



Devon County Council

Local Government Reorganisation: Risk Assessment

Main Report

1. Introduction

- 1.1 LGF were commissioned by DCC to undertake a review to support its LGR proposals. The Boundary Committee requires DCC to provide a risk register and risk assessment as part of its submission and we were tasked to undertake an independent assessment.
- 1.2 Item 9 of the Committee's guidance on the affordability criteria for LGR clarifies the need for a risk register when it states that submissions should provide: *"Risk register and risk assessment for the implementation of unitary status, including an assessment of the effect of the risk of underachieving projected savings and incurring higher than expected costs"*.
- 1.3 The risk register is a schedule of the risks that the lead authority has identified in developing its proposals. The risk register was evolving throughout the time of our review, alongside all the proposal material. We have taken a more active role in its development, rather than simply validating the information presented to us. Indeed, the whole of our review has been undertaken against a background of change and modification, as the proposals for LGR have been developed and refined.
- 1.4 There are inevitable disadvantages in this approach insofar as enquiries and discussions took place in the context of versions of the proposals which were then revised requiring information to be revisited and reviewed. No alternative approach could have been adopted in the circumstances and we are, in no way, critical of DCC's action, but it is important to note the context of our review.

2. Our Approach

- 2.1 Our approach has been to focus on the financial risks and the key assumptions in the financial workbooks. We have examined the plans, processes and issues

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within the overall proposals to the Boundary Committee; however, we have not undertaken an audit or full reviews or risk assessments of all the elements of the proposals, only those where we see the greatest likelihood of financial risk.

2.2 We have focused on the following areas:

- **Budget Disaggregation.** This sets the budget for each new unitary and it has, as a result, the potential to make a very significant difference to the affordability assessment. The disaggregation is undertaken principally by DCC, but also by some of the district councils (in this case, East Devon and Teignbridge). We have assessed the reasonableness of the disaggregation and identified where there are potential issues.
- **Transition costs.** We have established the assumptions made about transition costs, both in terms of the total costs and when they will arise. For these costs (as with the savings), the timing is critical, to ensure that there are sufficient resources in each year to balance the budget.
- **Savings.** We have assessed the practicality and realism of the savings proposals. Again, this has entailed understanding the assumptions that have been made to arrive at the savings.
- **Formula Grant.** This has been undertaken by LGF; however, we have reviewed our findings and assessed the underlying risks.
- **Other risks.** We have sought to understand where there are proposals to change current services, both in terms of the configuration of the service, the way it is provided (buildings, people, etc.) and assessing the risks involved.
- **Reserves and provisions.** We have assessed the reasonableness of the reserves and provisions, and the assumptions made for them for the future unitaries. This is seen by the Boundary Committee as being an essential element of the affordability assessment.

2.3 Our review includes a quantitative assessment of the level of risks. We have identified the key risks that have financial consequences, and, with discussions with officers at the council, have estimated a range of potential outcomes for each risk. This is, out of necessity, an approximate exercise, but it does help to assess the robustness of the proposals.

2.4 We have reviewed workbooks and supporting information and undertaken interviews with officers. We have received full cooperation from all the officers we have met and we would like to thank them for their help and assistance. The finance team was working under pressure and we thank them particularly for their support.

3. The submissions to the Boundary Committee

3.1 We have been provided with a number of versions of the business cases to support the proposals. However, at the time that our detailed work was

concluded, these documents had not been fully finalised; however, we understand that they were approaching finalisation. The various versions of the financial workbooks were reviewed throughout our review and the latest version available to us were the 3 September drafts. It should therefore be recognised that changes made since our review will not have been considered by LGF.

- 3.2 The development of the business cases and the workbooks to support the DCC propositions has been carried out in a short timescale. This means that the development of information generally has had to be at a relatively high level, employing expedient approaches in order to secure data and to exercise judgement as to the consequences of planned policies. Nonetheless, given the nature of the exercise, in our opinion, the level of accuracy for the financial workbooks achieved should be sufficient for their purpose.

4. The overall robustness of the financial work books

- 4.1 It is outside our brief to undertake an audit or to verify the submissions. However, our work has involved discussing and reviewing the major components of the data and probing the reasonability of the information presented. In these terms, we have formed the view that a reasonable approach has been adopted and that the assessment of costs and cost reductions in the future are not inappropriate. Given the overall level of reserves, the financial projections for council tax can be maintained, even if the worst case scenarios of our risk analysis (i.e. all adverse risk assumptions took place). This suggests a high level of robustness in the data.
- 4.2 The approach adopted and the nature of the process does mean that there is a greater robustness in the workbook for the whole county unitary, which is founded on an aggregation of local government in Devon as it is compared to the rural unitary approach. The rural unitary approach involves assessment of what the implications would be if a completely new geographical base of local government in Devon was created. It involves disaggregation of the County's budget and inclusion of part of the budgets of two district councils. The work book for the rural county is, in our opinion, sufficiently robust for its purpose, even though its sensitivity for error is greater than the whole County approach.

Unitary County – transition plan as at 3 September 2008

	2010/11	2011/12	2012/13	2013/14	Total	2014/15
	£m	£m	£m	£m	£m	£m
<i>Base budget</i>	517	517	517	517		517
<i>Gross additional cost</i>	25	16	14	11	66	10
<i>Gross reduced costs</i>	(20)	(26)	(28)	(28)	(102)	(27)
<i>Use of reserves</i>	(7)	4	8	12		12
<i>New budget base</i>	515	512	512	512		512
<i>Council tax</i>	£1,184	£1,175	£1,164	£1,164		

Rural County – transition plan as at 3 September 2008

	2010/11	2011/12	2012/13	2013/14	Total	2014/15
	£m	£m	£m	£m	£m	£m
<i>Base budget</i>	399	399	399	399		399
<i>Gross additional cost</i>	24	17	16	14	71	13
<i>Gross reduced costs</i>	(15)	(19)	(22)	(23)	(80)	(22)
<i>Use of reserves</i>	(4)	3	8	11		11
<i>New budget base</i>	403	400	400	400		400
<i>Council tax</i>	£1,181	£1,167	£1,167	£1,167		

5. Management of risks

- 5.1 The management of risk is seen as a key area by the Boundary Committee and it is essential that a risk register and risk assessment for the implementation of unitary status is carried out. This needs to include an assessment of the effect of the risk of underachieving projected savings and incurring higher than expected costs. At the commencement of our review, DCC had begun to prepare the register and had identified risks, the likelihood of the identified risks occurring and their potential impact on reorganisation. With the agreement of the county, our role has been an active one, in supporting the Council to identify risks, to evaluate them and to record them in the register.
- 5.2 We have taken information that we have derived from assessing the documentation and interviews, together with our knowledge of similar events, to challenge and build up the register and assess whether it appears to be a comprehensive assessment of the significant risks that can arise. We have concluded that the risk register does identify the major financial risks.
- 5.3 The register has been developed in three parts; a generic part that relates to both submissions and two further parts; one considering risks for the whole county approach, and one for the rural county approach. A copy of the register that we have assessed is attached as an Appendix to this report modified to show our how we have developed our financial sensitivity assessment...
- 5.4 We have assessed the sensitivity of the proposals in financial terms against the risks that have been identified. This has involved examining the whole of the risk register and assessing the likelihood of the risk arising and seeking to quantify the financial consequences if the risk crystallises – a maximum and minimum assessment has been made.
- 5.5 This is, to an extent, an arbitrary exercise, but it does provide an indicator as to the robustness of the proposals. A number of the risks have the potential to give rise to financial consequences, but are difficult to assess and, in order to address these risks; we have allowed a relatively small overall contingency assessment within our quantification exercise.

Significant risks with financial consequences

Generic risks

Risk	Likelihood (1-5 with 1 being low likelihood)	Financial risk – quantification		
			Max	Min
Inefficiently coping with legislative change at the time as LGR.	2 – There are changes that will and may impact on the authority regardless to the outcome of the LGR process. One is the development and introduction of individual budgets for those receiving services from social services. Another is carbon trading which impact on individual properties such as schools. The existing information suggests that the financial impact of carbon trading is small – less than £200,000 per annum.	Potentially, there could be a significant financial risk if the County did not implement the individual budgets. At an extreme, the adult social care services might be over spent by 1% on £164m. The risk for the two county option would be some 25% lower.	£1.6m annually	Zero
Ineffective change management / transition planning / changeover	2 – The Council recognises the need for focused and effective transition arrangements and will appoint a board level manager to lead	The risk is that the savings are delayed significantly. It is judged that the maximum delay would be about 6 months	£10.15m this would switch impact from	£5.07m

Risk	Likelihood (1-5 with 1 being low likelihood)	Financial risk – quantification		
training.	the transition team.	and, if the risk arises, a minimum delay of 3 months. The risk for the two county option would be some 25% lower.	year 1 to 2.	
Breakdown in internal support systems owing to the changes and impact of LGR.	2 – Continuing internal support services will be available, but will come under strain during the transition phases of the processes, especially as senior members of the transition team will be recruited from this area.	There would be a financial impact if this risk were to arise. The risk is difficult to evaluate and is included within a general contingency.	See contingency	See contingency
Internal Communications – ensuring that staff are fully informed about developments and understand the changes being made and how it impacts upon their role.	3 – Experiences of change management highlight the need for good leadership and communication as being key to success. It will be important to reassure and inform the officer team.	There is a risk of poor morale leading to lower productivity which might have a financial consequence. This is difficult to assess and this has been included within the contingency allowance.	See contingency	See contingency
Disproportionate amount of work needed to administer – causing delays and difficulties in redundancy and severance.	2 – The County has experience of managing large scale redundancy and severance arrangements, albeit this exercise would be on a bigger scale.	Delay in making the redundancies and early retirement will result in less expenditure in year 1 and more expenditure in year 2. So, this risk would switch expenditure between the two years – lowering expenditure in year 1, but the employment of ‘redundant’ staff would be a real cost. An estimate of lost resource in year 1 of up to £2.5m has been made.	£2.5m – this would be a year one issue but it will be offset by lower redundancy costs being incurred	zero

Risk	Likelihood (1-5 with 1 being low likelihood)	Financial risk – quantification		
Relocation and disturbance costs are much higher than anticipated and substantially more staff than anticipated are involved in relocation exercises.	2 – The amount of relocation costs that need to be taken into account is based on the precedent set in the county; what is more difficult to assess, is the number of officers involved.	The assessment that has been raised is judgemental and a much higher provision may result – a 50% increase in numbers of beneficiaries could potentially arise.	£0.65m	£0.33m
Legal challenges arise as a consequence of the application of TUPE, causing unforeseen delays and financial consequences	1 – The number of precedents in respect of LGR reorganisations means that unknown ground in relation to TUPE is unlikely.	This risk is difficult to assess in financial terms and will be covered by the contingency.	See contingency	See contingency
Total			£14.9m	£5.4m

Whole county option risks

Risk	Likelihood (1-5 with 1 being low likelihood)	Financial risk – quantification		
		Comments	Maximum	Minimum
FINANCE				
Failure to achieve modelled savings.	3 – Savings have been estimated from high level information and hence there is a risk that the quantification will change – economies of scale have been taken into account, based on standardisation of best procedures in use, but no account has been taken of efficiencies over and above standardisation.	The savings are determined by assessments and there is the possibility of error. Generally, the estimates have been pitched on a prudent basis. There is potentially a 10/15% error rate.	£3m	£2m

Risk	Likelihood (1-5 with 1 being low likelihood)	Financial risk – quantification		
Costs exceed estimates.	3 – Costs have been estimated from high level information and hence there is a risk that the quantification will change.	The costs are determined by assessments and there is the possibility of error. Generally, the estimates have been pitched on a prudent basis. There is potentially a 10/15% error rate. The assessment of the costs of Community Boards is judged to be closely assessed and has been excluded.	£2.1m	£1.4m
SERVICES				
Declining service standards for the services inherited from the district councils: Housing (HRA) Housing benefits Environmental services, including refuse collection Cultural activities Council tax collection	1 - For most services that are continuing without major changes – e.g. tenant service and leisure, the risk is low. 3 - For services such as council tax, housing benefit and refuse collection, where more significant change is anticipated, the risk of temporary decline increases.	There are risks of system breakdowns and issues such as irrecoverable housing benefit arising – difficult to quantify risk.	See contingency	See contingency
Declining service standards for existing and continuing services owing to management attention being focused on transition and new service areas.	1 - The existing expertise of the county will be maintained – there will be continuing legislative changes and changes to those services introduced by the new authorities e.g. personal budgets. There will be a greater risk if the any key managers form part of the transition teams.	This risk exists but is difficult to quantify – to be covered by contingency.	See contingency	See contingency

Risk	Likelihood (1-5 with 1 being low likelihood)	Financial risk – quantification		
District council systems for procedures new to the County are poorly documented and cannot be supported before transition is complete.	2 – Existing district systems may rely for continued operation on relatively few officers. The transition plan needs to identify where such risks exist and secure the continued support of essential officers and secure transfer to alternative supported systems as soon as practicable.	There is some risk, albeit this difficult to assess. A maximum financial cost of £100,000 has been estimated.	£0.1m	Zero
Failure to manage information adequately and that problems of service continuity and data protection arise.	3 – Information will be held at multiple locations and in different systems - gaining an understanding on how to secure this information and avoid losses will therefore need careful management.		See contingency	See contingency
Total			£5.2m	£3.4m

Rural county option risks

Risk	Likelihood (1-5 with 1 being low likelihood)	Financial risk - quantification		
METHODOLOGY OF FORECASTING				

<p>The method of compiling the two unitary approach business case does not recognise distinct features of the option.</p>	<p>1 – The methodology used has been to develop the whole county option first and then identify those aspects of that option that may vary with the rural county option. An alternative bottom up approach may have resulted in different assumptions.</p>	<p>An allowance of £3.5m has been made to reflect diseconomies of scale. The principal adjustments are for CYPS £1.5m and £400/£300k for each of ACS, EEC, FITT, CEX. This is a high level exercise and the quantum risk is high. There is a possibility that too cautious an approach has been adopted.</p>	<p>See contingency</p>	<p>See contingency</p>
<p>FINANCE</p>				
<p>Failure to achieve modelled savings.</p>	<p>3 – Savings have been estimated from high level information and hence there is a risk that the quantification will change – economies of scale have been taken into account based on standardisation on best procedures in use, but no account has been taken of efficiencies over and above standardisation.</p>	<p>The savings are determined by assessments and there is the possibility of error. Generally, the estimates have been provided on a prudent basis. There is potentially a 10/15% error rate.</p>	<p>£3m</p>	<p>£2m</p>
<p>Costs exceed estimates.</p>	<p>3 – Costs have been estimated from high level information and hence there is a risk that the quantification will change.</p>	<p>The costs are determined by assessments and there is the possibility of error. Generally, the estimates have been provided on a prudent basis. There is potentially a 10/15% error rate. The assessment of the costs of Community Boards is judged to be closely assessed and has been excluded.</p>	<p>£2.4m</p>	<p>£1.7m</p>

SERVICES				
Declining service standards for the services inherited from the district councils: Housing (HRA) Housing benefits Environmental services, including refuse collection Cultural activities Council tax collection	For most services that are continuing without major changes – tenant service and leisure the risk is low – 1. For services such as council tax, housing benefit and refuse collection, where more significant change is anticipated, the risk of temporary decline increases to 2/3.		See contingency	See contingency
Declining service standards for existing and continuing services owing to management attention being focused on transition and new service areas.	3 -The existing expertise of the county will be apportioned between the two authorities – there will be continuing legislative changes and changes to those services introduced by the new authorities e.g. personal budgets. The risks of declining service will be decreased if the key managers from these services form part of the transition teams.		See Contingency	See contingency
Failure to manage information adequately and that problems of service continuity and data protection arise.	3 – Information will be held at multiple locations and in different systems - gaining an understanding on how to secure this information and avoid losses will need careful management. There may be specific issues in relation to schools and social services (Caldicott Guardians).		See contingency	See contingency
FINANCE – DISAGGREGATI				

ON AND GRANT				
Budget disaggregation / aggregation.	2 – Disaggregation of county budget completed by county staff which have detailed knowledge of services. Aggregation of district services relatively low risk. Only Teignbridge and East Devon have been split. Diseconomies of the change have been recognised in financial projections.	There is a risk that the amounts would change if a detailed analysis of the split were carried out and probing took place – difficult to assess, but on a judgemental basis, a £1m allowance made.	£1m	£0.5m
Total			£6.4m	£4.2m

Summary of quantification exercise

Risk	Financial risk – quantification	
	Max. (£m)	Min. (£m)
Generic	14.9	5.4
Whole County	5.2	3.4
Contingency	1.0	0.0
Total – whole county proposal	21.1	8.8
Generic	14.9	5.4
Rural County	6.4	4.2
Contingency	1.0	0.0
Total – rural county proposal	22.3	9.6

5.6 The exercise is, by its nature, broad brush, and the likelihood of all the adverse risks arising is extremely remote. Therefore, what this exercise shows is that both options could be exposed to adverse risks that could, at an extreme, cause mainly one-off additional costs or lower savings of some £22/21m. This scenario is unlikely, but plans often do suffer setbacks and some of the risks could materialise and impact on the proposals.

5.7 The forecast of minimum risk may give a better guide as to the risk of drift from the proposals. In this evaluation, the financial risk of additional costs or lower savings arising has been measured at £9/£10m. There are some risks, which, if they arise, could cause lower costs in certain years. However; we have not evaluated these as, in our opinion; we have established the robustness of the workbook projections.

5.8 The proposals contain sufficient reserves to accommodate, even the worst scenario, although, not surprisingly, if the extreme of adverse forecasts arose, the reserves would come under significant pressure in year one.

5.9 Our overall conclusion is that we consider that the risk registers attached to the submissions to the Boundary Committee identify significant risks, record the actions that will be taken to mitigate the risk, identifies who is responsible for their control and contains financial information that is sufficiently robust for its purpose.

6. Implementation planning and contingency planning

6.1 The Boundary Committee guidance suggests that they expect a fully worked out implementation plan with key timescales and actions. Such an implementation plan should be linked to the financial workbooks in terms of the timing and costing of key events.

6.2 We have spoken to the Boundary Committee's representatives and established that they expect to see an implementation plan which identifies the most important 6-7 issues (e.g. accommodation, staffing levels) and sets out how these will be implemented, including indicative timelines. The objective of the implementation plan at this stage is to show that the proposals are achievable and affordable; they are not expected to be detailed delivery plans.

6.3 DCC has only partially achieved this objective. Many of the key issues have been identified, but there still remain further issues to explore more fully, such as accommodation and contract novation.

6.4 Furthermore, implementation planning does not yet appear to have developed to the next level. The implementation plan needs to give greater confidence that the proposals can be delivered in accordance with the planned timetable and to the cost that has been estimated. More detail needs to be added to the implementation plan to demonstrate that the plans can be achieved. From a financial point of view, there needs to be greater assurance that there will be no implementation issues that will impact adversely on the affordability of the proposals.

6.5 The DCC has begun to develop a transition process and an implementation plan and an outline paper was taken to the Corporate Management Board on 1 September 2008. This paper recognises the benefit of planning for reorganisation at an early point in the process and the creation of workplans in detail, notwithstanding that any decision on which, if any, LGR option, will not be received until February 2009.

6.6 The plan is to create a shadow Joint Implementation Board with membership from DCC and the Districts, establishing a transitional programme with a number of workstreams: organisational design, delivery and transformation; finance; HR; communication; IT; customer access; accommodation; and community and corporate governance. A broadly based timetable leading to the February 2009 has been prepared.

7. Budget disaggregation

7.1 This process sets the budget for each new unitary and it has, as a result, the potential to make a very significant difference to the affordability assessment.

The position that has been taken for the whole county unitary option is to work from the base budget for the combined authority and seek to identify changes.

- 7.2 There are inherent risks that the base budget is not representative of actual spending and reserves. However, it is noted that the county has a good record of achieving an actual outturn relatively near budget, as shown in the table below.

Year	Gross budget £m	Spending £m	Difference £m
2005/06	670	651	19
2006/07	394	395	1
2007/08	414	407	7

- 7.3 No information is available to conclude whether the districts have a similar track record of budget forecasting, albeit in our experience, rural district councils generally do tend to underspend and have a comparatively high level of balances.
- 7.4 The two unitary authority option does pose more risks as it requires the county to be split and also the budgets of two district councils (East Devon and Teignbridge). We were initially advised that the basis of the division is agreed on a cross-authority basis and that all parties are using the same assumptions for the district council apportionment. The basis of the budget disaggregation has been agreed between the Section 151 Officer and, based on limited testing; the principles appear to have been applied in determining the respective budget allocations.
- 7.5 However, we have become aware of some dissent arising not because the overall principles are contested, but over whether the principles should be varied at a more detailed level of examination and whether, in some instances, base data has been correctly analysed. We have carried out reasonability exercises on the disaggregation – an extract is set out below.

	Wider Exeter £m	Remaining Devon Unitary £m	Total £m	Wider Exeter %	Remaining Devon Unitary %
Children and Young People					
Non-school Funding	16.0	23.6	39.6	40.4%	59.6%
Children's and Families Service – Other	18.4	33.6	51.9	35.5%	64.7%
Adult and Community Services					
Older people (inc older mentally ill)	23.8	84.0	107.8	22.1%	77.9%
Adults aged under 65 with a phys dis or sens impair	4.9	14.2	19.1	25.7%	74.3%
Adults aged under 65 with learning	11.9	34.3	46.2	25.8%	74.2%

disabilities					
Adults aged under 65 with mental health needs	3.0	8.3	11.3	26.5%	73.5%
Supporting People	7.8	12.5	20.2	38.6%	61.9%
Environment Economy and Culture					
Transport planning, policy & strategy	2.3	23.2	25.5	9.0%	91.0%
Libraries	3.3	8.9	12.1	27.3%	73.6%
Waste disposal	5.7	21.2	26.9	21.2%	78.8%

- 7.6 The reasonability test has been undertaken to assess the risk of disaggregation error. In terms of population, it is our understanding that some 75% of the population would reside in the rural county and 25% in the wider Exeter authority and in overall terms the disaggregated budgets support this.
- 7.7 However, the review of expenditure highlights disaggregation where there is a significant variation from this statistic. Explanations have been received which appear reasonable, albeit, the scope for more refined apportionment will inevitably exist. For example, the treatment of the main library in Exeter could lead to a revision in budget splits, the waste disposal costs are linked to waste arising tonnages, whereas a more detailed analysis might alter the allocations.
- 7.8 There is a risk that the disaggregation may be sensitive to some revisions. However, based on our assessment, the exercise has been carried out with regard to the agreed principles determined by the Section 151 Officers and in overall terms, the allocated budget for the two unitary option should be within acceptable parameters of accuracy.
- 7.9 We have reviewed the working papers for the division of the aggregated whole county budget and tested at a high-level whether agreed bases have been applied in practice and reviewed the working papers for the division of the East Devon and Teignbridge budgets. We have noted some detailed issues, such as that the basis of dividing the districts' budgets is not uniform between the two districts, but the Teignbridge budget allocations are relatively small and the risk of error is perceived as small.

8. Transition costs

- 8.1 Under the one county option, the costs consist of: staff release costs £29.7m (mainly redundancy and early redundancy costs, but with allowance for relocation and recruitment); additional IT expenditure of £3.4m; and a change management team of £2.3m. There is no allowance for accommodation costs, contingency or for contract novation and we have probed the reasonableness of that assessment. There is some risk that costs of this nature might arise however we understand the basis of the assumptions adopted.
- 8.2 Under the two unitary option, similar cost categories appear. The option allows staff release costs of £22.4m, mainly relating to redundancy, early retirement, pay harmonisation with allowance for relocation and recruitment. Again, there is no allowance for accommodation, contingency and contract novation. A higher allowance for IT requirements of £4.3m for a two authority option has been allowed.

- 8.3 The County has made an assessment of the staff needed for the approaches based on a service by service analysis. In overall terms, the total employees in local government across the county is about 36,500, of which 10% are employed in the Districts. An assessment of the officer posts that may not be required following reorganisation on the single unitary option is 458 and 325 for the two unitary option. This has been derived from an analysis of the services, some in more detail than others, and an assessment of the likely number of posts that can be released. The approach is intended to ignore what are described as efficiency gains and concentrate on those changes that arise from standardisations.
- 8.4 Of the posts that are capable of being released, 75% of these posts are ones for which redundancy will apply. They have been analysed into the following categories – senior staff, support staff and IT staff - and then over Best Value Accounting Code of Practice (BVACOP) service headings. The rates of redundancy payments have been based on the county's experiences of making posts redundant over the last 2 years – an average cost of £32,880 for senior staff and £16,440 for support staff has been used.
- 8.5 Whilst the majority of the costs are deemed to arise in year 1, some cost is to arise in years 2, 3, 4 and beyond. Owing to the uncertainty relating to the basis of calculation, additional round sum provisions of £3m have been added, which is outlined below as a contingency sum.
- 8.6 There is a risk that the 75% estimate is inaccurate; however; this is a judgement and no alternative approach is easy to determine. The use of this approximation for each category could be inaccurate, especially for senior staff, as there might be a tendency for less movement at such levels.
- 8.7 The original assumption adopted was that the scheme for the payment of redundancies will be that the county presently applies. This is not likely to be the position as the scheme that will apply will be that which applies to the employee and this will be the one that is adopted by the predecessor authority and carried into the new authority by way of TUPE. It is known that the Exeter City scheme pays up to 104 weeks redundancy, whereas the County scheme is capped at 60 weeks. It would therefore be preferable to find out what arrangements apply in each authority and make a revised estimate.
- 8.8 The early retirement liability has been assessed in a similar way to redundancy, but a different assumption has been made in relation to the number of employees that will possibly benefit from these payments. It has been deemed that 40% of the staff will be over 50 years and will therefore benefit from early retirement. A review of the regulations by the county has shown that the trigger point will be 55 years of age in April 2010, so potentially, too high an age limit has been adopted.
- 8.9 We have the risk of calculation error – firstly by not using the applicable regulations generally and secondly because the rules that need to be applied, are those that exist in the officer's current employer, rather than the county council. The legislative framework for early retirement in 2010 will tend to lower the amount payable, whereas the other issue will tend to inflate it, as the county

works on a tight minimum basis, whereas we understand that the regulations allow added years of up to 10 years (but normally no more than 5 years) and augmentation of salary of up to £5,000 per annum). The contingency sums cover the calculation error risk and the remaining risk may be one of over-prudence.

9. Pay harmonisation

- 9.1 There are three issues with pay harmonisation – the harmonisation across the county; the harmonisation within each district; and the harmonisation post-unitary authority formation. The first of these is straightforward – the county has dealt with its own harmonisation and it received capitalisation consent of some £19.5m. The position with the districts is unclear – it is believed that Torridge has made the least progress and the others vary from being almost complete to part way through positions.
- 9.2 Post-reorganisation, the position will change, because the employees will all be in a much bigger pool of staff. The existing district staff will be able to compare themselves with the county officers and vice versa – whoever is paid least in such a comparison will have a potential claim. It follows that, even though there are only 3,650 district council posts, they could give rise to a large number of claims within what is now the county. Apparently, there are legal cases that have recently been decided that create uncertainty in this area and potentially tension between TUPE and pay harmonisation law.
- 9.3 The cost of going through the harmonisation process has been assessed by the HR team and an assessment of one-off year one costs of £615,069 has been determined (officer time £130k, expert advice £416k, panels £26k, union involvement £43k).
- 9.4 A provision for the one-off payments of £5m has been made, with a further £5.5m for continuing increases of pay for the whole county option. These provisions are to be used over the 4 years. For the two unitary approach, there are provisions for one-off payments of £5m and £3.5m for continuing increases.
- 9.5 In accounting terms, this is the equivalent of a contingent liability – one that can be recognised, but which is not absolutely certain will arise. It seems likely that a significant liability will arise but there is insufficient knowledge and information to make an estimate at what the sum will be. Based on the precedent of the county, in broad terms, £1,000 had to be paid out for each non-existing County employee and this would give rise to an addition payment of about £4m, compared to the amounts that have been set aside, although of course, some existing county employees might benefit.
- 9.6 Hence, we are uncertain of the basis of the calculation, we have an assessment risk because we do not know how large an issue it is and, owing to these issues, we are uncertain as to the quantum of the potential liability. The provisions seem to have been set at amounts that are sufficient to meet expected liabilities, albeit the incidence of such costs is judgemental.

10. Staff relocation and retraining

- 10.1 There will be relocation and retraining costs and the county have made an estimate for this cost. If 50 staff were relocated, they would cost up to £8,000 each –£400,000 in total has therefore been deemed to fall in years 1 and 2. The limit is based on the maximum tax free allowance.
- 10.2 If staff have to travel to a new work place, they are entitled to travel cost reimbursement – based on county precedents, this amounts to £2,322 per annum. Assuming that there were 100 staff involved, this would amount to £232,200 and last for 4 years – equating to £928,800.
- 10.3 There are two other assessments that have been made – firstly retraining costs – a sum of £224,800 has been included and recruitment of senior personnel where £1286724 has been set aside. The amounts for the two unitary options have been assessed in a similar way with the amounts being slightly less.
- 10.4 These are broad based assessments made on the basis of past county experience and clearly there is an assessment risk arising.

11. Transitional team

- 11.1 Provision has been made for a transition team based partially on the assumption of a dedicated team and partially by using in-post officers. A provision of £2.3m for both options has been estimated as falling in years one and two. The assumptions of the length of the transitional and the size of the team needed might be questioned, but the provision does not appear to be unrealistic.

12. Ongoing costs and savings

- 12.1 Savings and costs associated with the options will be crucial to their affordability. We have reviewed the basis of the service transformation plans and have discussed the LGR issues with some of the officers that will be involved.
- 12.2 The basis of the financial savings and costs has been carried out with caution and prudence. The financial cases could have been made more conclusive by making more positive assumptions relating to the ability of securing efficiency gains and disposing of surplus facilities. The identification of the savings and costs associated with the two unitary approach is a more challenging exercise, but, in our view, it has been undertaken using a reasonable methodology.
- 12.3 The county developed the savings and costs for the whole county approach first and has then amended for the differences arising in the two unitary option, as opposed to an alternative bottom-up approach. We have concluded that this was a practical expedient, given the nature and timing of the exercise.
- 12.4 Inevitably, there are uncertainties involved with a number of the assessments of costs and savings. One particular uncertainty concerns redundancy and early retirement payments, where the basis of the payments will be the rules that apply in divesting authorities and not the county's rules (as already discussed under transitional costs).

- 12.5 Our overall conclusion is that, whilst not all risks of misjudgement can be eliminated, DCC has made reasonable efforts to identify and assess the costs and savings attributable to the LGR proposals, with any bias being to overstate cost estimates and understate savings.

Staff issues

- 12.6 The determination of the staffing resources needed to deliver services under the two options is perhaps the most important aspect of the reorganisation option assessment. It involves assessing:
- how services are provided now
 - how they might be delivered in the future
 - what employees are involved in the existing service delivery
 - what employees are involved in the new service delivery arrangements
 - what support is involved in getting the services from where we are now to the new arrangements
- 12.7 Underlying the process is a focus on aspects of service delivery that change – therefore, under the whole county option, there is little attention for the service delivery issues for Adult Social Care, Children’s and Education Services, Court Services, that do not change under the one Unitary option. For the two unitary option, the delivery of these services does change as the expenditure has to be disaggregated.
- 12.8 The assumption is that services will move to the best arrangement presently in use across the county as a whole, rather than a transformational approach involving moves to what are the best in class arrangements. Effectively, the assumed approach is to adopt a standardisation approach on an incremental basis. This is a relatively prudent approach, albeit as always, the change has to be implemented and delivering change is not necessarily straightforward.
- 12.9 Therefore, the principal risk lies in the ability to move to the best in use system and the ability to manage that process. There is a further risk that the systems do not operate satisfactorily and that the 4 star delivery of services will be jeopardised in the process.
- 12.10 We have some concerns that there is the possibility that the benefits of standardisation have been underestimated. For example, in local taxation and benefits, for the whole county unitary option, there is an assumption that 25 posts can be taken out – given that this is a large service, operating a common set of regulatory procedures, across 8 district areas, this appears conservative and a more challenging approach would see a larger number of posts being removed.
- 12.11 In one well known Revenue and Benefits shared service operation, an annual saving for amalgamating 3 authorities’ Revenue and Benefits services is said to be over £1m, which is substantially more than that anticipated in the workbooks.

On balance, and knowing that achieving shared services is always a challenge, the approach taken does not, however, seem inappropriate.

- 12.12 Each activity that is subject to change has been considered separately at a high level. The ICT solutions in use have been mapped i.e. what each authority is using and an assessment made as to which solution would be best to use for the new authorities. Once that decision has been taken, an analysis is made of how migration from the present arrangements to new arrangements would be achieved, what costs would be incurred and what benefits are deemed probable.
- 12.13 For example, there are 8 different HR & payroll systems and the view of the county is that they should standardise on the county system HRMS (Prism). This requires, in the view of the assessors, transition costs – licensing; data transfer; disaggregation costs; programme management; capital investment; giving a total of £225,000. The benefits are based on the assumptions that there is circa £240,000 per annum incurred on the payroll systems at each district and that this can be saved. The savings are profiled from year 1 £80,000 to year 5 £1.68m.

Democracy and localisation costs

- 12.14 The costs of having a revised democratic structure have been built into the proposals with significant savings by stripping out the democratic core that would not be required under the options. The members' allowance savings amount to £1.8m per annum for the whole County option and £1.7m per annum for the two unitary option. We have judged that a reasonable approach has been adopted.
- 12.15 The plans have set aside amounts for the creation of Community Boards for each of the market and coastal towns in Devon, together with a Board for Exeter. Each Community Board will be accountable for establishing arrangements to ensure effective community engagement across the whole of that area, but it is assumed that they will have limited delegated financial discretions.
- 12.16 The workbooks allow for some 40 new posts to be created to support the proposals. The total costs for creating the Community Boards under the whole county option has been assessed at £31m and £29m under the two unitary approach. As long as the new authorities approve the propositions unamended and greater delegation is not implemented, then the estimates should be within acceptable bounds of accuracy.

Other savings

- 12.17 We have briefly assessed the reduced expenditure arising from information technology, procurement and other costs; for example, external audit, and considered that a reasonable approach had been adopted.

Reserves and provisions

- 12.18 The County Council has a substantial reserves and earmarked provisions. Across the county, the position seems similar, with sufficient reserves being held by each authority. The County's position based on the accounts is set out below.

Year	Earmarked reserves £m	Balances £m	Schools Balances £m
2005/06	53	14	11
2006/07	52	14	11
2007/08	60	14	12

- 12.19 As per the base data information, the total balances for the Devon authorities is some £94m divided between balances £29m and earmarked reserves £65m. For the two authority option, the reserves available are less, as the reserves for Exeter, part of East Devon and Teignbridge go to the new authority – some £69m is available. The apportionment of what goes to another authority seems consistent with the relative size of the transfers.
- 12.20 Some of the earmarked amounts will represent real liabilities in the sense that expenditure is committed, whilst other amounts will represent a designated reserve where no commitment exist. The earmarked reserves for the County are stated to be £36m, whereas in the statement of accounts, the amounts are shown as £60m.
- 12.21 Based on the forecast expenses and incomes, as shown in the workbooks, there will be a need to draw on reserves under both options in the years of transition – years 1 and 2, but the numbers seem to be well within the limits of affordability. Based on the earlier workbooks (Version 29.08.08) the Council tax levels in year 1 come under some strain, which have been addressed by drawing on reserves to reduce the requirements for taxation in the later work books (Version 03.09.2008).

13. Formula Grant allocations

- 13.1 The apportionment of the Formula Grant between the two options proposed by the Boundary Committee i.e. a single county unitary and a rural Devon and an Exeter and parts of East Devon and Teignbridge, has been undertaken independently by Local Government Futures. In principle, the assessment involves re-running the 2007/08 local government finance settlement to assess how much Formula Grant the authorities would have received had reorganisation occurred on 1 April 2007.
- 13.2 For the single county option, the exercise is easier, because the Formula Grant available would be the amount receivable by the combined authorities. However, the two unitary authority approach involves seeking to obtain the underlying data from available sources. However, this approach encounters difficulties where the source information is insufficient to match the needs of the formula. In such

cases, LGF have sought to identify and use source data that is available at either the parish or district level.

13.3 LGF's final report analyses the settlement indicators into five categories. In two of those cases, the values that are used are supported either from original sources or the settlement itself. In another, data is taken precisely from publicly held data, but the view is any error would be small. In the last two categories, because there is no information available or where source data cannot be analysed to the necessary level, informed judgement has to be taken.

13.4 Areas of uncertainty arise in connection with areas such as:

- Density and sparsity – which are particularly important in the district level needs assessment. Data is only available at the ward level, but the indicators are created at a more detailed level (e.g. output level), which is not available. LGF therefore made estimates on the available data.
- Highways maintenance where the traffic flow statistics have been taken from Plymouth and Torbay as broadly equivalent figures.
- Day visitors in the EPCS block where the information is not available – an approach has been adopted that seeks to address the difficulty and provide reasonable comfort on the outcome.

13.5 The principal risk in this approach is that where judgement has been exercised that a material error in the split of the grant between the two unitaries would arise. It is our view the accuracy of the split is reasonable, given the nature of the exercise. The risk has been further mitigated as the analysis has been subject to review and challenge by both the County and Exeter City. The approach has been transparent and the assumptions used have been disclosed to all parties and alternatives considered and discounted. It seems unlikely that a more accurate split can be made available and the risk of misstatement is low.

**Local Government Futures
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