

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

**REVIEW TO TEST WHETHER AFFORDABILITY  
CRITERIA ARE LIKELY TO BE MET**

**REPORT OF INDEPENDENT FINANCIAL  
CONSULTANTS FOR NORFOLK PATTERN B -  
SUBMISSIONS**

**NEW SUBMISSIONS FEBRUARY 2009**

**Chris Wheeler, CPFA, and Tony Hall, CPFA.**

**12<sup>th</sup> March 2009**

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# **1. Executive Summary**

## **1.1 Introduction**

### **1.1.1 Scope of the Review**

- 1.1.1.1 To provide to the Boundary Committee with an assessment of the affordability of any advice provided to the Secretary of State for the unitary pattern of local government Norfolk Pattern 'B' following the new submission by Norwich City for Greater Norwich and Norfolk Remainder with and without Lowestoft, received on 9<sup>th</sup> January 2009.
- 1.1.1.2 To advise the Committee what information it needs in making a judgement on the information which will enable the Committee to make sound recommendations on the affordability criteria consistent with DCLG's assessment of the original unitary bids.
- 1.1.1.3 To advise the Committee whether or not the new submissions are likely to meet the affordability criterion "in aggregate" as determined by the Secretary of State's additional advice of 5 December 2008.

### **1.1.2 Layout of Report**

1.1.2.1 The overall report is comprised of four main sections or chapters as follows:

- Section 2 - Greater Norwich Unitary – detailed report for new submission February 2009
- Section 3 – Norfolk County Pattern B Norfolk Remainder with and without Lowestoft – abridged report for new submissions February 2009
- Section 4 – Analysis and Report of the "in aggregate" position in respect of these new submissions together with the relevant workbooks.
- There is also an annex to the report entitled "Compilation of Background Information"

1.1.2.2 By way of background to the report, reference is made to the Independent Financial Consultants' reports as follows:

- Review to Test Whether Affordability Criteria are likely to be met, 19 November 2008:
  - Summary Report;
  - Compilation of Detailed Reports for all Submissions;
  - Compilation of Background Information.

- Review of Responses and “In Aggregate” Assessment, 20 January 2009.

## 1.2 Outcome of the Review

### 1.2.1 Likelihood of otherwise of Submissions meeting the Affordability Criterion as individual unitary authorities (after modelling taken into account)

	Criteria 1 Transitional Plan	Criteria 2 Payback (see definition )	Criteria 3 Capital	Criteria 4 Balances	Criteria 5 Council Tax Compared to the average level	Risk assessment
<b>NORFOLK WITH LOWESTOFT</b>						
<b>Two Unitary Pattern B</b>						
4 Two unitary Pattern B - Greater Norwich	Likely to be achieved	Likely to be achieved	Likely to be achieved	Likely to be achieved	Likely to be achieved	LOW
5 Two unitary Pattern B - Norfolk Remainder	Likely to be achieved	Likely to be achieved	Likely to be achieved	Unlikely to be achieved	Likely to be achieved	HIGH
<b>NORFOLK WITHOUT LOWESTOFT</b>						
<b>Two Unitary Pattern B</b>						
14 Two Unitary Pattern B Norfolk Remainder excluding Lowestoft	Likely to be achieved	Likely to be achieved	Likely to be achieved	Unlikely to be achieved	Likely to be achieved	HIGH

1.2.2 Likelihood or otherwise of Submissions meeting the Affordability Criterion taken in aggregate (after modelling taken into account)

**Method A**

<b>NORFOLK WITH LOWESTOFT METHOD A</b>						
	Criterion 1 Transitional Plan	Criterion 2 Payback (see Glossary of Terms)	Criterion 3 Capital	Criterion 4 Balances	Criterion 5 Council Tax Compared with the average level	Risk assessment
<b>Pattern 2 - Two Unitary Pattern B</b>						
4 Two unitary Pattern B - Greater Norwich	Likely to be achieved	Likely to be achieved	Likely to be achieved	Unlikely to be achieved	Likely to be achieved	HIGH RISK
5 Two unitary Pattern B - Norfolk Remainder						
Some opportunity modelling has been included in Norfolk Remainder. Therefore <b>it should not be assumed</b> that the model applied is sustainable, without further detailed work, and especially without a sponsor						

<b>NORFOLK WITHOUT LOWESTOFT METHOD A</b>						
	Criterion 1 Transitional Plan	Criterion 2 Payback (see Glossary of Terms)	Criterion 3 Capital	Criterion 4 Balances	Criterion 5 Council Tax Compared with the average level	Risk assessment
<b>Pattern 4 - Two Unitary Pattern B</b>						
4 Two Unitary Pattern B Greater Norwich	Likely to be achieved	Likely to be achieved	Likely to be achieved	Unlikely to be achieved	Likely to be achieved	HIGH RISK
14 Two Unitary Pattern B Norfolk						

Remainder excluding Lowestoft						
Some opportunity modelling has been included in Norfolk Remainder. Therefore <b>it should not be assumed</b> that the model applied is sustainable, without further detailed work, and especially without a sponsor						

## Method B

<b>NORFOLK WITH LOWESTOFT METHOD B</b>						
	Criterion 1 Transitional Plan	Criterion 2 Payback (see Glossary of Terms)	Criterion 3 Capital	Criterion 4 Balances	Criterion 5 Council Tax Compared with the average level	Risk assessment
<b>Pattern 2 – Two Unitary Pattern B</b>						
4 Two unitary Pattern B - Greater Norwich	Likely to be achieved	Likely to be achieved	Likely to be achieved	Likely to be achieved	Likely to be achieved	<b>MEDIUM RISK</b>
5 Two unitary Pattern B - Norfolk Remainder	Likely to be achieved	Likely to be achieved	Likely to be achieved	Unlikely to be achieved	Likely to be achieved	<b>HIGH RISK</b>
<p>Some opportunity modelling has been included in Norfolk Remainder. Therefore <b>it should not be assumed</b> that the model applied is sustainable, without further detailed work, and especially without a sponsor</p> <p><i>It is not possible to compare this table without review at 20th January as we could not undertake a Method B approach at that stage due to the error in education disaggregation</i></p>						

<b>NORFOLK WITHOUT LOWESTOFT METHOD B</b>						
	Criterion 1 Transitional Plan	Criterion 2 Payback (see Glossary of Terms)	Criterion 3 Capital	Criterion 4 Balances	Criterion 5 Council Tax Compared with the average level	Risk assessment
<b>Pattern 4 - Two Unitary Pattern B</b>						
4 Two Unitary Pattern B Greater Norwich	Likely to be achieved	Likely to be achieved	Likely to be achieved	Likely to be achieved	Likely to be achieved	<b>MEDIUM RISK</b>
14 Two Unitary Pattern B Norfolk Remainder excluding Lowestoft	Likely to be achieved	Likely to be achieved	Likely to be achieved	Unlikely to be achieved	Likely to be achieved	<b>HIGH RISK</b>
<p>Some opportunity modelling has been included in Norfolk Remainder. Therefore <b>it should not be assumed</b> that the model applied is sustainable, without further detailed work, and especially without a sponsor</p> <p><i>It is not possible to compare this table without review at 20th January as we could not undertake a Method B approach at that stage due to the error in education disaggregation</i></p>						

### 1.3 Summary of Conclusions

- 1.3.1 The figures as submitted by Norwich are optimistic, both in timing and in net savings levels, and are based on a business plan which will require a high level of co-operation and consultation which has not been evidenced so far.
- 1.3.2 Individually, after modelling, Greater Norwich is shown as Low Risk and Norfolk Remainder submissions as High Risk.
- 1.3.3 Applying the 'in aggregate' analysis under both Methods A and B shows the submissions as High Risk taken together. This is due to the level of balances which would arise in year 1, which range from 0.6% to 1.1% below the prudence level (£4 - £5m against a budget of some £450-£500m). There is a smaller shortfall in Year 2

- 1.3.4 We highlight 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 will be necessary and the risk to a smooth implementation that this would bring.
- 1.3.5 We recommend that the Boundary Committee take these risks into account when considering our overall reports.
- 1.3.6 We have included some opportunity modelling in Norfolk Remainder and it should not be assumed that the model applied is sustainable, without further detailed work, and especially without a sponsor.
- 1.3.7 We recommend that if the Boundary Committee is minded to recommend any of these patterns that the Secretary of State seeks assurance about the financial position of the authorities involved at that time.

## 2 Context and Background

### 2.1 Terms of Reference for the Review

The terms of reference for the review are attached as Appendices A & B of this report.

#### 2.1.1 Objectives

To ascertain the likelihood or otherwise of a submission meeting the Secretary of State’s Affordability Criterion, both as a single unitary and in “aggregate” and advise the Boundary Committee accordingly.

#### 2.1.2 The Affordability Criterion

2.1.2.1 The five criteria that make up the Affordability Criterion as determined by the Secretary of State are contained within the following table:

➤	<b>Criterion 1</b>	<b>Transitional costs</b> overall must be more than offset over a period (“the payback period”) by savings.
➤	<b>Criterion 2</b>	The “ <b>payback period</b> ” must be no more than 5 years.
➤	<b>Criterion 3</b>	In each year, <b>capital</b> transitional costs incurred are to be financed through revenue resources, or the normal process of prudential borrowing or the use of

capital receipts.
<ul style="list-style-type: none"> <li>➤ <b>Criterion 4</b> In each year, other (i.e. revenue) transitional costs incurred are to be financed through a combination of the following: <ul style="list-style-type: none"> <li>➤ In year revenue savings arising as a result of restructuring;</li> <li>➤ • Other in year specified revenue savings that are additional to annual efficiencies (e.g. Gershon savings) which local authorities are expected to make;</li> <li>➤ • drawing on available <b>revenue reserves, subject to ensuring that satisfactory amounts remain</b> to meet unforeseen pressures or other potential calls on reserves;</li> <li>➤ 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;</li> <li>➤ The use of capital resources to meet revenue costs will not be permitted.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>➤ <b>Criterion 5</b> All costs incurred as a result of reorganisation must be met locally <b>without increasing council tax.</b></li> </ul>

2.1.2.2 The Boundary Committee has further defined Criterion 5 to mean: "Average Council Tax using apportioned base expenditure and external finance for the constituent authorities, brought together for the new unitary".

### 2.1.3 Approach to the Review – Submissions individually

2.1.3.1 The Terms of Reference for the review by the Independent Financial Consultants are attached as Appendix A.

2.1.3.2 We have maintained a professional and impartial approach to the review, and sought, as before, to obtain consistently presented financial data in respect of all 3 submissions by providing standard workbooks, pre-populated with "base data" obtained from the published "Finance and General Statistics, 2007-08, Budgets".

2.1.3.3 Using the base as established above, the Lead Authority, Norwich City Council, for each submission was required to develop financial cases for the years up to and including financial year 2013/14. Each submission was to be supported by specified working papers, which highlighted specific areas of additional expenditure and expenditure reductions which could be expected to arise from the formation of new unitary authorities.

2.1.3.4 We have reconciled the base figures for each submission to the total obtained and as described in 2.1.3.2 above to establish the integrity of the total starting point for all submissions. This has helped to ensure that allocation of external finance and consolidations between submissions have not had the effect of altering the original base starting point, except as relating to the agreement on the disaggregation of the education spending and specific grants. This was an issue with the previous submissions in respect of Norfolk Pattern B submissions which has now been resolved.

2.1.3.5 We have systematically reviewed all of the data submitted to us to confirm or otherwise that it supports the financial cases as presented by the Lead Officer.

2.1.3.6 When, in our opinion, data supplied has either not fully supported financial cases as presented or appeared to be inconsistent with a financial case, we have obtained further clarification from the Lead Officer, and from others who supplied information to us up to and including 10 March 2009. **See Compilation of Background Information.**

2.1.3.7 From the financial data submitted to us, we have calculated a range of affordability indicators to inform the review of the likelihood of submissions meeting the Secretary of State's affordability criteria:

- Net savings over the 5 year period;
- Ongoing savings as a percentage of base costs;
- Payback period calculated over the 5 year period;
- Decrease in balances over the 5 year period;
- Balances remaining in each and every year.

2.1.3.8 We have undertaken a broad sensitivity analysis to assess how robust a submission remains when its estimates of additional expenditure are exceeded by a range of percentages, and expenditure reductions are underachieved by a range of percentages.

2.1.3.9 In undertaking the review, we have taken into account cost drivers that tend to commonly occur with structural reorganisations of the type proposed. Our analysis of these has been used to identify higher or lower than expected expenditure in comparing one submission with another. Examples of such expenditure are as follows:

- Staff release costs including redundancy payments, contributions to pension funds for early retirement, pay harmonisation, relocation costs;
- Information technology upgrades and integration;
- Change management;
- Contract Novation costs arising from early termination of contracts;
- Localisation where "front office" facilities are required to interact with the community.

2.1.3.10 For each submission we have undertaken a comparison of Council Tax levels as they now exist within constituent authorities with projected Council Tax levels of related possible unitary authorities to test compliance with affordability criterion 5.

2.1.3.11 We have taken a view on whether or not sufficient financial provision has been made for inherent risks that are likely to arise from reorganisations of the type being considered. We have made broad assessments of what may be reasonable additional provision for such items. In so doing we have assessed

the impact on meeting the affordability criterion as determined by the Secretary of State. The outcome of these assessments is reflected above.

2.1.3.12 We have compiled a suite of tables and graphs from the data supplied in the workbooks comparing the new submissions with all other original submissions to provide us with an overview of comparative data for all submissions, and used this to inform our assessment of risks relating to each submission.

#### **2.1.4 Approach to the Review – Submissions “in aggregate”**

2.1.4.1 An extract of the Secretary of State’s new guidance is shown as Appendix B.

2.1.4.2 We have approached this in two different ways. Method A adds together the figures -as modelled – for each submission. Method B recognises that the Secretary of State in her guidance specifically mentioned transitional cost and savings and balances only. So this method analyses what transfers of transitional net savings and balances can be made between the two unitaries in order to view the two unitaries in aggregate.

2.1.4.3 We have risk assessed, using our standard approach and risk matrix, which is contained within the detailed reports.

2.1.4.4 Further information on the methodology used is contained within our report of 20 January 2009.

### **3 Issues arising from the review**

#### **3.1 Commentary on the new submissions and outcomes of the review**

##### **3.1.1 Increased net savings as submitted**

3.1.1.1 The net increased savings included in the new submissions compared with the originals is £18.1m. This arises in the main from the modifying of the present PFI contract in Norwich, saving further ongoing investment, and deleting the savings which were to come from this, and replacing these with savings deemed to come from the shared services approach, and further business process engineering

##### **3.1.2 Council Tax effect**

3.1.2.1 All submissions put forward a higher Council Tax - in the Greater Norwich case far higher – than the original submissions, but still below the average of all constituent authorities.

### **3.1.3 Risk assessment as submitted**

3.1.3.1 The submissions as put forward viewed individually show that Greater Norwich is scored as Low Risk, whilst the Norfolk Remainder submissions both score High Risk and likely to fail Criteria 4 –Prudential balances.

3.1.3.2 The view Norwich hold of the risk element of its new approach is that there is a lower level of risk than that which it now accepts applied in the original PFI extension arrangement. This is one reason why the S151 officer feels able to reduce the level of prudency for unallocated balances.

3.1.3.3 Whilst the new figures appear to indicate that the extension of the PFI arrangement was costly, we take the view that there may well be more risks in the new approach – since the PFI arrangement moved some risks to a provider and those risks will now be born by the authority, - which may require compromise on resources and priority sharing against very tight timescales.

3.1.3.4 We find it hard to see how prudential levels of balances should be reduced at such a time of potential uncertainty.

### **3.1.4 Transition net savings and the effect of modelling**

3.1.4.1 In year 1, the Greater Norwich figures as submitted show a break even in the transitional plan. We view this as highly optimistic. Against this the Norfolk Remainder figures as submitted show a cost in year 1 of £9m.

3.1.4.2 Our modelling has reduced the net savings by £11.5m in the Greater Norwich submission, and some £9m in the Norfolk Remainder submissions. This reflects our view that the Greater Norwich figures are over optimistic, but that there may be some savings opportunities in the Norfolk Remainder areas. Our modelling shows that there is likely to be a cost in year 1 for Greater Norwich, not a break even position as supposed.

### **3.1.5 Risk assessment individually after modelling**

3.1.5.1 Nevertheless, after making provision for risks we have identified through our financial modelling, individually Greater Norwich still scores Low Risk and the Norfolk Remainder submissions still score High Risk on our risk matrices.

### **3.1.6 In aggregate analysis**

3.1.6.1 Viewed in aggregate under both Method A and B , after allowing for the financial modelling we have undertaken, both Patterns are high risk and are likely to fail criteria 4 – prudential balances - in aggregate.

3.1.6.2 The margins by which this happens relate to Norfolk Remainder which has budgets of the order of £450 -500m and range from £4m - £5m shortfall in

prudent balances in year 1, which is some 0.6% to 1.1% below the level of prudence. However there is also a shortfall in year 2.

- 3.1.6.3 But we have identified elsewhere some risks which we are not able to take into account in the risk matrix – these relate to the risk in the 'in aggregate' approach itself, and the high level of co-operation and consultation needed for the new approach to work.

### **3.1.7 Implementation date**

- 3.1.7.1 We note that the workbooks have been submitted on the basis that the implementation date will be 1<sup>st</sup> April 2010, and we have evaluated them on that basis. Norwich has said that it will be working towards an implementation date of 1<sup>st</sup> April 2011.

## **3.2 Common Issues across the new submissions**

- 3.2.1 The new submissions have been constructed and developed within short timescales and utilising a very recently developed outline business case sponsored by Norwich City Council, overtly developed to meet the Secretary of State's new guidance.
- 3.2.2 Until that time, Norwich City was robustly defending its previous submission, the cornerstone of which was driven by a PFI arrangement.
- 3.2.3 The new submission, which assumes a shared service approach with a Norfolk Unitary authority, has based its financial case on apportionment of costs and savings assumptions that had been previously used by Norfolk County as part of the submission for the Norfolk County Unitary business case.
- 3.2.4 The new submissions were submitted on 25 February 2009, and two re-submissions were required between then and 3 March 2009. Confirmation of the integrity of the figures from Norwich City's advisors was promised by letter on 25 February 2009. At 10 March 2009, no such letter had been received. Due to the timescales we have not been able to take into account any representations after that date.
- 3.2.5 However, we have worked closely with Norwich to ensure that answers to our questions on all 3 submissions were received in time for us to take them into account as part of the review. This was facilitated by a Conference telephone call on 6<sup>th</sup> March 2009, involving ourselves and representatives of Norwich City Council and Norfolk County Council. This was a facility that had not been provided in respect of previous submissions, and was only undertaken in view of the timescale. Some feedback is contained within the Compilation of Background Information annexed to this report.
- 3.2.6 The considerations we undertook in our financial modelling to reflect risks in the submission are shown in the detailed reports. But the shared services approach

- envisaged by Norwich in a two unitary pattern will require a very high level of co-operation and consultation and agreement on priorities and resources across the two new unitaries. Norwich says that there has been and will be consultation to this end. The evidence is that there are significant areas of disagreement on the approach. Nor is there evidence of a pattern of close working in Norfolk generally
- 3.2.7 We considered that, in the light of this and the supporting information provided, the financial information provided is optimistic, in assuming that two new unitary authorities might share equally both the will and direction to initiate a shared service arrangement that would deliver the levels of savings indicated in the timescales presumed against a business plan of only one of the “partners”.
- 3.2.8 We have attempted to quantify our view of the risks in terms of possible delay to savings and reduced levels of savings likely to be achieved. But the lack of co-operation inherent could delay whatever savings might be achieved further, and the initial implementation period could face significantly higher challenges.
- 3.2.9 This element is difficult for us to reflect in the risk matrix, but it is a risk that the Boundary Committee will have to consider.
- 3.2.10 The risks which we have highlighted concerning both these submissions and the ‘in aggregate’ approach itself will need to be considered by the Boundary Committee together with the outcome of our detailed review.
- 3.2.11 Finally we emphasise once again that this exercise reflects a point in time only and has been completed with the aim of giving advice as to whether the affordability indicators are likely to be achieved, both individually and in aggregate, and for no other propose.
- 3.2.12 We recommend that if the Boundary Committee is minded to recommend either of the patterns that the Secretary of State seeks assurance about the financial position of the authorities involved at that time.

## **4. Acknowledgements**

We would like to thank the officers of Norwich City and Norfolk County Council in responding to our requests in the tight timescale set by the Boundary Committee in order to meet the revised deadline set by the Secretary of State.

***Chris Wheeler and Tony Hall***

***March 2009***

***Independent Financial Consultants to the Boundary Committee***

**This document has been prepared for and only for the Boundary Committee for England in accordance with the terms of our consultancy services agreement and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.**



# **Appendix A - TERMS OF REFERENCE FOR INDEPENDENT FINANCIAL CONSULTANTS September 2008**

## **Background**

The Boundary Committee for England is a statutory committee of the Electoral Commission and is responsible for conducting structural, boundary and electoral reviews of English local authorities.

In October 2006 the Department for Communities & Local Government (DCLG) invited principal councils in England to make proposals for unitary local government structures in their area. The DCLG received 26 bids, including a proposal from Norwich City Council to become a unitary on its existing boundary. On 25 July 2007, the Minister announced that nine bids had been successful and that it was the Secretary of State's intention to refer the Norwich City bid for unitary status to the Committee, with a view to it considering whether there might be unitary solutions for the county as a whole, possibly involving boundary changes. The Minister has also now stated that it is her intention to request the advice of the Boundary Committee in relation to the Exeter and Norwich bids.

The Committee will now undertake a review of Norfolk, Suffolk and Devon and will use the same five criteria that DCLG used to assess the 26 unitary bids that it received. These are:

- Affordability
- A broad cross section of support
- Strategic leadership
- Neighbourhood empowerment
- Value for money services

The Secretary of State issued her request for advice on 6 February 2008. In order to provide this advice, the Boundary Committee will require existing local authorities to provide information and evidence in relation to each of the five criteria.

## **Scope**

The Boundary Committee requires the support of financial consultants to provide an assessment of the affordability of any advice provided to the Secretary of State for unitary patterns of local government in Devon, Norfolk and Suffolk. Consultants will support the Committee in advising what information the Committee needs in making a judgement on the information which will enable the Committee to make sound recommendations on the affordability criteria, consistent with DCLG's assessment of the original unitary authority bids.

The consultants will be expected to provide assistance in the following areas:

- Create worksheets for local authorities to present their financial case in a systematic and transparent manner, which allows all parties to be clear about their intentions and the basis of their costings.
- Provide a briefing to all finance officers in each county area on how to complete the workbooks.
- Provide support to local authorities as they complete the workbooks.
- Provide support to Boundary Committee officials and present findings to the Committee.
- Assess the workbooks completed by local authorities and provide the Boundary Committee with a written analysis of the information received and a view on the likelihood of each of the patterns identified meeting the affordability criterion as set out in the Secretary of State's advice.

## **Further Remit from the Boundary Committee**

**Request to independent financial consultants to respond to representations on affordability that are received by 24 December 2008  
( the same approach has been adopted for this exercise)**

**Task A:** The IFCs are asked to advise the Committee whether the patterns as are likely to meet the affordability criterion, 'in aggregate', as envisaged by the 5 December guidance. The IFCs should consider representations that relate to the 'in aggregate' issue and take them into account when responding to the Committee.

## **Appendix B GUIDANCE FROM THE SECRETARY OF STATE**

### **Introduction**

1. On 6 February 2008, the Secretary of State requested advice from the Boundary Committee on certain matters relating to the unitary proposals from Exeter City Council, Ipswich Borough Council and Norwich City Council. Section 5 of the Local Government and Public Involvement in Health Act 2007 (“the 2007 Act”) provides that the Boundary Committee may provide the advice requested. Where it provides that advice, the Committee may also recommend whether or not the Secretary of State should implement the original proposal, and may make to her an alternative proposal for a single tier of local government for an area that includes the whole or part of the county for which the authority making the original proposal is either the council or the council of a district in that county.
2. Section 6(2) of the 2007 Act requires the Committee, in making a recommendation or alternative proposal, to have regard to any guidance from the Secretary of State about the exercise of the Boundary Committee’s functions under section 5 of the 2007 Act. The Secretary of State issued a first set of guidance on 6 February 2008 (as Annex B to her request). That guidance set out certain aspects of the approach the Committee should follow in making the assessments and judgements that may be necessary for it to make any alternative proposal to the Secretary of State. This further guidance is to clarify the approach the Committee should follow in making such assessments and judgements against the criteria included in the Secretary of State’s request.

### **The criteria in the request**

3. The Secretary of State’s request of 6 February 2008 asked whether there could be alternative proposals for a single tier of local government, and if so on what basis, for Exeter, Ipswich and Norwich and the whole or part of the surrounding county areas, which would in aggregate have the capacity, if they were to be implemented, to deliver the outcomes specified by the five criteria set out in Annex A to the request.

4. The Secretary of State included the term 'in aggregate' in the request to make clear that any alternative proposals for unitary local government must have the capacity to meet the five criteria across the specified area. However, it is not clear to the Secretary of State from the financial information published by the Boundary Committee on 21 November 2008 that the Committee is approaching the assessment of alternative proposals on this basis. The Secretary of State has therefore decided that it would be helpful to the Boundary Committee to provide additional guidance as to the approach that the Secretary of State was seeking through the use of the term "in aggregate".

#### **Guidance from the Secretary of State**

5. The assessment of a proposed unitary solution's capacity "in aggregate" to deliver the outcomes specified by the criteria will be relevant where that solution consists of two or more proposals that there should be a single tier of local government for an area (and that are not alternatives to one another) (i.e. an alternative proposal within the meaning of section 5(5)(b) of the 2007 Act).
6. The term "in aggregate" applies in particular to the affordability of any alternative proposal. It might of course also be applicable to the other criterion which relates to the transition from two tier to single tier local government, namely, the broad cross section of support criterion. For example, if there was very strong support in one part of an area for it to become unitary, minority support for a unitary authority for the remaining area might be considered sufficient.
7. In relation to the assessment of affordability, if the Boundary Committee identifies a possible unitary solution of the type described in paragraph 5, it should assess the capacity of that unitary solution as a package to meet the criteria, rather than assessing the capacity of each of the two or more proposed new unitary authorities separately. For example, if the Boundary Committee was contemplating a unitary solution which consisted of splitting an existing county (County X) into two new single tier areas (Area A and Area B), the assessment to be made against the affordability criterion would be whether Areas A and B, when taken together, met the affordability criterion.
8. Such an assessment would require the transitional costs associated with the creation of each proposed new unitary authority to be aggregated, and for the purposes of assessment against the criteria, compared with the aggregate of the savings that would result in each of the areas. Furthermore, for the purposes of this assessment, any consideration of the need to fund costs by reserves and of the availability of reserves, should be approached in aggregate without seeking some apportionment between the two or more areas.

9. In this way, by the effective pooling of costs, savings and reserves across a specified area (the area of County X in the example), it may be possible to deliver unitary solutions for that specified area that offer benefits to local communities which would not be available if the matter was approached on the basis of looking only at parts of the specified area in a wholly discrete manner. Hence, in the example, whilst Area A might not on its own be affordable, because it is not able to cover the transitional costs associated with that area with its own reserves, it might be affordable if the reserves for the whole county area are pooled and then apportioned on a basis which meets the transitional costs in both Areas A and B. It is for this reason that in the request, the Secretary of State included the term “in aggregate”.
  
10. When responding to the request from the Secretary of State for advice and in making an alternative proposal to her (if any), the Boundary Committee may wish to provide details of the methodology which it used in making that alternative proposal, including to give effect to the “in aggregate” approach sought in the request and about which this guidance is given.

5 December 2008