

Financial Information

1 Updated Financial Analysis – Deloitte Financial Appraisal

- 1.1 There are savings that a full merger would deliver which will be used to meet both Council's funding shortfall and hopefully prevent the need to reduce service provision.
- 1.2 To help support the consideration of the option to merge Stratford-on-Avon and Warwick, Deloitte were commissioned earlier this year to identify what benefits could reasonably be achieved through such an approach. The main findings were as follows:
- Annual efficiencies in excess of £4.5m per year (to support the shortfall) could be expected by bringing the two Councils together. These savings could be achieved by:
 - Reducing areas of duplication and crossover between the two Councils, creating economies of scale
 - Jointly commissioning contracts, resulting in economies of scale
 - Rationalising property floor space based on removing duplication and the increased desire to work from home because of the COVID pandemic.
 - The report also stated "a full merger provides a greater likelihood of more savings being achieved from service optimisation. It creates a greater cultural shift by creating one organisation, removing some of the politics around identifying who benefits from savings under a shared service arrangement. The vision for the future can be simpler and more joined up, allowing greater delivery of savings".
 - It would be expected that the number of Councillors would reduce from the current 80 across Stratford-on-Avon and Warwick. The Deloitte report estimated a reduced number of elected members. Experience from the recent 3 mergers of Districts Councils indicates wide variations in the scale of reduction ranging from a change of 90 to 55 at East Suffolk to a reduction of 8 at West Suffolk. The proposed working group will consider this and make recommendations.
- 1.3 The review of Councillor numbers would be decided by the SoS, whereas the warding arrangements would be undertaken by the Local Government Boundary Commission for England (LGBCE). The shadow Council would make a "Council Size Submission", at the start of this review in which it would identify the preferred size of the future Council. The LGBCE would use this as an important piece of evidence in determining the warding arrangements and this would be subject to consultation.

2 Updated Financial Assumptions

- 2.1 Since the Deloitte report was produced in February, the Councils' s151 officer has undertaken an assessment of the financial gains which should be possible by fully merging the two Councils and the costs of implementing these arrangements.
- 2.2 Whilst the original business case identified that c£4.5m of savings could be delivered by merging the two Councils the savings assumptions contained within the approved Medium Term Financial Plans agreed in February 2021 amount to £3.8m. The respective position for the two Councils is as follows:

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Stratford-on-Avon DC	0	250	650	1,000	1,250
Warwick DC	390	1,170	1,950	2,230	2,510
Total	390	1,420	2,600	3,230	3,760

- 2.3 Without these assumed savings neither authority would have sufficient reserves to support the respective budgets and would not be financially sustainable.
- 2.4 The level of assumed savings was determined by a benchmarking exercise undertaken by Deloitte on previous similar reviews and are accepted as a reasonable estimate of what could be achieved. However, there has been the opportunity to further review and properly allow for the cost of implementation. These costs relate to three main areas:
- Cost to support of implementing the programme of service integration. This affects mainly the internal support services such as HR, Finance and ICT;
 - Potential cost of redundancies from implementing the proposals for merging services;
 - Cost of harmonising the terms and conditions of the two authorities.
- 2.5 The joint s151 officer has had the opportunity to review these three areas in detail and ahead of the important decision as to whether to fully integrate services and merge the two authorities it is appropriate that members are updated on the potential financial position. The estimated potential savings from the two Councils merging has been reviewed. Considering potential savings of having a single headquarters, the projected savings from a single management team and updating the potential governance savings, the estimated full savings from a merger are now estimated at £5.3m. When the Councils' Term Financial Strategies are updated as part of the 2022/23 Budget process, the estimated assumed savings that have been included will be reviewed, noting that there must be a degree of caution attached to any figures included.

2.6 It should be noted that many of the costs detailed below would be incurred whether the Councils continue to move to integrate services (as agreed by both Councils in October 2021), or it is agreed to seek to progress to form a new joint Council. However, there should be more scope for savings from forming a new single Council. For example, East Suffolk report that they were able to create another £900,000 per annum worth of savings from the political merger and this was after almost 10 years of having integrated services. As East Suffolk is of a comparable scale as a South Warwickshire District Council would be, it is a relevant example to consider.

3 Democratic Costs

3.1 Cost Implications of Councillor Numbers

3.1.1 This mainly depends on future decisions to be made by the Secretary of State on the size of the new Council and also decisions by the new Council on changes in the Councillor Allowances Scheme, taking into account recommendations from the Independent Remuneration Panel.

3.1.2 The ratio of Councillor to elector will affect the Basic Allowance (BA). The current combined cost of BA's is £468K, and the current ratios are:-

Council	Councillors	Electorate	Ratio per Councillor	Basic Allowance
SDC	36	105,000	2,916	£5,631
WDC	44	109,000	2,477	£6,129

3.1.3 Electoral growth within the two districts has slowed recently, but with the joint review of the local development plan the figures will grow further, and if the ratio figure increases so will the basic allowance. A reduction in the total number of members would produce a financial saving, although potential indexation uplifts could reduce the level of saving.

3.1.4 A review of Special Responsibility Allowances (SRA) could see savings, as the number of members receiving the allowance would be halved, although they are calculated in proportion to the basic allowance. The current combined cost of SRA's is £175K pa.

3.2 Cost Implications of Changes in Constitutional Arrangements

3.2.1 The new Council would have a new single Constitution, providing opportunities for rationalisation of the number of council decision-making bodies and their membership, potentially leading to fewer meetings, reduced expenses and opening up more time for members to undertake their community leadership roles.

3.2.2 Similarly, the new Constitution would only allow for a single Cabinet of up to ten members. Under the current arrangements the two Cabinets comprise a total of 16 members. In addition to the two Cabinets, there are currently a number of member advisory groups that support and report to their respective Cabinet, not forgetting the two separate overview and scrutiny arrangements. There would be an opportunity to review these arrangements as well.

- 3.2.3 Fewer councillors, meetings and a single constitution will require less officer support, so helping to enable greater savings as services align. However, a single governance approach encompasses much more than issues around the number of Councillors and relates to a single set of accounts, audit and so on all of which generates costs for each Council. To help refine the estimates costs of governance the LGA undertook some work and identified cost of £303,000 per annum that could be saved.
- 3.2.4 However, if the merger request is made and subsequently granted by the Secretary of State the number of Council meetings is likely to rise in the short term, particularly during the time when the shadow Authority is in operation. This is likely to require some additional funding, including democratic service staff resource costs.

3.3 ***Cost Implications for Elections***

- 3.3.1 The current combined cost of running district elections is in the region of £475K, subject to costs associated with covid19 precautions and any additional staffing costs. This part of the analysis is presented on the assumption that the date for the elections for WDC and its town and parish councils would be postponed from 2023 to 2024.
- 3.3.2 In that situation the 2024 elections would comprise all district, town and parish and Police and Crime Commissioner, leaving aside the possibility of parliamentary elections. As usual, 50% of the costs for the town and parish elections would be recharged back to them.
- 3.3.3 By having all these elections on the same day there could be a marginal overall cost reduction, but it is too early to estimate the figure. The following factors would also need to be taken into account:-
- the current printing contract, which is shortly to be procured across both Councils
 - election fees for staff will need to be aligned
 - election staff will need to be (re)trained and recruited
 - the hire costs for the selected counting venue
 - potential costs of venue for postal vote opening
 - any cost savings for single equipment store.

3.4 ***Cost Implications for Electoral Registration***

- 3.4.1 Electoral registration costs are dependent on the number of electors. Potential savings from a combined printing contract have to be balanced against the increase in properties across the two districts. The largest cost is postage, over which there is little or no control. The IT systems are the same for both Councils used and licence costs are likely to remain the same.

4 Accommodation Costs

- 4.1 Currently SDC incurs costs of circa £500k per annum for the running of Elizabeth House and WDC incurs costs of circa £700k per annum for Riverside House. A merger of the two Councils would help to release significant savings estimated to be in the region of £600k per annum. Hybrid working and a reduction in duplication would enable a new Council to require a vastly reduced office footprint and with it a significantly reduced running cost. This also offers the opportunity for a capital receipt to invest in new but much smaller premises and an ability to invest the receipts in other Council activity. Options on how to progress this work has been commissioned. The work will need to consider the maintenance of a face to face, customer activity in some locations as well as touch down spots for staff and Councillors.

5 Cost of Service Integration

- 5.1 If the organisation is to be fully aligned and services integrated by March 2024, the main support services of ICT, Finance and HR and Communications will need additional support. This support will primarily take the form of time limited posts and additional consultancy. These will be on top of the Programme Budget for which £600k was agreed in February 2021 between both Councils.
- 5.2 An assessment has been carried out of the additional posts required over the next 27 months, and the consultancy support. It is not possible to be totally definitive about the actual requirements over that period, or the costs. At this stage, it is estimated that a total budget of £1.5m should be provided.
- 5.3 The cost of ICT system replacements will be separate to these costs, with many of ICT costs having to be incurred whether the Councils were to continue to operate in isolation or to merge, as systems reach end of life etc.

6 Redundancies

- 6.1 Reducing costs and duplication between the two Councils will result in a reduced headcount (i.e. number of posts not necessarily number of people) of approximately 10%. For some time now both Councils have been seeking to limit permanent appointments as vacancies have occurred to reduce potential redundancy costs. Increasingly there has been:
- Cross working across both Councils to share resources pending services being formally aligned.
 - Use of time limited appointments.
 - Use of agency staff.
 - Deferring appointments if possible.
- 6.2 In recent years, as services have re-structured, many staff at risk of losing their employment have successfully been redeployed into other posts. In total, over the two Councils over the last 5 years, there have been 70 staff redeployed rather than face redundancy, with 34 being made redundant.

- 6.3 It has never been possible for both Councils to adopt a no redundancies rule but both Councils have repeatedly said that they'd do everything possible to avoid redundancies. By continuing to make use of natural turnover and redeployment, it should be possible to keep the number of redundancies to an absolute minimum. This will be to the benefit of the Councils and employees.
- 6.4 Estimating the cost of redundancies is extremely difficult as it relies on many factors, including:
- The age of the individuals
 - The length of local government service of the individuals
 - The grade of the individuals
 - For those over 55 that are members of the local government pension scheme, there will also be the cost of pension strain. This reflects the additional cost that must be paid to the pension fund to reflect the individual being able to take their accrued unreduced pension early. It is very hard to estimate this, with each individual's circumstances being unique.
- 6.5 It is not possible to assess with any certainty the overall mix of employees that may face redundancy.
- 6.6 The Deloitte report suggested potential redundancy costs of c£1m. When that report was produced, there was a recently introduced cap on public sector exit payments of £95k. Following various legal challenges, this cap has been withdrawn by the Government. Consequently, the cost of some potential redundancies may now be well in excess of this cap.
- 6.7 It should be noted, that under local government terms and conditions, it would not be only the higher graded (chief) officers to whom this cap may have applied. The redundancy and pension strain costs for many staff over the age of 55, with many years local government service may exceed £95k.
- 6.8 Whilst it is not possible to be definitive about the total potential redundancy costs, it is recommended that a sum of £1.5m (£0.5m more than recommended by Deloitte) is set allocated for these potential costs, with this figure kept under review.

7 Cost of harmonising the terms and conditions

- 7.1 The main cost relating to harmonisation of terms and conditions will be in respect of bringing all employees onto the same pay structure as part of introducing a single job evaluation scheme in place of the two that currently exist. Currently, individuals in both Councils may be doing the same or similar job but be graded differently. It is not believed to be the case that employees are generally paid more at one Council than the other, but there are some functions paid more at one Council than the other, and vice versa.

- 7.2 With the planned job evaluation, it is intended that the overall pay bill will remain unchanged, other than for any posts no longer required as part of the service integration. Job evaluation is not intended to produce an overall upward or downward shift in pay. For further details please see section 2.7 of the full report.
- 7.3 For any individual that faces a reduction in pay, it has been agreed that they will have salary protection for 30 months. After that period, they would be paid according to the new grade.
- 7.4 Again, this is very difficult to estimate. The approach to job evaluation is still to be determined. High level modelling has been carried out to determine what the one-off cost here may be. At this stage it is recommended that £1.5m should be allocated, with the cost kept under review.
- 7.5 There is the possibility to mitigate some of these costs in the short term if it is agreed that those subject to an increase in their grade have this phased in. This would need to be subject to further detailed calculations and agreement with staff/unions.

8 Summary of 1 off costs

8.1 The above estimated costs are summarised below:

	£
Cost of Service Integration - Support 1 off costs	1,500,000
Redundancy/Pension Strain	1,500,000
Terms and Conditions harmonisation - Salary Protection	1,500,000
Total	4,500,000

8.2 The savings and one-off costs need to be profiled over future years. This cannot be done with absolute accuracy, however, an analysis of how this may look is shown below:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Cumulative Savings	-570	-1,670	-3,400	-5,660	-7,920
Cumulative Costs	1,108	2,830	3,848	4,500	4,500
Cumulative Net Position	538	1,160	448	-1,160	-3,420

8.3 Here it is assumed:

- Savings in staff costs increase to a recurring level of £2.26m per annum (as included within the respective current Medium Term Financial Strategies).
- 1 off costs total £4.5m.
- Based on these assumptions, there would be payback by 2025/26.

9 Funding

9.1 The savings in staff costs modelled above have been factored into both Councils' Medium Term Financial Plans, as part of the savings discussed earlier (paragraph 8.2.2). Consequently, it is necessary for specific provision to be made for the one-off costs.

9.2 Excluding any costs relating to the WDC Housing Revenue Account, it is suggested that the above costs, as and when incurred, should be shared equally between the two Councils. These costs will start to be incurred in forthcoming months but will not be fully incurred until after April 2024 (potentially 2025/26 in the case of terms and conditions harmonisation).

9.3 It is recommended that both Councils should commit to setting aside £750k each as part of the 2022/23 and 2023/24 Budget processes. A further £1.5m would be needed from the 2024/25 Budget, whether this is from the Budget from the proposed new Council or the continuing two District Councils. This will provide for £4.5m for these anticipated one-off costs. In addition, both Councils should ensure that further reserves are held which can be utilised if required without putting the authorities' finances under pressure.

9.4 The overall costs will need to be closely monitored within future reports. In addition, both Councils should ensure that further reserves are held which can be utilised if required without putting the authorities' finances under pressure. If approved these costs will need to be allowed for within the emerging medium term financial plans.

10 Council Tax Harmonisation

10.1 The Council Tax at Band D for WDC is £176.86 and SDC, £149.12, a difference of £27.74. Under legislation, it is possible for a new authority to operate with two levels of Council Tax for the initial years, but by year 8 a single level of Council Tax must be agreed. This means that the harmonisation of level of Council Tax can be spread in up to 7 years, or it may be harmonised in a single year.

10.2 Within the medium-term financial strategies (MTFS) of both councils, future annual Council Tax increases of £5 have been assumed, this being the maximum increases permitted in recent years for district councils under the referendum principles applicable to limit increases. On this basis, the Councils are both seeking to maximise future Council Tax revenue so as to support any funding gaps within the MTFS. Any reduction from the assumed £5 will result in reduced income and resultant increased levels of savings to be secured if services are to be protected.

- 10.3 As a new authority, based on previous mergers, the £5 referendum principle referred to above will apply to the average Council Tax of the district, with it necessary for average council tax increase of £5 per annum if the Council Tax revenue is to be protected. On this basis, noting the Council Tax base for SDC and WDC are broadly equal, there are various options as to how council tax should be equalised. Options include:-
- Equalise in 1 year – SDC +£19, WDC -£9
 - Equalise in 4 years – SDC +£8.50 pa, WDC £+1.50 pa
 - Equalise in 7 years – SDC +£7 pa, WDC +£3 pa
- 10.4 At this stage it is not necessary for either Council to agree to the level of future Council Tax increases, and the period over which Council Tax is harmonised. To protect the revenue income of both Councils, Council Tax harmonisation should not commence until the new local authority has been formed. It will be for future administrations to determine the approach to harmonisation taking into account matters such as:-
- Any legal limitations on council tax increases
 - The need to maintain Council Tax revenues to balance the MTFS and so maintain services
 - Legal requirement as well as political and local pressures to harmonise Council Tax.
- 10.5 Any reduction from a future average increase in council tax of £5 for the proposed South Warwickshire District Council will present a reduction in forecast council tax income. For example, if council tax was to be held at the current rate for the former WDC area from 2024/25, whilst that for the SDC area increased by £5 per annum until the two were aligned, this would reduce the overall council tax revenue to the new Council, with the losses incrementing up annually to £1.5m.