Report Number:

Taunton Deane Borough Council

Full Council – 26 July 2016

HIGH LEVEL TRANSFORMATION BUSINESS CASE

Report of the Leader of the Council

1 EXECUTIVE SUMMARY

1.1 In March 2016, Taunton Deane and West Somerset Councils confirmed commitment to a core, and on-going JMASS Partnership and authorised and prioritised work to create a high level Transformation Business Case that tested what transformation could deliver in the following sequential options:-

- ONE Team supporting two Councils (TDBC and WSC);
- ONE Team supporting a merged Council (TDBC and WSC);
- Two Councils progressing their own transformation agendas

1.2 The High Level Transformation Business Case was shared recently to all Councillors for consideration. The proposal for transformation is radical and will bring change on a scale not seen before for our communities, our customers, our staff and ourselves as Members. The full business case is not reproduced again for this meeting. For sight of the full document please refer to the agenda papers for the Scrutiny meetings of 11th (TDBC) and 12th (WSC) July 2016.

1.3 We have listened to and considered the issues discussed at the recent Scrutiny Meetings, and by UNISON. We will continue to consult and engage as we move to implementation.

1.4 Taunton Deane is now sharing a recommendation to Council. West Somerset will now meet on 7th September 2016.

1.5 This report sets out to summarise the findings of the business case, to share and comment on the feedback from Scrutiny and UNISON, and to present my thinking and final recommendations on the way forward for Taunton Deane Borough Council. The report is structured as follows:-

Section 2	Recommendations
Section 3	Risk Assessment
Section 4	Background
Section 5	Summary of High Level Transformation Business Case
Section 6	Assurance Review
Section 7	Financial Implications & Funding Proposals
Section 8	S151 Officer Comments
Section 9	Legal Implications
Section 10	Summary of Scrutiny Meeting Discussions
Section 11	UNISON
Section 12	**Conclusions & Leader Recommendations**
Appendix A	Assurance Review

1.6 The recommendation I present to Taunton Deane Borough Council is to progress Option 2 – a merger with West Somerset Council. Should this not be supported by Members at the West Somerset Full Council meeting on 7th September then Option 3 will be triggered. My reasoning for this position is set out in section 12 below.

1.7 The decision before us is important, and will ensure we can continue to invest in our Growth ambitions, deliver services to our public, and importantly, help us take a huge step towards having a financially sustainable future.

2 RECOMMENDATIONS

2.1 That Taunton Deane Borough Council agrees to progress Option 2 described in the High Level Transformation Business Case and approves the following recommendations…..

It is recommended :-

a/ That, on the basis of the potential savings contained within the JMASS Phase 2 - High Level Transformation Business Case, the Council support the implementation of Option 2 (merger) delivering a shared transformation vision for our communities and ongoing annual savings of £3.1m for the communities represented by the newly formed Council.

b/ That the Leader be authorised to commence discussions with the Secretary of State and Local Government Boundary Commission for England concerning the merger, and that Officers be authorised to implement the proposals in Option 2 in accordance with the financial targets and timeline as set out within the JMASS Phase 2 - High Level Transformation Business Case, with the financial targets to be included in the Councils budgets and Medium Term Financial Plans.

c/ That the necessary respective financial approvals are hereby agreed to fund the TDBC share of Implementation Costs of Transformation totalling £5.966m as set out in sections 7.8 - 7.11 and 7.19 - 7.20 of this report.

For TDBC to fund their General Fund share of the implementation costs (£3,982k) by:-

- a supplementary estimate from General Fund Reserves of £200k;
- by using JMASS Reserves £180k;
- by using SW1 Exit Funds already set aside for technology replacement £137k;
- using unallocated Capital Resources of £46k;
- by directing £153k of 16/17 in-year revenue savings towards this
- by using “returned” Earmarked Reserves totalling £290k
- By using £1,218k of New Homes Bonus (NHB) Funding – and making the necessary reprioritisation to the Growth Plan.
- By progressing “assets for sale” to the target sum of £1,758k. (underwritten by NHB)

For TDBC to fund their HRA share of the implementation costs (£1,984k) by:-

- By using unallocated Capital Resources of £324k
- By using agreed revenue resources for transformation of £500k
- By progressing “assets for sale” to the target sum of £1,160k (underwritten by HRA Reserves)

2.2 In the event of West Somerset not agreeing to Option 2 (merger) at their meeting on 7th September 2016 - then as a consequence, Option 3 will be progressed. It is recommended that the additional funding requirement of £776k is approved (£517k Gfd funded from “assets for sale” (underwritten by NHB) and £259k HRA – funded from HRA reserves including unallocated capital). The updated savings will be reflected in the MTFP.

3. RISK ASSESSMENT

3.1 The Joint Management & Shared Services (JMASS) project maintains a risk register which is updated regularly and monitored by the Joint Partnership Advisory Group (JPAG).

3.2 The key risks are shared below for information. The register will be updated to reflect implementation risks post decision on 26th July 2016, and again on 7th September 2016.

Description	Likelihood	Impact	Overall
Should Taunton Deane do nothing, there is a significant financial risk of being unable to continue to fund its growth ambitions at current levels which would lead to a failure to deliver against the Growth Prospectus and would result in our losing the associated opportunity benefits in terms of new jobs, homes, New Homes Bonus and Business Rates.	5	4	20
The mitigation for this risk is to identify ways of significantly reducing operating costs and increasing income and this is met in large part through this business case although more will need to be done in terms of greater commercialism, accommodation savings as well as service reviews.	3	4	12
For West Somerset the risk is of being unable to continue to operate as a viable going concern.	5	5	25
The mitigation for this risk is to identify ways of significantly reducing operating costs and increasing income and this is met in large part through this business case although more will need to be done in terms of greater commercialism, accommodation savings as well as service reviews.	3	5	15
For TDBC, there is a significant financial risk should agreement between WSC and TDBC not be reached on the preferred transformation option and, as a consequence, the provisions within the Inter-authority Agreement are pursued contractually.	5	4	20
The mitigation for this risk is for the two councils to agree a single preferred transformation option and continue to work on a collaborative basis.	1	4	4
There is a risk that the business case savings target is not delivered within the expected timescale or not delivered.	4	5	20

<u>The mitigation</u> for this risk is the ongoing monitoring of costs, savings and milestones by JPAG, JPB and JMT. *A Programme Manager supported by adequate project leads and other resources.*	2	4	8
This is a major transformation programme which will impact on all staff and there are risks in relation to ensuring sufficient officer capacity, retaining morale during this significant corporate change; and securing successful implementation of major cultural change in relation to new skills and work styles within the new operating model which will require effective consultation and engagement of UNISON and staff.	5	4	20
<u>The mitigation</u> for these risks include: • *A Programme Manager supported by adequate project leads and other resources.* • *Identified actions with finance to support the OD and People workstream.* • *Continuing learning from other partnerships, LGA etc* • *Discussions with UNISON on how they can be best engaged throughout the process.* • *Development of staff design panel.*	2	4	8

3.3 Risk Matrix

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 BACKGROUND

4.1 The background and context to our transformation ambition is set out in the Mandate Report of March 2016. We have achieved a great deal since our initial partnership discussions of 2013 and now share, as described in the High Level Transformation Business Case, the potential for further change.

4.2 It is important that we remember why we are doing this, and not lose sight of the need for our Councils to make savings. This is essential to allow Taunton Deane to continue to invest in Growth – our top priority. For West Somerset, we know from the Affordability Project (and Bill Roots report and earlier LGA reports that led to the JMASS partnership and recommended – save more; partner; may not be viable over medium / longer-term), that there remains significant financial viability challenges. The subsequent approach to Government has shaped the work approved by us all in the Mandate Report of March 2016.

4.3 The High Level Transformation Business Case is the product of the request we made in March 2016, and shows us what *could* be delivered from transformation, in various democratic scenarios.

4.4 We know that transformation alone isn't enough to balance the books for either Council. It will be for us as Members to consider what this means in terms of other savings that we need to make to become sustainable over the longer term.

5 HIGH LEVEL TRANSFORMATION BUSINESS CASE - SUMMARY

5.1 For the full document please refer to the agenda papers for Scrutiny meetings on 11th and 12th July 2016. The remainder of this section summarises the proposals in the business case.

5.2 Both Councils are facing a challenging financial future, with predicted budget gaps over the coming years as shown below:-

	2017/18	2018/19	2019/20	2020/21	2021/22
TDBC Cumulative Gap	0.527m	1.401m	2.128m	2.327m	2.532m
WSC Cumulative Gap	0.120m	0.618m	0.945m	1.104m	1.227m

Within this context, Members set a transformation vision that would reshape what we do, how we do it, and where and when services are accessed.

5.3 Members need to be clear at the outset of the scale of change that Transformation will bring. The degree of change both required and proposed **far exceeds** that for JMASS Phase 1, which involved delivering the ONE Team of officers to support both councils but did little to change attitudes, behaviours, technology, processes, systems, customer access channels nor the traditional service structures to which our officers are allocated, or our governance arrangements.

5.4 Although a natural progression from JMASS Phase 1, Transformation goes **far beyond** this and proposes **radical** changes to the way in which services are delivered, the councils are staffed and organised and the technology, systems and processes required to support these. It also has direct implications for democratic representation and governance. These democratic changes are unavoidable even if not palatable to all Members. In short, every aspect of our operation will be encompassed by this programme of change.

5.5 The business case firstly looks at the implementation route to deliver our transformation vision, before looking at what additional savings and costs would be incurred through the alternative democratic and delivery options. The transformation vision is constant for all options reviewed, apart from option 3b (West Somerset Council stand-alone).

5.6 Having explored two very different implementation approaches for this vision, we recommend that we progress the "future model" approach supplemented by additional work on eliminating failure demand. This approach reflects our agreed Design Principles and will deliver our transformation vision and ambitions. By implementing a whole Council(s) approach to change, the benefits to our organisation, our community and to our staff and members are significant.

5.7 The business case demonstrates that the transformation programme can deliver a major contribution to bridging the budget gap faced by both Councils. This proof of concept work has confirmed that significant annual revenue savings can be achieved through transformation as illustrated below:-

	TOTAL £m	WSC £m	TDBC £m	*TDBC Gfd*	*TDBC HRA*
Ongoing Savings	**2.6**	**0.4**	**2.2**	*1.5*	*0.7*
Further potential savings: - Commercialism - Accommodation - Growth - Service delivery	**?**	**?**	**?**	*?*	*?*
One-Off Costs	**6.8**	**1.1**	**5.7**	*3.8*	*1.9*

5.8 Confidence in the ability to deliver the savings is such that this could be built into the Councils' MTFPs (Medium Term Financial Plans). Going beyond this 22% saving for our MTFPs is not "safe" at this stage (as confirmed by our Business Case work and the Assurance Review conclusions on our work). Further work will need to be done on the areas that have potential to deliver these further savings for us.

5.9 The transformation savings make a contribution towards the predicted budget gaps, but do not resolve the financial challenge. More will need to be done to achieve financial sustainability.

5.10 The business case shares concepts on commercial approach, service delivery reviews, and accommodation reviews that will bring further savings. We are confident through our work on these areas to date, that these can and will deliver savings, but we <u>don't yet have confidence on the level or timing of these to formalise them into our plans</u>. Should Members support the approach suggested, then further work will be done to provide assurance on these matters and the net savings can be captured formally in our plans. Needless to say, they will only improve the headline business case position.

5.11 In order to achieve the transformation savings, there is a need for significant one-off investment. This is largely on staff termination costs, additional technology to support the changes, additional support to help us deliver the process and people change necessary and the programme costs of supporting the implementation of this change.

5.12 The indicative one-off costs required, on an "invest to save" basis, are projected to be:-

Total £	**WSC £**	**TDBC GF £**	**TDBC HRA £**
6.8m	1.1m	3.8m	1.9m

3.5m	Staff termination and other staff costs
1.2m	Technology
1.6m	Transition/Programme costs
0.5m	People/OD
6.8m	**Total**

5.13 The business case offers both Councils significant savings. The payback period is within acceptable "invest to save" parameters.

5.14 The high level business case also explores the impact of creating a new merged Council. From due diligence work we believe this delivers a minimum net ongoing additional revenue saving of £551k per annum (in addition to the transformation savings outlined above). Clearly the issues to consider on this go beyond pure financials and there will be additional efficiency savings not yet quantified.

5.15 And finally the high level business case also shares the impact on each Council of progressing stand-alone "futures". The transformation savings outlined above would reduce to £1.886m for TDBC but the future is radically different for WSC and its community.

5.16 Financial Summary of Business Case Options:-

OPTION 1 **Joint Transformation**	**TOTAL** **£m**	**WSC** **£m**	**TDBC** **£m**	*TDBC* *Gfd*	*TDBC* *HRA*
Ongoing Savings	**2.6**	**0.4**	**2.2**	*1.5*	*0.7*
Further potential savings: - Commercialism - Accommodation - Growth - Service delivery	**?**	**?**	**?**	*?*	*?*
One-Off Costs	**6.8**	**1.1**	**5.7**	*3.8*	*1.9*
Payback (Years)	**2.59**	**2.59**	**2.59**	*2.59*	*2.59*

OPTION 2 **Merged Council**	**TOTAL** **£m**
Ongoing Savings	**3.1**
Further potential savings: - Commercialism - Accommodation - Growth - Service delivery	**?**
One-Off Costs	**7.1**
Payback (Years)	**2.29**

OPTION 3 **Stand Alone Futures**		**WSC** **£m**	**TDBC** **£m**	*TDBC* *Gfd*	*TDBC* *HRA*
Ongoing Savings		**To Meet MTFP**	**1.9**	*1.3*	*0.6*
Further potential savings: - Commercialism - Accommodation - Growth - Service delivery		**-**	**?**	*?*	*?*
One-Off Costs		**Unknown**	**6.7**	*4.5*	*2.2*
Payback (Years)		**-**	**3.5**	*3.5*	*3.5*

6. ASSURANCE REVIEW

6.1 The High Level Transformation Business Case has been subject to an external assurance review by Local Partnerships (a company that is jointly owned by HM Treasury and the Local Government Association). A copy of this has been issued to all Councillors but is reproduced for completeness as Appendix A to this report.

6.2 The review concluded that the business case was at “Green Status” which broadly means they are confident in the approach, the assumptions made and its deliverability. They flagged some areas where we have more to do and this will be picked up as part of implementation planning.

6.3 This hopefully provides assurance to Members that the business case is sound and the conclusions reached are realistic and credible – and decisions can be made bearing this in mind.

6.4 <u>The report posed two key questions for Members to reflect on and we encourage you to do so when reviewing our conclusions and recommendations. These questions are:-</u>

- <u>Given the recommendations in the Bill Roots report, which of the options reassure Members about the medium-term financial viability of the Councils?</u>

- <u>Given the earlier meeting with the DCLG Minister, how will whatever option is chosen be received by Ministers?</u>

7. FINANCE/RESOURCE IMPLICATIONS

7.1 The business case clearly sets out the financial implications of the 3 sequential variants and shows the potential savings that can be achieved. As referred to in the Scrutiny reports, funding plans have been developed and are now shared below and reflected in the recommendations.

7.2 **<u>Funding Recommendations</u>**

The timing of the one-off spend is “estimated” in the business case across the financial years 2017/18 and 2018/19. In reality we may need to start some of the investment in the current financial year. In order to maximise the revenue budget savings it would be prudent to fund, where possible, the one-off costs up front, enabling the savings to be fed into the Councils’ medium term financial plans and reduce the budget gap.

OPTION 1

7.3 The one-off costs associated with Option 1 are estimated to be £6.812m. This is a mixture of revenue and capital expenditure, and would be shared across the Councils and funds as follows:-

	Revenue £'000	Capital £'000	Total £'000
West Somerset	925	196	**1,121**
Taunton Deane	4,696	995	**5,691**
Total	**5,621**	**1,191**	**6,812**
Note: TDBC Fund Split:			
Taunton Deane – General Fund	3,134	664	**3,798**
Taunton Deane – Housing (HRA)	1,562	331	**1,893**

7.4 We have reviewed the optimum funding arrangements for each Council and recommend the following approach:-

7.5 <u>West Somerset Council – Funding Plan</u>

The following table sets out the proposals for funding the costs of Option 1 for WSC.

	Revenue £'000	Capital £'000	TOTAL £'000
General Fund Reserve	106		106
Sustainability Reserve	50		50
JMASS Reserve B/fwd	235	86	321
JMASS Funding in 16/17 Budget	250		250
16/17 Reverse RCCO	46		46
16/17 In Year Savings	75		75
Unallocated Capital Receipts		110	110
Assets to Be Sold	*163*		*163*
TOTAL	**925**	**196**	**1,121**

7.6 The funding above can be delivered now, with the exception of the "assets to be sold" which represents a target for asset sales to be achieved in the next year or so. With the new powers from Government we can use this capital receipt to fund the revenue costs of transformation. This will be underwritten for risk by the Business Rates Smoothing Reserve.

7.7 The following context should be noted:

- General Reserves would be reduced to the recommended minimum of £600,000.
- Sustainability Reserve would use funds set aside during 2015/16 for this purpose, and leave £40k in the reserve for other sustainability initiatives.
- JMASS Reserves represent funds set aside and not spent from Phase 1 implementation, which is increased by a further £250k set aside through 2016/17 budget setting. This would be reduced to zero by this decision.
- The Council plans to fund capital programme carry forwards using £46k from 2015/16 by Revenue Contribution to Capital Outlay (RCCO) carried forward. The proposal is to the release these revenue funds for JMASS and use capital receipts to fund the capital programme carry forward instead. This reduces the current unallocated capital receipts fund by £46k to £1.232m.

- Ongoing underspends identified in 2015/16 budget monitoring and outturn can be removed from 2016/17 budget in-year totalling £75k.
- The Council holds £1.278m in capital receipts from previous years and it is proposed to allocate part of this balance for JMASS capital costs. This together with the RCCO reversal above leaves a sum of £1.122m in unallocated capital resources for the Council to use on other projects.
- Under new 'flexible use of capital receipts' powers the Council can raise funding to use for revenue costs of transformation (and other initiatives to produce ongoing savings). The Council will need to sell assets to generate the additional funding needed to meet costs of transformation. This strategy is not without risk and it is therefore proposed to underwrite any timing issues using business rates smoothing reserve balance.

7.8 Taunton Deane Borough Council – General Fund Funding Plan

The following table sets out the proposals for funding the costs of Option 1 for the TDBC General Fund.

	Revenue £'000	**Capital £'000**	**TOTAL £'000**
General Fund Reserve	200		200
JMASS Reserve B/fwd	6	174	180
SW1 Return Approved Budget	137		137
Unallocated Capital Receipts		46	46
16/17 In Year Savings	153		153
Earmarked Reserves Returned	290		290
New Homes Bonus Reallocated	1,218		1,218
Assets to Be Sold	*1,130*	*444*	*1,574*
TOTAL	**3,134**	**664**	**3,798**

7.9 The funding above can be delivered now, with the exception of the "assets to be sold" which represents a target for asset sales to be achieved in the next year. With the new powers from Government we can use this capital receipt to fund the revenue costs of transformation. This will need to be underwritten for risk purposes by future NHB receipts.

7.10 The following context should be noted:

- General Reserves would be reduced to £1.913m, which is £313k above the recommended minimum of £1.6m.
- JMASS Reserves represent funds set aside not spent from Phase 1 implementation. This would be reduced to zero by this decision.
- The costs of SW1 Exit included an allowance for some technology that will be delivered via the transformation vision – so this funding will be released from this approved budget to support this programme. TDBC are exclusively funding the exit costs from SW1.
- Ongoing underspends identified in 2015/16 budget monitoring and outturn position can be removed from 2016/17 budget in-year.
- Existing earmarked reserve balances can be reprioritised to provide funds for

transformation, releasing £50k from corporate training reserve, £200k from DLO trading reserve, £40k from Resources service resilience reserve.

- New Homes Bonus is currently committed in principle towards funding indicative £16.6m of growth and infrastructure investment over the next five years. It is proposed to reprioritise £1.218m of existing NHB income to provide essential funding for transformation. The impact of this is expanded below.
- The Council holds £46k in unallocated capital receipts from previous years, and it is proposed to allocate this balance for JMASS capital costs.
- Under new 'flexible use of capital receipts' powers the Council can raise funding to use for revenue costs of transformation (and other initiatives to produce ongoing savings). The Council will need to sell assets to generate the additional funding needed to meet costs of transformation. This strategy is not without risk and it is therefore proposed to underwrite any timing issues using future NHB receipts.

7.11 Taunton Deane Borough Council – Housing (HRA) Funding Plan

The following table sets out the proposals for funding the costs of Option 1 for the TDBC Housing Revenue Account (HRA).

	Revenue £'000	**Capital £'000**	**TOTAL £'000**
Unallocated Capital Receipts		233	233
Revenue Resources	500		500
Assets to be sold	*1,062*	*98*	*1,160*
TOTAL	**1,562**	**331**	**1,893**

7.12 The funding above can be delivered now, with the exception of the "assets to be sold" which represents a target for asset sales to be achieved in the next year or so. This will be underwritten by temporarily reallocating revenue reserves to be paid back in later years.

Impact On TDBC Growth and Infrastructure Plans

7.13 As set out above, the funding proposal for transformation requires the use of £1.218m of New Homes Bonus (NHB) income/reserves. In December 2015 the Council committed in principle to the investment of £16.6m towards growth and infrastructure development over the next five years, to be funded from projected NHB receipts. Since those plans were approved, the Government has consulted on changes to the NHB funding system and it is expected this will reduce the amount available to TDBC over the period.

7.14 The growth and infrastructure investment plan will be updated to reflect this when the Government publishes its response to the consultation. The update will consider how the Council can best meet its ambitions by a combination of obtaining funding from other sources (e.g. CIL) and/or other partners, deferring planned investment against later receipts, reducing planned investment or borrowing.

7.15 The proposal in this report is to use £1.218m from this source to fund transformation ambitions. This will be built into the plan update due over the next few months to reflect the expected Government policy changes.

Impact on Medium Term Financial Plan – West Somerset

7.16 The latest Medium Term Financial Plan was presented to Scrutiny Committee on 16 June 2016. This showed the projected annual budget gap rising to £1.2m by 2021 on current projections for costs and funding. The plans for transformation will reduce but not fully close the gap, as summarised in the table below. As recognised in the business case, further options will need to be explored to address the residual gap.

WSC MTFP	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap	120	618	945	1,104	1,227
Option 1 Savings	-48	-229	-432	-436	-441
Residual Gap	**72**	**389**	**513**	**668**	**786**

Impact on Medium Term Financial Plan – Taunton Deane General Fund

7.17 The latest Medium Term Financial Plan was presented to Corporate Scrutiny Committee on 30 June 2016. This showed the projected annual budget gap rising to £2.5m by 2021 on current projections for costs and funding. The plans for transformation will reduce but not fully close the gap, as summarised in the table below. As recognised in the business case, further options will need to be explored to address the residual gap.

TDBC MTFP	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap	527	1,401	2,128	2,327	2,532
Option 1 Savings	-164	-775	-1,465	-1,479	-1,493
Residual Gap	**363**	**626**	**663**	**848**	**1,039**

7.18 For the HRA the new HRA Business Plan will reflect the impact of transformation costs and savings over the long term with transformation savings helping to mitigate the impact of rent reductions.

OPTION 2

7.19 There are additional one-off costs totalling £329k of delivering a new merged Council that need to be funded should Option 2 be recommended. This would take the total implementation costs to £7.141m. Assuming this additional cost would be split broadly on a similar basis to transformation costs, then the split would be £54k WSC, £275k TDBC (£184k GFd, £91K HRA).

7.20 For the General Fund this additional funding requirement would increase the target of "assets to be sold" and be underwritten by the reserves suggested in Option 1 above. For the Housing Revenue Account this additional funding would come from the use of unallocated capital resources or other HRA reserves.

OPTION 3

7.21 Assuming mutually agreed, then option 3 brings additional one-off costs for transformation for TDBC totalling £1.051m (as the one-off costs of delivering the transformation vision only reduce by £70k overall). This would be shared across the funds – with the General Fund picking up £701k and the HRA £350k.

7.22 For the General Fund this could be achieved by either reprioritising a further element of the NHB funding within the growth plan, or by increasing the target for asset sales. For the HRA this is likely to mean a reprioritisation of spending plans and use of some reserves.

7.23 Should option 3 be triggered contractually, then there will be significant additional costs to be borne by the authority making that decision.

8 COMMENTS OF S151 OFFICER

8.1 The financial opportunity offered to each Council by the options in the business case is clear. Funding proposals are set out above and are deliverable.

8.2 It is important that Members remember *why* we have looked at 3 variants in the business case. The driver for this was the Bill Roots report and the subsequent conversations with Government around sustainability.

8.3 The Bill Roots report concluded that:-

- Taunton Deane has General and Earmarked Reserves and has not used the vast majority of its New Homes Bonus (NHB) to fund day to day services. Taunton Deane will need to take tough decisions to balance its budget but this together with transformation should enable it to do so.
- West Somerset has only minimum General Fund Reserves, and minimal Earmarked Reserves and uses almost all of NHB to fund day to day services.
- The impact of the business rates appeal on Hinkley B nuclear power station causes a dire financial position for the Council in the short and medium term.
- Longer term, should Hinkley C be built and start generating power, and the existing business rates rules apply, then the Council will benefit from additional funding. The timing of this is too late to resolve the current problem.
- Were it not for the impact of the appeal outcome West Somerset could in all likelihood have balanced its books going forward by a combination of further savings and transformation.
- West Somerset is not considered viable going forward unless special measures are implemented.

8.4 In response to this, the Council (with support from the LGA) developed a strong case to Government setting out the unique nature of the circumstances that West Somerset face, and formally requested support. This was shared with Members as part of the Mandate Report to Full Council in March 2016.

8.5 The case was supported by senior politicians in the LGA, and a meeting with the Local Government Minister was arranged where the "case" was presented by the Leaders of the Councils and the Deputy Leader of West Somerset Council, supported by the Chief Executive and s151 Officer. The Minister was clear in his feedback that there was no additional resources from Government to West Somerset Council. He requested that other options were explored – in particular he mentioned "merger" – and left the door open for further conversations when a plan for this had been prepared.

8.6 From this position – where fundamentally….

- West Somerset Council is not viable without special measures.
- The Government are currently unwilling to offer additional support.

…… the Mandate Report was prepared and approved by both Full Council meetings in March – authorising the development of the High Level Transformation Business Case over 3 options.

8.7 From a purely financial perspective, the optimum option in the business case is clearly Option 2. This delivers minimum additional ongoing savings of over £0.5m per annum for the combined community of Taunton Deane and West Somerset. There are other issues to consider, and the resource equalisation issue is important. It is also important that Members do not "over focus" on resources (NHB and Business Rates) that are currently under policy review by government. The Councils cannot assume that the existing NHB income stream, or the existing Business Rates income rules will continue to apply moving forward. However, the £0.5m ongoing savings is certain and can be built into the MTFP.

8.8 So looking at the options in turn, the key issues I as your S151 Officer need Members to consider are:-

OPTION 1	
TDBC	**WSC**
This delivers ongoing savings of £2.2m across the GFd and HRA. There is potential for further savings above this level to be achieved from work on driving out failure demand. The funding proposal leaves GFd Reserves above the minimum level and considerable NHB resources to progress ambitions.	This delivers ongoing savings of £0.4m. There is potential for further savings above this level to be achieved from work on driving out failure demand. The funding proposal leaves GFd Reserves at minimum level and little financial capacity to deal with risk.

<table>
<tr>
<td>The remaining budget gap will require focus and strong leadership to resolve, but I am confident there is sufficient capacity within the councils spending plans and income capability for this to be achieved.</td>
<td>The remaining budget gap will be a significant challenge for the Council. Based on my knowledge of the financial position of the Council, and of the limited existing plans for achieving financial sustainability, I have serious concerns on the Councils ability to deliver this over the medium term. This aligns with the concerns shared in the conclusion of Bill Roots report.

Members need to seriously consider the ability for the Council to meet the budget gap (post transformation), and commit to deliver a plan to achieve sustainability over the next few months.

As your s151 Officer I will need to make a further assessment of the going concern status of the Council as we set next years budget, and as I sign-off the Statement of Accounts for 2016/17.

Should robust plans not be agreed and in place to achieve the further savings by this point then there will be a need for formal intervention under Local Government Finance Act 1988.</td>
</tr>
<tr>
<td colspan="2">OPTION 2</td>
</tr>
<tr>
<td colspan="2">This delivers ongoing savings of £3.1m across the communities currently served by TDBC and WSC. There is potential for further savings above this level to be achieved from work on driving out failure demand. There is also potential for further savings (cash and efficiencies) to be driven out from the staffing structure arrangements (as less will be needed to support One Council).

The remaining budget gap for the new merged Council (post transformation and post-merger) is significant, and will require focus and strong leadership to resolve. The scale and capacity of the new Council means I am confident there is sufficient choices within the new Councils budget and income generating capability for this to be achieved.</td>
</tr>
</table>

<table>
<tr><th colspan="2">OPTION 3</th></tr>
<tr><td colspan="2">The business case is modelled on the working assumption that any exit is triggered by a mutual decision to end the partnership. Even under this assumption there are serious issues to consider regarding each Councils ability to continue delivering services to the public, and the financial challenge potentially created by the TUPE outcome. A mutual decision will impact – financially and operationally – for both Councils.

Any formal contractual termination would bring additional costs on the Council forcing the end of the partnership, as well as potentially creating a delay to progress due to dates for termination being fixed in the agreement.

The impact on statutory officers should a termination be triggered (mutual or otherwise) is significant and arrangements would need to be put in place to ensure that each Council has access to independent advice immediately.</td></tr>
<tr><td>TDBC</td><td>WSC</td></tr>
<tr><td>In addition to the termination issue flagged above, the Council will pick up additional one-off costs of around £1m as the transformation costs don't reduce significantly under the stand-alone model. This would need to be funded from either NHB reserves or require a higher target for asset sales.

This option delivers ongoing savings of £1.9m across the GFd and HRA. There is potential for further savings above this level to be achieved from work on driving out failure demand.

The funding proposal leaves GFd Reserves above the minimum level and considerable NHB resources to progress ambitions.

The remaining budget gap will require focus and strong leadership to resolve, but I am confident there is sufficient capacity within the councils spending plans and income capability for this to be achieved.</td><td>The outcome from Option 3 is described in terms of what it means for the community.

The down-sizing required to achieve this result is considerable and strong leadership will be required.

The Council will need to develop plans to put the changes in place over the short-term – sufficient to meet the budget challenge over the medium term.

As your s151 Officer I will need to make a further assessment of the going concern status of the Council as we set next years budget, and as I sign-off the Statement of Accounts for 2016/17.

Should robust plans not be agreed and in place to achieve the further savings by this point then there will be a need for formal intervention under Local Government Finance Act 1988.</td></tr>
</table>

8.9 Finally, I need to draw Members attention to the questions posed at the end of the Assurance Review report:-

- Given the recommendations in the Bill Roots report, which of the options reassure Members about the medium-term financial viability of the Councils?

- Given the earlier meeting with the DCLG Minister, how will whatever option is chosen be received by Ministers?

8.10 I have answered the first question in my comments above. Option 2 offers the strongest financial outcome from the 3 options in the business case. I accept that the decision will need to consider issues other than pure financials, but I strongly urge Members to bear in mind sustainability and viability.

8.11 The second question is one for Members to consider. The DCLG Minister for Local Government Marcus Jones remains in post following the recent refresh of the Cabinet. He made it quite clear that merger was his preference and he was prepared to listen and assist further if the Councils proceeded in this direction. There is clearly therefore an opportunity to open up fresh dialogue with Government should Option 2 be the Councils preferred option.

9. LEGAL IMPLICATIONS

9.1 A number of issues arise from the High Level Transformation Business Case some of which would need to be addressed (potentially in different ways) in all of the options. Other elements will apply only to a particular option.

Contractual/Procurement Implications

9.2 Taking a number of the common elements:

- All three options involve transformation of the way that services are provided through new ways of working that are more commercial in approach and depend upon investment in staff, software, supplies and services. In particular new client software and interfaces to meet digital requirements to promote "channel shift" will need to be acquired and implemented;
- There will be a need for consultancy support;
- Contracts may need to be entered into, others terminated or (in the option 3 arrangements) disaggregated;
- Contracts for central establishment charges, supplies and services may in other respects need to be reduced with a diminishing workforce and contracts may therefore need to be renegotiated, terminated or novated/assigned as appropriate.

9.3 As a result there will be procurement implications of the above, arising from the Councils Standing Orders and Contract Procedure Rules and the Public Contracts Regulations 2015.

Governance and Standards Arrangements

9.4 In all of the options the Councils have duties to promote and maintain high standards of conduct. Each Council must have a Code of Conduct setting out the standards expected of Members and their conduct; also arrangements to investigate allegations; and make decisions. The high level business case proposes that these functions (other than adopting the Code of Conduct which must be adopted at full Council) will fall to be discharged by the Monitoring Officer in consultation with the Independent Person. The Monitoring Officer must also maintain the Register of Interests. It is proposed that the Audit and Governance Committee should have a standing panel to deal with hearing any complaints that may have been investigated.

9.5 All of the above matters will need to be reflected in the Constitutions of the Councils, along with other delegations from staffing and functional changes. The Monitoring Officer should be authorised to make such changes as are necessary arising from any changes agreed in this report.

9.6 The Council's Constitutions will need to be fundamentally reviewed and updated. In Option 2, there will only be one Constitution which will bring efficiency.

Operating More Commercially

9.7 Councils have a range of powers that allow them to act more commercially and trade without setting up a company. These include:-

- Local Authorities (Goods and Services) Act 1970;
- Collection of commercial waste under Section 45 Environmental Protection Act 1980;
- Wide powers to acquire, dispose of and develop land under the Local Government Act 1972, Housing Act 1985, Town and Country Planning Act 1990 and Local Authorities (Land) Act 1963;
- Local authorities may also invest in land and property as part of the CIPFA Prudential Regime under Section 12 Local Government Act 2003.

9.8 Certain functions will only be limited to cost recovery, such as licensing and other regulatory services. In other circumstances the Councils may need to set up a trading company under Section 95 Local Government Act 2003 or Sections 1 and 4 Localism Act 2016. Each business case to facilitate a more commercial approach to service delivery will have significant legal implications.

Inter Authority Agreement

9.9 Any new arrangements should be discussed at the Joint Partnership Advisory Group (JPAG) under clauses 2 and 16.

9.10 In option 1 the Inter Authority Agreement (IAA) would need to be strengthened to provide for enhanced joint decision-making and greater delegation to officers, with a view to reducing bureaucracy and minimising governance and meetings between the two sovereign bodies.

9.11 In option 2 the IAA would be terminated by mutual consent/operation of law following the Secretary of State making the relevant Order/Regulations to merge the two Councils (see further below).

9.12 The IAA would also be terminated if Option 3 were pursued; probably by mutual consent, but possibly by one Council giving notice to the other (at least twelve months' notice is required to expire on 31 May in any year).

9.13 If one Council gives notice to terminate then that Council may also be liable for the costs of the other party to deal with the withdrawal (up to a maximum of one year's annual cost of the joint arrangements). An exit strategy would then need to be prepared and agreed (or an arbitrator appointed to prepare an exit strategy if the authorities are unable to agree – the key principles being continuity of service and fair treatment of staff). With all staff currently being employed by TDBC it will be important to ensure that staff are identified to represent the interests of WSC in the negotiations on whichever option is pursued.

9.14 Separate project teams could be appointed to represent the interests of each Council. There may be a need to take independent advice and/or provide support to help to resolve any disputes or disagreements (which are potentially more likely to arise in option 3). Financial provision should be made accordingly to enable problems to be dealt with swiftly and effectively cognisant of any conflicts of interest that may arise.

9.15 The IAA provides for an exit plan to be agreed on termination and what that should contain. Failure to collaborate on an exit plan in the interests of all parties could result in the dispute resolution process under the agreement bring triggered requiring matters to be considered by the Chief Executive then JPAG and then arbitration. Such action may also have additional cost implications, which given the limitations on WSC resources could have significant implications.

Council Merger

9.16 Option 2, which involves merging the Council's, could proceed under two different legal routes:

- The procedures overseen by the Boundary Commission under the Local Government and Public Involvement in Health Act 2007 – the relevant one of which is a 'Merger Review' through a 'Principal Area Boundary Review'; or
- Under Section 15 of the Cities and Local Government Devolution Act 2016 by regulations of the Secretary of State (for which no guidance nor procedures exist) and which can only be used until March 2019.

9.17 The Principal Area Boundary Review (PABR) requires Council's to show that the merger proposals will not cost more, and will deliver benefits, including:

- The need to secure effective and convenient local government;
- Reflecting the identities and interests of local communities (i.e. what defines and marks out the area as a distinct community/ies);
- Community support, which under the 2007 Act requires a Local Advisory Referendum (LAR);

- Financial clarity over the implications through a full business case;
- Clarity on proposed changes to electoral arrangements;
- Implications for Town and Parish Councils.

9.18 Irrespective of whether the 2007 Act or the 2016 Act process is followed, the above matters are to be relevant considerations that would need to be addressed before the Secretary of State could make the relevant Order or Regulations, as required.

9.19 The report recognises that the high level transformation business case is not enough on its own to bridge the funding gap and balance the books in all of the options. For WSC the further shortfall, the adverse business rates appeal on Hinkley B and uncertainty of Hinkley C are noted along with "significant financial viability challenges". These challenges are also referred to in the comments of the S151 Officer, particularly in relation to option 3. Both Councils would find option 3 far more challenging since the savings from operating shared staffing as one team and shared operations would be wiped out. Funding to take a TUPE transfer and/or appoint staff would need to be found and the resulting disaggregation of the staff would take time and potentially disrupt service provision. These extra costs would be on top of the transformation programme savings and the other things needed to bridge the funding gaps. The proposals also leave the Councils with a minimum of reserves and having used capital funding to prop up the revenue budget.

9.20 Whilst there are significant budget challenges in option 1 (and to a significantly lesser extent option 2) they are far greater in option 3 and therefore the likelihood of WSC being unable to balance the books (as discussed with Government) becomes more likely.

9.21 In those circumstances the S151 Officer may need to issue a section 114 (3) Local Government Finance Act report.

9.22 Where the S151 Officer considers that a balanced budget cannot be set in any year or that the Council would not be able to maintain a balanced budget then s/he is required to issue a report which will be circulated to all members of the Council for consideration with a view to bringing the budget back into balance. The issuing of the report creates a prohibition period during which no new agreements incurring expenditure may be created until the Council meeting to consider the report and the plan of action. The S151 Officer must consult the Monitoring Officer and the Head of Paid Service before issuing the report.

9.23 Where WSC is not financially viable there may also be scope for action by central government through intervention under section 15 Local Government Act 1999 or possibly to promote reorganisation under Section 15 of the Cities and Local Government Devolution Act 2016.

9.24 Members therefore need to consider the implications of option 3 and the extent to which it is really a viable option at all, and in doing so be mindful of the need to act reasonably.

Brexit

9.25 At this stage it is not envisaged that there will be any implications arising from the referendum, since it will be "business as usual" until such time as the UK formally withdraws from Europe after serving an Article 50 Lisbon Treaty Notice, or at the end of a longer period of negotiation than two years, if agreed by EU member states.

General

9.26 When making decisions the Councils will need to act reasonably and have regard to all relevant considerations, ignoring irrelevant considerations. Members should also have regard to the costs involved and any impact on council tax and business rate payers, commensurate with their fiduciary duties and best value duty to secure continuous improvement. A relevant consideration is the concern that WSC is no longer viable on its own. An Equalities Impact Assessment has been undertaken and members should also have regard to that in taking any decisions on the proposals.

9.27 Members are required to have regard to the advice of Statutory Officers when given in that capacity. The S151 Officer and the Monitoring Officers' advice and comments should therefore be considered very carefully and with weight.

9.28 Member attention is drawn to the comments shared by the Section 151 Officer from the Bill Roots report "that WSC is not considered viable going forward unless special measures are implemented"; and accordingly the optimum financial option in the Business Case is Option 2.

9.29 This advice is summarised as follows:

(1) Option 1 raises serious concerns regarding the WSC's ability to meet the budget gap arising as a result of pursuing this option. For TDBC this is considered deliverable. In terms of WSC the S151 Officer has made it clear that she will need to further assess the going concern status of the Council as next year's budget is set and as she signs off the Statement of Accounts for 2016/17. Should robust plans not be in place then the Section 151 Officer has highlighted that there will be a need for formal intervention under the Local Government Finance Action 1988.

(2) Whilst Option 2 will require focus and strong leadership, it means there are sufficient choices within the new Council's budget and income generating capacity to achieve the budget gap. This is the preferred option of the DCLG Minister for Local Government, Marcus Jones. The Section 151 Officer does not issue any formal risk warning associated with this option.

(3) Option 3 raises serious issues regarding each Council's ability to continue delivering services to the public. In terms of WSC the S151 Officer has made it clear that she will need to further assess the going concern status of the Council as next year's budget is set and as she signs off the Statement of Accounts for 2016/17. Should robust plans not be in place then the Section 151 Officer has

highlighted that there will be a need for formal intervention under the Local Government Finance Action 1988.

9.30 The advice of the S151 Officer is that Option 2 offers the strongest financial outcome. Members must be cognisant of the advice from their Statutory Officers.

9.31 Given the importance of this decision, Members should be prepared to provide reasons for their choice of option, mindful that it will be subject to external scrutiny.

Legal Implications Conclusion

9.32 There are numerous legal implications associated with each of the options outlined in the High Level Transformation Business Case. When Members have determined their preferred option the legal implications will form a key element of the transformation implementation programme.

10. SUMMARY OF SCRUTINY MEETINGS

Taunton Deane Borough Council

10.1 Corporate Scrutiny for Taunton Deane Borough Council discussed the High Level Transformation Business Case at their special meeting on 11th July 2016.

10.2 The key discussion points were

- Considering the financial implications for TDBC of a possible merger with WSC. How this impacts on future growth plans etc;
- Understanding of the technology approach being proposed
- Gaining an understanding of the operating model being proposed, the impact on a future structure, the new roles for staff and impact on management.
- Understanding how the transformation programme would be funded.
- Understanding the impact of the member/governance proposals for all options. What impact this would have on members, numbers, ratio in rural/urban areas and the need for an electoral/boundary review.
- Whether a merger would affect borough status, the mayoralty and the Taunton unparished area.

A copy of the Corporate Scrutiny Committee minutes from the meeting of 11 July will be circulated to all members as soon as they are available and prior to the Full Council meeting of 26 July.

10.3 The meeting concluded with the majority of the Committee supporting the need to transform, and a number of Members expressed a view for Option 2 – A Merger. A public referendum option was tabled but did not receive a majority vote.

10.4 There were no formal recommendations agreed from this meeting for Full Council to consider.

West Somerset Council

10.5 Scrutiny for West Somerset Council discussed the High Level Transformation Business Case at their special meeting on 12th July 2016.

10.6 The key discussion points were:

- Gaining an understanding of the savings that could be achieved by transformation, at what cost and the need for further savings to close the budget gap and which option provides a sustainable future for the council;
- About the IT approach being proposed and the additional abilities this provides to members over and above the technology currently in place;
- The role of members/scrutiny during the implementation phase regards Technology and HR;
- The potential to improve services to customers and the need to ensure that an aging population and rural location could still provide online and accessible services to all.
- Considering the implication of retaining adequate democratic representation with all options anticipating a reduction in the number of councillors and council meetings.

A copy of the Scrutiny Committee minutes from the meeting of 12 July will be circulated to all members as soon as they are available and prior to the Full Council meeting of 26 July.

10.7 The meeting concluded with only one member expressing a view – that option 3 should not be considered for WSC.

10.8 There were no formal recommendations from this meeting for Full Council to consider.

11. CONSULTATION WITH UNISON

11.1 UNISON were provided with a copy of the High Level Transformation Business Case in advance of publication to Members.

11.2 UNISON attended both Scrutiny meetings and shared their initial concerns with the committees. Consultation and engagement will continue as the business case implementation plans are developed.

11.3 UNISON has been asked to consider the recommendations in this report and provide Council with any further comments.

12. CONCLUSIONS & RECOMMENDATIONS OF LEADER OF THE COUNCIL

12.1 West Somerset Council is deferring a decision on this matter until a special Full Council meeting on 7th September 2016. This is to allow the Leader further time for debate with his Members.

12.2 I, as Leader of Taunton Deane Borough Council, am clear that transformation is an essential part of our future and therefore we need to progress implementation as quickly as possible. This will deliver considerable savings for our community and any delay has an opportunity cost.

12.3 Whilst Option 1 would deliver a transformed future, I am not confident that this leaves a sustainable future for West Somerset Council. Therefore Option 1 is not one I can recommend to Members, as the short to medium term viability and sustainability is seriously in question.

12.4 It is clear to me that Option 2 offers the optimum way forward for our communities, delivering an additional minimum £0.5m savings per year (totalling £3.1m savings per annum for both communities), and operational efficiencies. Whilst I recognise that Option 2 requires TDBC to give up its sovereignty, I believe this is the right thing to do in the best interests of our combined communities. I would also refer Members to sections 8.7, 8.10, 9.27 and 9.30 in this report being the comments of our statutory officers.

12.5 **My recommendation is that Taunton Deane agree to progress Option 2. Having ruled out Option 1 due to sustainability, should West Somerset Council feel unable to support Option 2 at its meeting on 7th September 2016, then, regrettably that leaves Option 3 as the only viable and reasonable option for our Council to deliver transformation and to ensure we can continue delivery of our vital front-line services to our community.**

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13. LINKS TO CORPORATE AIMS / PRIORITIES

13.1 The transformation programme has clear and direct links to each Councils Corporate Strategy. The design principles within the Strategies, set a clear guiding framework for our transformation programme.

13.2 The New Operating Model, described in the business case , is based on these principles and delivers significant financial savings which will help us to continue to invest in our priorities as well as deliver services valued by the communities of Taunton Deane and West Somerset; although further savings will need to be identified.

14. ENVIRONMENTAL IMPACT IMPLICATIONS

14.1 None in respect of this report.

15. SAFEGUARDING AND/OR COMMUNITY SAFETY IMPLICATIONS

15.1 None in respect of this report.

16. EQUALITY AND DIVERSITY IMPLICATIONS

16.1 Please see equality impact assessment attached as appendix F of the Business Case.

17 SOCIAL VALUE IMPLICATIONS

17.1 None in respect of this report. This will need to be considered in the delivery of the transformation business plan (should it ultimately be acceptable to both Councils).

18. PARTNERSHIP IMPLICATIONS

18.1 As mentioned in the risk assessment (section 3) the decisions made from this proposal could have a fundamental impact on the future of the existing ONE Team arrangement. Should either Council feel unable to agree to commit to an exclusive and on-going partnership then the exit arrangements set out in the Inter Authority Agreement will be enacted.

18.2 Whilst Taunton Deane and West Somerset are the core partners for JMASS, both Councils shall continue to seek further partnership opportunities where they help deliver against the Council(s) Corporate Priorities.

19. HEALTH & WELLBEING IMPLICATIONS

19.1 None in respect of this report.

20. ASSET MANAGEMENT IMPLICATIONS

20.1 None in respect of this high level business case report.

20. CONSULTATION IMPLICATIONS

20.1 The headlines from the business case were shared informally at the very well attended Member Briefing on 29th June 2016. The business case has been shared with UNISON and formal consultation is underway. Staff briefings have been held to ensure the transformation proposals are well understood and staff are informed of the scale of change ahead. Formal letters have been sent to all staff to ensure our consultation is robust.

Democratic Path:

- Member Workshops & Development Sessions on Transformation – (2014 – 2015)
- All Member Briefings - Jan 2016
- Briefing Note (Mandate Report & Next Steps) to JPAG Members - Feb 2016
- Closedown Reports (Vision & Priorities and Affordability Review) to JPAG Members – Feb 2016
- Mandate Report – March 2016
- All Member Briefing – 8 June 2016
- All Member Briefing – 29 June 2016
- Scrutiny Meetings – 11th & 12th July 2016

List of Appendices

Appendix A – Assurance Review

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Local Partnerships is jointly owned by

Local Partnerships' Assurance Review of High Level Business Case - Transformation

28th – 29th June 2016

Taunton Deane Borough Council
West Somerset Council

Version number: Final
Date of issue to PO: 8 July 2016
Project Owner: Shirlene Adam
Assurance Review dates: 28th-29th June 2016

Review Team:
Andrew Coleman
Andrew Winfield
David Neudegg

1. Introduction

Local Partnerships were commissioned by West Somerset and Taunton Deane Councils to undertake an Assurance Review of the High Level Business Case - Transformation to assist Members arrive at a decision on the Options contained in the paper.

It was not within our Terms of Reference to consider other options not outlined in the Business Case nor was it to recommend to Members which option(s) they should chose.

In the remainder of this report we outline:

- The context in which the Review was undertaken.
- How we undertook the Review.
- Our overall conclusions.
- The Implementation challenges the Councils will face.
- Key questions which Members should consider before reaching their final decision.

2. The Context for the Review

In November 2013 both Councils agreed to the creation of joint management and shared services (JMASS). The Business Case, which Local Partnerships reviewed, outlined 2 phases:

- The One Team phase which delivered £1.8m of savings and which was delivered ahead of schedule.
- A second, Transformation, phase with the potential to deliver further savings.

In May 2015, the results of a Business Rate appeal on Hinkley Power Station had a significant impact on both the reserves and the ongoing budget position of West Somerset Council. A subsequent Financial Affordability Review conducted by Bill Roots in September 2015 emphasised the fundamental impact of the Rate Appeal decision on the future viability of West Somerset Council.

His recommendation was that other funding support should be pursued with DCLG Ministers but, following a meeting with a DCLG Minister in January 2016, no such immediate support was forthcoming although we were told during the course of our Review that the Minister did indicate that should the Councils come back with a Merger proposal it could be favourably received.

Bill Roots also recommended that the Councils should press ahead with the design of the Transformation phase - already well-advanced - and to identify options to bridge the forecast budget gaps in their Medium Term Financial Plans.

3. How we undertook the Review

The on-site Review took place on 28th-29th June 2016. The Review Team comprised:

- Andrew Coleman: Local Partnerships' Corporate Director who led the LP Review of the business case that led to the creation of Joint Management and Shared Services between the 2 Councils.
- Andrew Winfield: Peer Challenge Manager with the LGA who has worked with both Councils on previous Peer Reviews.
- David Neudegg: formerly Chief Executive of Cotswold/ West Oxfordshire Councils and currently Managing Director of 2020 - a Joint Venture set up Cotswold, West Oxfordshire, Cheltenham and Forest of Dean Councils initially to provide services to the 4 Councils.

Prior to the Review the Team examined key documentation- the Business Case itself and supporting data including the Councils' MTFPs and proposals from IeSE and IGNITE/ Civica – potential commercial partners in the Transformation programme.

Over the 2 days of the Review we held detailed discussions with officers responsible for drafting the Business Case, both Leaders and Resources portfolio holders and Members of the Joint Programme Advisory Group. Our thanks to those who met with us and particular thanks to Eileen Ford for ensuring the Review went smoothly.

4. Our Overall Conclusions Green

Using the definitions below, the Review Team have given a Green Confidence Assessment to the Business Case. However, that does not mean to say that the Team believe the Options are equally viable nor that there are some significant challenges in Implementation.

RAG	Criteria Description
Green	Successful delivery of the project/programme to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery significantly
Amber/Green	Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery
Amber	Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost/schedule overrun
Amber/Red	Successful delivery of the project/programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible
Red	Successful delivery of the project/programme appears to be unachievable. There are major issues on project/programme definition, schedule, budget required quality or benefits delivery, which at this stage does not appear to be manageable or resolvable. The Project/Programme may need re-baselining and/or overall viability re-assessed

4. Our Overall Conclusions

The Team believe the Business Case is a sound basis to enable Members to make an informed decision.

We were impressed by the thoroughness of the report (and supporting documentation) which is comprehensive, well- structured and cogently argued.

More importantly:

- We believe the Business Case is based on sound, detailed financial analysis. The Review Team spent a considerable proportion of our time over the 2 days testing the basis on which the financial assumptions were arrived at and are satisfied they are credible and realistic. In relation to the Transformation Programme the savings and costs are consistent with results of similar programmes. Whilst there is a considerable difference between the savings estimates from IeSE and IGNITE/ Civica the Team felt the latter's estimates to be more realistic in the short-term. The Team also saw it as a sign of strength that where it was not possible to estimate savings or costs- and this particularly applies to the Option 2 financials - then no attempt was made to do so.
- The design of the Programme is consistent with the Councils' Design Principles and the benefits for customers, staff, Members and communities are achievable.
- The timescales for the Programme, whilst challenging, are realistic and based on other Councils' experience. At the same time a pragmatic approach to Implementation is evident to allow for the Programme to be adapted to the specific needs and context of the 2 Councils.
- The officers have developed their approach on the basis of expert advice from consultants with a proven track record in this field. It is also apparent that the Councils have put considerable effort into learning from others and this has shaped a distinctive approach to meet the requirements of the two Councils.
- The nature of the scale and scope of change is understood and, with only a couple of caveats highlighted in the final section, the appropriate resources have been identified.
- From the Members we interviewed it was clear that no change was not an option.
- It was also clear from the same interviews of the benefits of Member engagement in developing the Business Case so that the Members we spoke to had a good understanding of what was being proposed.
- Leading Members have confidence in the ability of the current Leadership and Transformation teams to deliver the programme based on the successful implementation of joint management and shared service arrangements.

5. Implementation Challenges

Notwithstanding our positive assessment of the Business Case there are areas which represent significant challenges/ risks and/or where further work may be required.

5.1 Financial Data

For West Somerset Council, the savings resulting from the Transformation Programme make a significant, but partial, contribution to closing the Budget gap. We believe there is an urgent need to identify the options for closing this gap.

In relation to Option 2, the Councils could be going into uncharted waters hence the absence of comparative external data. The overall savings figure i.e. £550k feels in the right ballpark but the Team believed was on the prudent side.

In relation to Option 3b, the estimates are based on an amicable split between the 2 Councils. If the split isn't amicable, West Somerset Council may incur increased cost.

5.2 Resources

Whilst the Team believe the overall resource cost envelope is realistic there are elements which may require greater initial resource. The Team identified a number of areas:

The Programme in its initial phases is very consultant dependent and it will be vital that this reliance is mitigated both through contractual means of redress and through senior "intelligent client" input.

- Culture change is at the core of the Programme. Organisation development support to staff is critical so that they understand the degree of change required of them and to help them prepare for their potential new roles.
- Customer engagement: Channel shift is a central plank of the new operating model but we didn't see sufficient detail of how customers were going to be helped to make this shift.
- Member support: the implications of the new operating model be as significant for Members as they are for staff. New ways of IT-enabled decision-making could emerge, a greater Member role in community engagement etc. On-going support will be important as will be direct Member involvement in any changes.

5.3 People

Councils who have implemented a similar Transformation Programme have embarked on a radical restructuring which has resulted in wholesale changes in staffing. We understand that a shift in staff attitudes and behaviour is integral to the success of the Programme but implementing the new structure hurriedly with major staff "churn" risks a dip in service performance and the loss of experienced staff. The Leadership Team are erring on the side of a phased approach and this makes good sense to the LP Review Team.

In any event, the Leadership Team – both current and future - need to continue operating as an effective Programme Board both collectively and individually to ensure the Programme keeps on track.

5.4 Commercialism

This will make an important contribution to close the Budget Gap.

We felt, however, that much more work needed to be done in this area particularly in defining potential commercial opportunities and assessing the potential revenue/ income to be generated. In short, it needs a detailed Plan where "coulds" are replaced by "shoulds" and a clear timetable set out. There is an emerging body of best practice evidence from other Councils and expert advice is readily available.

The above represent significant challenges/ risks to the Programme but do not undermine the Review Team's overall conclusion.

6 Key Questions for Members

As both Councils consider the Business Case, we would urge them to also consider the following 2 questions:

1. Given the recommendations in the Bill Roots report, which of the options reassure Members about the medium-term financial viability of the Councils?
2. Given the earlier meeting with the DCLG Minister, how will whichever option is chosen be received by Ministers?

Andrew Coleman

Andrew Winfield

David Neudegg