

Council Merger - Open Letter

Dear residents

In the interest of openness and transparency we write to clarify why your Councillors reluctantly decided not to proceed with the planned merger with Stratford on Avon District Council (SDC).

Our SDC colleagues have put on the public record that their reason for withdrawing from the planned merger was the discovery of a *new* risk created by this Council's investment in our Local Housing Company, Milverton Homes. In addition, SDC Councillors cited unacceptable concerns with other proposals to borrow a further £100m.

The facts of the matter are:

1. **We created Milverton Homes in December 2020** to accelerate the provision of housing, including much-needed affordable homes across Warwick district. Our ambition is to build housing to high environmental standards, contributing to reduced carbon emissions and creating an improved quality of life for our residents who live in these new homes. Indeed, the submission document that both Councils submitted to Government in support of the proposed merger, referred to Milverton Homes operating over the whole of South Warwickshire. Our new local housing company was presented as one of the shared benefits the merger would generate, offering SDC residents to also achieve high quality, affordable homes.
2. **Milverton Homes has so far undertaken one transaction** – a joint venture with Vistry; with the Council investing £60 million at a fixed interest rate on a loan taken over a 7-year term. This investment enables a scheme for 620 homes in Kenilworth; 248 homes will be affordable and retained by our Housing Service. A further 62 homes will be available for private rent through Milverton Homes. All of these 310 homes (50% of the development) will be built to net zero carbon standards. The balance of the homes would be sold by Vistry. This scheme will provide income to our General Fund which in turn supports the costs of our other services. The Milverton Homes financial proposal was subject to stringent due diligence by external advisers. Please note that our decision to invest was made in April 2021 and the joint venture formed in August 2021. These dates are significant.
3. **In February 2021** we agreed with our SDC colleagues to work towards merging our Councils by 1 April 2024. As part of the work to deliver that vision the Local Government Association funded an independent Financial Disclosure Review looking at the finances of both Councils. No financial concerns were found.

The report addressed the joint venture between Milverton Homes and Vistry Partnerships Limited. It noted that any risk arising from servicing of the £60m loan would impact on the WDC General Fund and ultimately that of the merged Council. On page 7 of the report, it was noted that the plans for the Local Housing Company had been subject to detailed external professional advice and due diligence. The report also confirmed:

- Advice that any further review of this agreement was beyond its scope, recommending that SDC undertake this work prior to the proposed merger.
- The level of increased borrowing WDC planned in the year ahead to fund its capital programme.

In May 2021, the Local Government Association report was shared with the two Chief Executives and their senior officers, including the Head of Finance (S151 Officer) – which had become a joint role across both Councils in March 2021. **In June 2021** the report was presented to the Joint Arrangements Steering Group comprising Councillors from both Councils, including the Leaders, Political Group Leaders, and other senior Councillors. **In December 2021** the report was published as an appendix to the public papers that both Councils considered at their historic meetings when the merger decision was taken.

It is important to note that at no stage in this process did SDC Councillors, or their Officers, express any concern about our financial arrangements or those of Milverton Homes. In fact, it was not until **late February 2022** (two months after the merger decision had been taken and eight months after SDC Councillors had received the LGA report) that they requested further Due Diligence, the details of which were not provided to us **until mid-March 2022**.

4. A key part of the work leading up to the April 2024 merger was to integrate our staff to deliver efficiency savings, whilst maximising service provision. An **Inter Authority Agreement (IAA)** was prepared to enable governance arrangements for both Councils to integrate services in an orderly manner. The first major integration planned was for the joint Environment and Operations service which had been prepared in detail, with staff fully consulted, and a schedule agreed to be implemented in early May 2022. This process was stressful for our staff, with some posts proposed to be made redundant and other staff to be redeployed, pending the signed IAA agreement.
5. Two informal **Joint Cabinet meetings were held in March 2022** (1st and 22nd) where no mention was made by SDC Councillors that they wished to pause the process of agreeing the IAA because of Due Diligence issues. It is notable that the first of these two March 2022 meetings was

devoted exclusively to discussing the Inter Authority Agreement and related governance issues.

6. **On 31 March 2022**, SDC advised that it wished to defer consideration of the IAA until their further Due Diligence had been completed. Despite confirmation that there was no material reason to delay while the additional financial checks were done, SDC resolved not to sign the IAA and therefore postpone the service integration programme.
7. **On 12 April 2022**, SDC announced its decision to write to the Government pausing the merger process until the further Due Diligence process was completed. They were concerned that the Government might issue a decision before this work had been done. Two days later, when the Council Leaders and Chief Executives met, SDC confirmed that they were writing to the Government with or without our agreement. (The letter was sent within minutes of the meeting concluding).
8. Agreeing to SDC's request would have meant that all the staff in the Environment and Operations service area would have been left in an **extended period of uncertainty**, being unable to move to new jobs and with the continuing knowledge of some posts potentially being made redundant. We did not consider this an appropriate way to treat staff who had already gone through a long period of uncertainty about their roles.
9. We also judged that to agree to this letter would have **undermined the merger proposal** and our credibility with Government. Given the paucity of communication from the Government we had but a rumour that it would reach a decision on our merger proposal by the end of May 2022; that rumour was no basis on which to decide to pause the merger process.
10. Had SDC done what the LGA recommended in May 2021, and not delayed for eight months to start their further Due Diligence, then these questions could have been answered in a timely manner. All the information required in respect of Milverton Homes or the investment in the Joint Venture was available before the merger decision in December 2021.
11. We also note additional references made by SDC regarding our **Medium-Term Financial Strategy** (MTFS), our Treasury Management Strategy and reference to an additional £100m borrowing requirement. While new initiatives will need to be agreed over the next year to enable savings or additional income to be generated, it should be noted that the Council has proven delivery in developing new and innovative strategies, including realising ways to improve returns from its investments. This will enable the Council to balance its budget over the medium term and create a sustainable platform for ongoing service delivery. Schemes implemented across 2021/22 are expected to deliver a £3m benefit to the Council,

which is more than we have ever achieved. To put that into context, it is twice as much as SDC is planning to achieve in over 5 years, as set-out in its most recent MTFS.

12. As part of the **March 2022 Treasury Management Strategy**, we approved the use of additional borrowing to support investment in our communities. The finance requirement is forecast to increase by £102.6m in 2022/23, for a number of major General Fund schemes, including service activity in housing, the Kenilworth leisure centres and school schemes, our share of the investment in the Material Recycling Facility in Coventry and in the purchase of a fleet of waste collection vehicles to be used as part of the new service.
13. Agreeing this borrowing reflects our ambition and our commitment to **focus on what is important to our communities**, such as delivering more affordable homes; improving leisure facilities; tackling climate change; improving our waste management service; and assisting the local economy. We are conscious that delivering these ambitions in the current financial climate is challenging, but we are up for that challenge.
14. The merger process has cost WDC £157,600 but working with SDC will achieve ongoing savings of £301,200 per annum. So, although a good deal of Officer and Councillor time has been abortive, there will be an ongoing significant financial saving to both Councils from the merger work and the joint services we are undertaking. For instance, the Joint Local Plan will save £500,000 for this council, compared to doing it alone.

On reflection, we've concluded that SDC had decided they didn't want to proceed with the merger as it became evident that they approach their aims and aspirations for their communities in a very different way to that of WDC, who will always tackle a challenge head on. And that is why we believe the merger has halted, and not because of the finances of Milverton Homes or, of WDC's additional borrowing proposals.

All of that said, we will continue to work with SDC on a range of services and proposals as ironically the work we have done jointly to date has and will continue to deliver benefits for the residents of both Councils. The biggest thing we have recognised is that WDC staff and Councillors love a challenge and will step-up to whatever the future may hold. We have learned an awful lot though the process and will take that forward as we continue to strive to make our District a great place to live, work and visit.

Yours sincerely

Cllr Andrew Day, Conservative Group Leader; Cllr Alan Boad, Liberal Democrat Group Leader; Cllr Ian Davison, Green Group Leader; Cllr Mini Mangat, Labour Group Leader; Cllr Judy Falp, Whitnash Residents' Assn Group Leader