deloitte clearly indicated the limitations of the review that they had undertaken:

We 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 submissions by Norfolk County Council and therefore this was not within the scope of our procedures (page 3)
Our procedures have been performed using information provided by the Council ; we have not performed an audit of the underlying data used in the calculation of the amounts included in either the Greater Norwich or the Rural Norfolk workbooks (page 3)
We have not reviewed the Council's implementation plans and therefore have not assessed: *whether the expected vesting date is reasonable;* *whether the expected timetable for the shared services implementation is realistic;* *nor whether the savings that are included within those workbooks can be achieved through those implementation plans. (page 3)*
We have not verified the accuracy and validity of the information used by the Council in preparing the Greater Norwich and Rural Norfolk workbooks (page 10)

1.4.3 Having made these caveats, Deloitte say, with the exception of the risks they have identified, '*… based only on the procedures set out in Section 1…we conclude that in* ***determining the one off costs, the ongoing costs and the capital expenditure items*** *stated in the* ***Greater Norwich workbook*** *the Council has employed a reasonable approach based on source documentation and enquiry. ' (page 2).*

1.4.4 No mention in this overview is made of the Greater Norwich gross reduction figures, presumably due to the caveats and limitations shown above. This conclusion does not mention the Rural Norfolk workbook.

1.4.5 The Norwich summary states that the Deloitte report concludes that*:*

- *A reasonable and sound approach was taken in the City Council's financial submission* (Note – the word 'sound' is not used at all in the Deloitte document*).*

- *When benchmarked against other submissions…the figures included are comparable and in most cases prudent and risk aware* (Note - the words 'risk aware' are not used at all in the Deloitte document whilst the word 'prudent' is only used 3 times).

1.4.6 Deloitte have carried out benchmarking using the other two unitary submissions in this review, and the submissions made by two unitaries in Cheshire and Bedfordshire in the last round of unitary applications. They have indicated some areas where there is, in their view, a variance against these benchmarks, for both the Greater Norwich and Rural Norfolk workbooks.

1.4.7 We have shown a comparison between Deloitte's review, Norwich's over view of this and our modelling at **Appendix A** to this report.

1.4.8 In summary, Deloitte have highlighted 18 categories in all at intermediate or high risk.

1.4.9 Summary of categories highlighted at intermediate or high risk – Deloitte report

Table 1

	Greater Norwich			Rural Norfolk		
	Could be lower	**Could be higher or lower**	**Could be higher**	**Could be lower**	**Could be higher or lower**	**Could be higher**
Additional Costs		5 categories – ➢ accommodation additional staff, ➢ contract novation, ➢ communications / branding, ➢ pay harmonisation ➢ other additional costs - ongoing	4 categories ➢ Redundancy and early retirement ➢ Recruitment ➢ other additional costs – one off ➢ member allowances	2 category – ➢ Pay harmonisation ➢ Change management,	1 category ➢ other additional costs - ongoing	4 categories - ➢ Relocation, ➢ Information Technology ➢ Localisation ➢ Other additional costs – one off
Savings		1 category – ➢ other gross reductions			1 category– ➢ other gross reductions	

1.4.10 The overview presented by Norwich appears to concentrate on areas where costs can be significantly reduced using the benchmarking only as a guide.

1.5 Comparison between Deloitte's risk highlighting and our modelling

1.5.1 In general, the areas highlighted by the Deloitte's report broadly match the main areas highlighted by our review for Rural Norfolk, with the exception of pay harmonisation, as shown in **Appendix A**

1.5.2 We have reviewed pay harmonisation specifically and shared the outcome with Norwich and Norfolk as part of 'Request for Information 01'; copy included in the separate report '*Background Financial Information'*. Benchmarking is not a sound basis, on its own, for costings within a business plan. It should only be used for testing computations made and does not, therefore, justify **in itself** the reduction of the pay harmonisation costs by 56% as now put forward by Norwich, without further properly costed evidence.

1.5.3 We have also looked in detail at 'ongoing additional costs' – specifically those relating to additional staffing, and our review is shown in the separate report '*Background Financial Information'*. This was shared with Norwich and Norfolk as part of 'Request for Information 01'. In our view, the benchmarking does not **in itself** justify the reduction of the additional staff costs by 50% as now put forward by Norwich.

1.6 Action taken by Norwich with regard to the issues raised by Deloitte

1.6.1 On the basis of this report, and their considerations, Norwich have not changed any of the figures that were used in the March new submission for Greater Norwich, stating that they felt that the area where Deloitte had indicated their costs may be high risk at being overstated, these '*had been fully addressed by the IFCs in their modelling and so no further adjustments have been made'*.

1.6.2 It is surprising that whilst accepting there are issues with the figures they have submitted, Norwich have not changed **their** figures but relied on **our** modelling to provide a reasonable assessment of the plan. They indicate that this is due to timescale. We have indicated above the level of changes which we modelled (46% of the net transitional plan submitted in their new submission March 09).

1.6.3 They have, however, altered the Rural Norfolk submission to reduce, or change provisions in the following areas. These reduce the overall cost of the transitional plan by £9m.

Table 2

Differences – Rural Norfolk - Revised submission May 09 to New submission March 09

		Year 1 2010/11	Year 2 2011/12	Year 3 2012/13	Year 4 2013/14	**Total** **2007/8 - 2013/14**
		£m	£m	£m	£m	**£m**
Staffing	Redundancy	-0.988	0.488	0.500	0.000	**0.000**
	Early Retirement and pension fund cont'ns	-1.774	1.774	0.000	0.000	**0.000**

Staffing	Pay Harmonisation	-1.250	-1.250	-1.250	-1.250	**-5.000**
Staffing	Additional Staff	-0.855	-1.058	-1.058	-1.058	**-4.029**
		-4.867	-0.046	-1.808	-2.308	**-9.029**

1.6.4 The effect of the modelling we applied in reviewing the Rural Norfolk new submission in March 2009 was £8.91m and we highlighted a shortfall in balances under the in aggregate analysis in year 1 of £5.1m (with a further shortfall in year 2 of £3.4m)

1.7 Transitional plan for Rural Norfolk – Revised submission May 09 - as presented

1.7.1 Despite the adjustments made by Norwich, the Rural Norfolk submission still has difficulties with regard to availability of unallocated balances. Minimum balances in each and every year should be **£14.9m – 3.25% of net budget**. But the submitted figures show:

- year 1 - £9.3m
- year 2 – £7.3m
- year 3 – £13.6m
- Without the 'in aggregate' approach, and scored alone, the revised submission for Rural Norfolk would therefore be unlikely to meet the affordability criteria with regard to balances.

It is clear that even with the adjustments made by Norwich, the Rural Norfolk unitary will have to rely on balances being available from Greater Norwich in the early years to break even.

1.8 In aggregate analysis – Method A

1.8.1 We have defined the basis for Method A 'in aggregate' analysis in our previous reports. Essentially Method A adds the two submissions of a two unitary pattern together and assesses the outcome against the affordability criteria. There are difficulties in this in that it averages Council Tax across both unitaries, with a consequential effect on balances, whereas in reality, council tax will be set by each unitary individually.

1.8.2 We have undertaken a Method A 'in aggregate' analysis applying the modelling we have shown below, which is dealt with in detail in a separate section of our report. The key factor in this analysis has always been the availability of unallocated balances. The table below shows the outcomes arising , when analysed 'in aggregate' using Method A

- incorporating the Greater Norwich workbook as modelled for the new submission March 09,

- and using Norwich's revised submission May 09,
    - firstly, without making any modelling against the submitted figures
    - secondly , after applying modelling as we did for the new submission March 09, but with no other modelling changes

Table 3

Submission	Method A 'In aggregate' result – balances above(+) or below(-) the minimum level
Revised submission – Greater Norwich as modelled for new submission March 09, and Rural Norfolk with figures as submitted revised submission May 09	0.4%
Revised submission – Greater Norwich as modelled for new submission March 09, and Rural Norfolk as modelled for new submission March 09 and no modelling relating to changes in Table 2 above in revised submission May 09	0.0%

1.8.3 However our matrix requires that balances in year 1 must be at least 0.25% above the minimum level required to meet Criteria 4 - balances - at medium level. Our analysis shows that this is not the case after modelling is applied against this requirement, and there is a shortfall of 0.25%

1.8.4 Thus under our analysis just applying the modelling which we have undertaken to the new submission now to the revised submission May 09, the submission is seen as **HIGH RISK** under Method A**.**

1.8.5 Method A has some shortfall in that it averages the requirement for balances and the calculation of the Council Tax. Whilst we have undertaken the analysis, Method B appears to give a better reflection of the likely position for two independent new unitaries.

1.9 In aggregate analysis – Method B

1.9.1 Method B 'In aggregate' analysis follows the wording of the Secretary of State's new advice (5th December 2008) on the approach to 'in aggregate' assessment as closely as possible. The advice related to the aggregation of costs and savings and balances, and nothing else. It therefore requires the movement of net transitional savings, or balances, or both, from one unitary submission to another in order for both submissions to achieve all of the affordability criteria.

1.9.2 We have made no changes to the modelling we undertook for Greater Norwich as Norwich has not changed their figures. For Rural Norfolk we

have applied the same modelling as we did to the March 2009 new submission as shown in section 3

Table 4

Submission	Rural Norfolk - Method B 'In aggregate' result – balances above(+) or below(-) the minimum level
May 2009 Revised submission with modelling as applied to the new submission	-0.06% (£0.3m)

1.9.3 The submissions as modelled under Method B require Norwich to pass balances of £7.8m in year 1 and £5.4m in year 2 – (£13.2m in total) – to Rural Norfolk. Norwich is unable to pass more in year 1 without failing Criteria 4 Balances itself. At higher levels of variance Greater Norwich has to pass £13.3m to Rural Norfolk, the maximum level it can achieve in years 1 and 2.

1.9.4 This variance is so small as to enable us to say that it could meet the criteria.

1.9.5 However, the changes put forward by Norwich, whilst they allow for balances to be just below the minimum level of 3.25% of net base budget, do **not** meet the additional criteria of an additional 0.25% over that level which is included in our risk matrix. In fact it shortfalls by 0.31%, but that equates to about £1.4m. It would therefore score high risk for criteria 4 balances and would cause the whole submission to be viewed as High Risk. The detailed calculation for this is shown in the separate report '*Background Financial Information*'

1.9.6 However, in our view, Norwich has neither provided any properly costed evidence to support their changes relating to pay harmonisation and additional staffing, nor the additional advice they say they have received. This is the case despite our specific request - *see Request for information 01, 02 and 03 - Background Financial Information.* In addition there is no agreement between Norfolk and Norwich as to the appropriateness of the reprofiling of staff release costs.

1.9.7 We have modelled the effect if these new provisions did not prove to be realistic, by a 25% and 50% change in the difference from the revised submission May 2009 to the new submission March 2009 using Method B and have shown the effect in the table below.

1.9.8 Thus with changes at this level, which are entirely possible without a properly costed analysis, the submissions would be unlikely to meet Criteria 4 balances. This is indicated in the following table:

Table 5

Outcome of 'in aggregate' modelling at various levels of variance

Modelling undertaken	Change in transition plan net savings	Shortfall in balances in year 1 to meet the additional requirement for balances 0.25% above the minimum		Shortfall in balances in year 2 to meet the additional requirement for balances 0.25% above the minimum		Criteria 4 balances likely to be met?	Risk Matrix ranking
		£m	%	£m	%		
Applying the modelling we undertook for the new submission march 09 to the revised submission May 09		-0.3m	-0.06%	Nil	Nil	Arithmetically no - but as the margin is small could be met - YES	
To meet Risk matrix requirement 0.25% above minimum level		**-1.4m**	**-0.31**	**Nil**	**Nil**	**NO**	**HIGH**
25% of difference	£2.2m	-1.5m	-0.32%	Nil	Nil	**NO**	**HIGH**
To meet Risk matrix requirement 0.25% above minimum level	**£2.2m**	**-2.6m**	**-0.57%**	**-1.0m**	**-0.21%**	**NO**	**HIGH**
50% of difference	£4.4m	-2.7m	-0.59%	-0.9m	-0.2%	**NO**	**HIGH**
To meet Risk matrix requirement 0.25% above minimum level	**£4.4m**	**-3.8m**	**-0.84%**	**-2.1m**	**-0.45%**	**NO**	**HIGH**

Thus to meet the criteria of 0.25% above the minimum level would require additional balances of £5.9m over 2 years if the changes which Norwich have made are not realised by 50%. Calculations for this table are included in the separate report *Background Financial Information*

1.10 Overall conclusion for the Revised Submission May 2009

1.10.1 As submitted, Rural Norfolk is shown to have insufficient balances and on its own, even after Norwich's latest adjustments, would be rated by us as High Risk using our standard approach.

1.10.2 In the absence of evidence, we are not convinced that all of the figures included in the revised submission are calculated on a properly costed basis.

1.10.3 We had concerns about the major pro rata apportionments shown in the March 2009 new submission which have been retained in the May 2009 revised submission, and have modelled our view of risks caused by this.

1.10.4 In aggregate, under both Method A and Method B , the submissions after applying the modelling we applied to the new submissions March 09 scored arithmetically, would be high risk. This risk would increase if the changes made by Norwich did not come to fruition.

1.10.5 If there was a variance of 50% from the changes made by Norwich since the last submission, additional balances of £5.9m would be needed.

1.10.6 We accept that with regard to the arithmetic model relating to the 'in aggregate 'analysis, some could say that the margins by which the 'in aggregate' submissions are unlikely to meet the criteria are small.

1.10.7 But taking into account the points listed in our key issues and in this section, as well as the outcome of the arithmetic model, we conclude that **High Risk** is an appropriate reflection of our review.

2 ANALYSIS OF THE RURAL NORFOLK REVISED SUBMISSION MAY 2009

2.1 Rural Norfolk Revised Submission May 2009 - Summary of Issues Raised

As well as reviewing in detail all of the papers and documents that were submitted, we also sought and received responses to our queries covering the following issues:

The basis of advice from Deloitte relating to IT costs
Profiling of savings in relation to the revised profile of staff release costs
The basis of the calculation of pay harmonisation costs reflected in the revised submission
The basis for the calculation of additional staffing costs to reflect county services included in the revised submission
The background to research and advice relating to the renegotiation of IT contracts
The scope of the services to be covered by the shared services arrangement
The integration of the City Council's IT provider Steria with the assumed platform under the submission

The answers that we received have been taken into account in our overall analysis.

2.2 Rural Norfolk Revised Submission May 2009 - Risks still inherent - modelling

2.2.1 Following our detailed review of all supporting documents and having established what explanations we can to issues that we have raised, we consider that there are nevertheless inherent risks in the proposals which are, in our view, above the 'normal' level associated with such reorganisations .We have completed some financial modelling to consider their potential impact on the above figures.

2.2.2 This is not in any way to 'second guess' the work that the statutory officer for the lead authority and their colleagues have undertaken - nor is it in any way a recosting exercise. Our modelling merely suggests what could be the effect on the submitted data if these highlighted possible risks came to fruition. Whilst the effect of these risks could be higher or lower, this does give a contribution to the judgments that need to be made in order for final decisions to be taken.

2.2.3 Since the bulk of the figures which are included in the Rural Norfolk May 2009 revised submission have not changed, we have used the same modelling to these figures as we applied to the March 2009 new submission. These are shown below at Table 6

Table 6

Risk and opportunities still inherent	Action	Effect of Modelling on Rural Norfolk £m
1 There could be potential delays in delivering efficiencies from shared services within timescales forecast because of apparent lack of common ground with Norfolk Pattern B options. Rural Norfolk would be the larger partner in the Shared service and may not share the Greater Norwich Unitary Council vision or priorities. Thus the delay may affect Rural Norfolk less that Greater Norwich. We feel that the delay in Greater Norwich could be for 1 year , but for Rural Norfolk could be 6 months, and could be longer is collaborative working is not quickly established.	Delay savings not directly allocated to service head by 6 months in first year - for other services this is included in figures below and for central services - effect is £0.8m	0.80
2 Additional staff requirements in the new submission in March 09 were calculated using the County staffing model and applying this proportionately. Though this would be a very large unitary at 0.6m population this approach may still give rise to higher staffing levels than may be applicable. However in the Revised submission in May 09 Norwich has reduced this provision by 50% - no further reduction has therefore been applied to these figures	No further modelling has been applied to the revised submission May 09 arising from our approach to the March 09 new submission here	
3 Procurement savings are a high contributor to overall savings and may be optimistic	Reduce savings by 20%	1.41
4 Savings in non corporate areas are the result of an allocation, but overall savings levels still could be high - and there could be reduced savings due to the shared services approach requiring consultation and prioritisation with Greater Norwich. In our review of the original submission, we took the view that there could be risk to about 20% of this savings target - we now take the view that this could be 30% (excluding procurement)	Reduce non procurement savings by 30%	9.55
5 Combine Fire authority costs calculated by Norfolk total £1.9m ongoing, compared to Suffolk's calculation for the same requirement of £0.3m.	Reduce the element relating to this submission by 50% - effect £2.9m	-2.85
6 IT costs seem low, even though they will be based on the present County platform. The submission also includes a reduction in IT staff from present combined levels	Increase IT costs by 100% - still well below the average for two unitary costs - effect £0.8m	0.80
	Total effect arising from	**9.71**

	applying the modelling which we undertook on the March 09 new submission , carried over into the May 09 revised submission	

2.3 Rural Norfolk Revised Submission May 2009 - Effect of modelled inherent risks on the criteria

The table below illustrates the impact of the modelled risks as identified in Table 6 above on the 5 affordability criterion.

Table 7

Criteria	Affordability Criterion 1 Transitional costs	Affordability Criterion 2 Payback period	Affordability Criterion 3 Capital transitional costs	Affordability Criterion 4 Satisfactory balances	Affordability Criterion 5 Council Tax
As submitted – Rural Norfolk	Likely to be achieved	Likely to be achieved	Likely to be achieved	Not likely to be achieved	Likely to be achieved
Adjusted as per risk still inherent and included in the modelled issues shown above - Rural Norfolk	Likely to be achieved	Likely to be achieved	Likely to be achieved	Not likely to be achieved	Likely to be achieved

Thus after modelling as described above, both submissions are not likely to achieve criteria 4 – balances. We have included some opportunity modelling as described above, but this has made no difference in the likely achievement or otherwise of each criteria from that as submitted

2.4 Rural Norfolk Revised Submission May 2009 - Comparison of Council Tax base figures with projections for the new unitary pattern.

There are various methods for calculating the average Council Tax for the constituent authorities. We have analysed the comparison using the following three methods as shown in the table below. We have also looked at the comparison with the lowest Council Tax in place in the constituent authorities in 2007-8 and calculated the loss in Council Tax yield which would be necessary to achieve this level.

Our conclusions for each of these approaches are as follows:

Rural Norfolk Table 8

Council Tax - Method of Comparison	Base Council tax as calculated by each method – as submitted	Base Council tax as calculated by each method – after modelling
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	£1197	
Method 2 – Average Council Taxes using present individual Council Taxes only	£1198	
Method 3 – Average Council Taxes using Apportioned Base expenditure and external finance for the constituent authorities, brought together for the new unitary	£1198	
Council Tax in Year 1 as shown in the submission	**£1197**	**£1196**
Council Tax in Year 2 as shown in the submission	**£1197**	**£1196**
Lowest Council Tax including County Precept in the constituent authorities	**£1162 Breckland**	
Cost in lost Council Tax yield to move to the lowest Council Tax in 2007-8 in the constituent authorities	**£7.6m**	

Thus the figures as submitted show a Council Tax level at or below the averages calculated by each of the three methods. However, the submission is higher than the lowest level of the present Council Taxes in the constituent authorities.

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2.5 Rural Norfolk Revised Submission May 2009 - Assessment of overall risk

Having modelled specific risks and opportunities, we have assessed the achievement or otherwise of this submission, looking at it separately and not in aggregate with the Greater Norwich submission, according to relative performance against each of the affordability criteria as shown in the matrices below:

RISK ASSESSMENT MATRIX – RURAL NORFOLK

Risk Assessment	1	2	3	4	5
Category	**Net savings over the transitional period as % of base costs**	**Payback**	**Capital**	**Balances - % over recommended level as set by S151 officer – as at the end of year 1**	**Average Council tax £ as defined by method 3**
Low	3% above	Up to 3 years	Fully funded	2.5%+ over recommended level	Below average by over £5
	Score 1	Score 1	Score 1	Score 1	Score 1
			This submission yes		
Medium	1% - up to 3%	3 – up to 4.75 years		Between 0.25% and up to 2.5% above recommended level	Below average by up to £5
	Score 2	Score 2		Score 2	Score 2
	This submission 3.0%	**This submission 3.7 years**			**This submission: -£1**
High	Nil and below – up to 1%	4.75 – up to 5 years and above	Not fully funded	Below or up to 0.25% of recommended level	At or above average level
	Score 3	Score 3	Score 3	Score 3	Score 3
				This submission 1.5%,1.75% below	

Low	5-7	This submission's score 10 **HIGH RISK** See note 1 below
Medium	8-10	
High	11 and above	

Note 1 – If the assessment includes high risk in Risk Assessment 1 or 4, the whole assessment becomes High Risk. This is because in our view achievement of these two assessments is critical.

Note 2 - Payback in our definition requires all costs to be recovered in 5 years from lead up year 2. Recognising this we have set a higher factor before a submission scores High on this element.

2.6 Rural Norfolk Revised Submission May 09 - Concluding Comments by Independent Financial Consultants

2.6.1 Looking at the submission for Rural Norfolk alone and without looking at it in aggregate with the Greater Norwich submission, it is our conclusion that this submission is not likely to meet all of the affordability criteria as set down by the Secretary of State and also represents High Risk

2.6.2 We come to this conclusion not only on the basis of the figures as submitted, and our modelling against them, but also on the basis of the supporting evidence, which we believe to be not properly provided in at least three areas – pay harmonisation, additional staffing levels, and IT costs.

2.6.3 We believe there are high risks to the implementation of the plan, especially bearing in mind the requirement for shared service working inherent in the plan, the principle of which, as envisaged here, is not supported by Norfolk County, the other major player.

2.7 Rural Norfolk revised submission May 09 - Summary – likely achievement or otherwise of the affordability criteria as set by the Secretary of State

The change to a unitary structure should deliver **value for money** and be **self financing** so that:	
Criterion 1 ➢ Transitional costs overall must be more than offset over a period ("the payback period") by savings.	➢ Likely to be achieved
Criterion 2 ➢ The "payback period" must be no more than 5 years.	➢ Likely to be achieved
Criterion 3 ➢ In each year, capital transitional costs incurred are to be financed through revenue resources, or the normal process of prudential borrowing or the use of capital receipts.	➢ Likely to be achieved
Criterion 4 ➢ In each year, other (i.e. revenue) transitional costs incurred are to be financed through a combination of the following: • In year revenue savings arising as a result of restructuring.	➢ Not likely to be achieved

• Other in year specified revenue savings that are additional to annual efficiencies (e.g. Gershon savings) which local authorities are expected to make. • Drawing on available revenue reserves, subject to ensuring that satisfactory amounts remain to meet unforeseen pressures or other potential calls on reserves. • Use of revenue reserves should be the final option considered, both because of the need to preserve a contingency to meet future pressures and because use of reserves adversely affects the fiscal aggregates in a given year, increasing spending but not receipts and so placing further pressure on the Government's fiscal rules. ➢ The use of capital resources to meet revenue costs will not be permitted.	
Criterion 5 ➢ All costs incurred as a result of reorganisation must be met locally without increasing council tax.	➢ Likely to be achieved

Taking all factors into account we feel that this unitary proposal represents	**HIGH RISK** and we draw attention to our concerns expressed above

Chris Wheeler and Tony Hall ***May 2009***
Independent Financial Consultants to the Boundary Committee

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APPENDIX A

Comparison between outcomes – Deloitte Review, Norwich's overview of this and our modelling

We show below what appear to be the outcome of the Deloittes review and compare this with the overview presented by Norwich and our own modelling.

Only risks which have been highlighted as 'intermediate' and 'high' have been shown here.

Category	Deloitte's Review		Norwich overview	Our Modelling –- applied to Rural Norfolk March 09 new submission and May 09 Revised submission
	Greater Norwich	Rural Norfolk		Rural Norfolk
One off costs – redundancy and early retirement	Page 5 – Intermediate – could be **higher**			
One off Relocation		Page 6 – Intermediate – could be **higher**		Not included - marginal cost
One off Recruitment	Page 6 – Intermediate – could be **higher**			
One off Accommodation, additional staff	Page 6 – Intermediate – could be **higher or lower**			
One off IT costs		Page 6 – intermediate – could be **higher**		Para 2.2 Table 6 – item 6 Increase IT costs by 100% - still well below the average for two unitary costs
One off change management		Page 7 – intermediate - could be **lower**		Not included – Norfolk workings accepted
One off costs – contract novation	Page 7 - intermediate – could be **higher or lower**			
One off costs - communications and branding	Page 7 - intermediate – could be **higher or lower**			
One off Other	Page 8 –	Page 8 –		Not included – marginal costs

Category	Deloitte's Review		Norwich overview	Our Modelling –- applied to Rural Norfolk March 09 new submission and May 09 Revised submission
	Greater Norwich	Rural Norfolk		Rural Norfolk
additional costs	intermediate – could be **higher**	intermediate – could be **higher**		
Ongoing Pay harmonisation	Page 8 - intermediate – could be **higher or lower**	Page 8 – HIGH - could be **lower**	'*Most significantly , there are several key areas identified in the Rural Norfolk case….that are considered to be high risk in regards to the overstatement of costs….We have focussed on two significant areas* - *pay harmonisation* - *- other ongoing costs (see below)'* ***These inconsistencies have not been addressed in the IFC's modelling*** (this is not correct – modelling adjustments were made for CFA - halved - and additional staffing) *so we have made some adjustments to reflect the variances we found with other benchmarked unitary models*	Not included – see analysis relating to pay harmonisation in 'request for information 01 and 03' – Deloittes benchmarking includes 4 authorities which made no provision for pay harmonisation, thus reducing the benchmarking figure dramatically. Norfolk's figures supported by external advice
Ongoing Localisation		Page8 – intermediate – could be **higher**		
Ongoing other additional costs This category includes - Combined Fire Authority, service initiatives, and additional staff. In the Greater Norwich submission it also includes the additional cost of the new in-house IT service which is offset	Page 8 HIGH – could be **lower, or** - intermediate **–** could be **higher**	Page 8 HIGH – could be **lower, or** - intermediate **–** could be **higher**	*In the Greater Norwich case there was also considered to be a high risk of overstatement of costs, in relation to 'other additional ongoing costs'. **This had not been addressed by the IFCs in their modelling**.* *(note - this is incorrect – CFA figure for Greater Norwich was halved in our modelling, and additional staffing reduced by 10%)* *However we have decided not to adjust the workbook for Greater Norwich, although if we were to do so this would clearly strengthen the 'in aggregate' position* *(Note –This is not correct -*	Para 2.2 Table 6 Item 5 – Combined Fire Authority – costs halved (both unitaries) Para 2.2 Table 6 item 2 – 10% reduction applied to March 09 new submission, but no adjustment to May 09 revised submission as Norwich have reduced additional staffing by 50% See 'Request for Information 01'

Category	Deloitte's Review		Norwich overview	Our Modelling –- applied to Rural Norfolk March 09 new submission and May 09 Revised submission
	Greater Norwich	Rural Norfolk		Rural Norfolk
by savings from the Steria contract and therefore overstates this category			*Our modelling and adjustment offsetting these costs against the new savings from the Steria contract have taken this into account in the Greater Norwich modelling*)	
Members Allowances	Page 9 – intermediate – could be **higher**			
Other Gross reductions	Page 9 – HIGH – could be **lower –** or - intermediate **–** could be **higher**	Page 9 – HIGH – could be **lower** or intermediate **–** could be **higher**	*In the Greater Norwich case there was only one area where there was considered to be a high understatement of costs, or overstatement of reductions. This was in regard to other gross reductions. This was fully addressed by the IFC's in their modelling so no further reduction has been made' (page 5 – 3rd bullet point)* *In the Rural Norfolk case there was only one area where there was considered to be a high understatement of costs, or overstatement of reductions. This was in regard to other gross reductions. This was fully addressed by the IFC's in their modelling so no further reduction has been made' (page 5 - 5th bullet point)*	Para 2.2 Table 6 Items 1, 3 and 4 – delay some savings by 6 months, reduce procurement by 20% and other savings by 30%