

To:

Members of Scrutiny Committee

(Councillors P H Murphy (Chairman), N Thwaites (Vice Chairman), I Aldridge, R Clifford, G S Dowding, B Leaker, B Maitland-Walker, J Parbrook, and R Woods)

Members of Cabinet

(Councillor A Trollope-Bellew (Leader), M Chilcott (Deputy Leader), M Dewdney, K J Mills, C Morgan, S J Pugsley, K H Turner, D J Westcott)

Our Ref CS

Contact Emily McGuinness emcguinness@westsomerset.gov.uk

Date 08 August 2016

**THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THE MEETING
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OR IN OTHER LANGUAGES ON REQUEST**

Dear Councillor

I hereby give you notice to attend the following meeting:

SCRUTINY COMMITTEE

Date: Tuesday 16 August 2016

Time: 10.30 am

Venue: Council Chamber, Council Offices, Williton

Please note that this meeting may be recorded. At the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during the recording will be retained in accordance with the Council's policy.

Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact Committee Services on 01643 703704.

Yours sincerely



BRUCE LANG
Proper Officer

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

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%

- Mitigating actions for high ('High' or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;
- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officers.

SCRUTINY COMMITTEE

Meeting to be held on Tuesday 16 August 2016 at 10.30 am

Council Chamber, Williton

AGENDA

1. Apologies for Absence

2. Declarations of Interest

To receive and record any declarations of interest in respect of any matters included on the Agenda for consideration at this Meeting.

3. Public Participation

The Chairman to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public wishing to speak at this meeting there are a few points you might like to note.

A three-minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue. There will be no further opportunity for comment at a later stage. Your comments should be addressed to the Chairman and any ruling made by the Chair is not open to discussion. If a response is needed it will be given either orally at the meeting or a written reply made within five working days of the meeting.

4. UPDATE – JMASS TRANSFORMATION BUSINESS CASE

To consider the Report No. WSC 93/16 to be presented by the Director of Operations – **SEE ATTACHED.**

The purpose of the report is to provide an update on progress of the JMASS Transformation Business Case - including the decision made by Full Council of Taunton Deane Borough Council on 26th July 2016, and of Sedgemoor District Council on 3rd August 2016.

Scrutiny considered the High Level Transformation Business Case at its meeting on 12th July 2016. The full business case is not reproduced again for this meeting - for sight of the full document please refer to the full agenda papers for the Scrutiny meeting of 12th July 2016. The covering report and draft minutes from that meeting are included at Appendix A.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

The Council's Vision:

To enable people to live, work and prosper in West Somerset

The Council's Corporate Priorities:

- Local Democracy:
Securing local democracy and accountability in West Somerset, based in West Somerset, elected by the people of West Somerset and responsible to the people of West Somerset.
- New Nuclear Development at Hinkley Point
Maximising opportunities for West Somerset communities and businesses to benefit from the development whilst protecting local communities and the environment.

Report Number: WSC 93/16

West Somerset Council

Scrutiny Committee – 16th August 2016

UPDATE – JMASS TRANSFORMATION BUSINESS CASE

Report of the Director of Operations

1 EXECUTIVE SUMMARY

- 1.1 Scrutiny considered the High Level Transformation Business Case at its meeting on 12th July 2016. The full business case is not reproduced again for this meeting - for sight of the full document please refer to the full agenda papers for the Scrutiny meeting of 12th July 2016. The covering report and draft minutes from that meeting are included at **Appendix A**, and section 16 (Option 2) is included at **Appendix B**.
- 1.2 The proposal for transformation is radical and will bring change on a scale not seen before for our communities, our customers, our staff and for Members.
- 1.3 Both Leaders originally hoped to be able to share a recommendation to their Councils on 26th July 2016. For West Somerset Council, this was postponed until 7th September 2016, with informal discussions only taking place on that date, and a request for a further Scrutiny meeting on 16th August 2016. Taunton Deane progressed as planned to a decision meeting on 26th July 2016.
- 1.4 This report provides an update on progress - including the decision made by Full Council of Taunton Deane Borough Council (TDBC) on 26th July 2016, and of Sedgemoor District Council (SDC) on 3rd August 2016.

2 RECOMMENDATIONS

- 2.1 That West Somerset Council (WSC) Scrutiny consider the update report and offer comment for consideration by Full Council at their meeting on 7th September 2016.

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 has been updated to reflect implementation risks post TDBC's decision on 26th July 2016, and will be again post the decision of WSC Full Council on 7th September 2016.

Description	Likelihood	Impact	Overall
For West Somerset the risk is of being unable to continue to operate as a viable separate sovereign council, delivering an acceptable level of service to the community.	5	5	25
<p><i>The mitigation for this risk is to identify ways of significantly reducing operating costs. This is met in varying degrees through the options of this business case. However more will need to be done to bridge the remaining funding gap in terms of greater commercialism, accommodation savings as well as service reviews.</i></p> <p><i>* Option 2 does not maintain WSC's sovereign status but offers the most savings of the three options thus giving the best opportunity for protecting services for the community across the current West Somerset area.</i></p>	Option 1:		
	4	5	20
	Option 2:		
	*		
	Option 3:		
	4	5	20
For WSC, there is a significant opportunity risk should agreement between WSC and TDBC not be reached on the preferred transformation option	5	5	25
<i>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.</i>	1	5	5
There is a risk that the business case savings target is not delivered within the expected timescale or not delivered.	4	5	20
<p><i>The mitigation for this risk is the ongoing monitoring of costs, savings and milestones by the agreed programme governance</i></p> <p><i>A Programme Manager supported by adequate project leads and other resources.</i></p>	2	4	8

<p>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.</p>	5	4	20
<p><u>The mitigation</u> for these risks include:</p> <ul style="list-style-type: none"> • A Programme Manager supported by adequate project leads and other resources. • Identified actions with finance to support the Organisational Development work-stream. • 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

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4. UPDATE FROM TAUNTON DEANE BOROUGH COUNCIL MEETING 26th JULY 2016

4.1 Taunton Deane considered the transformation business case, and the 3 variants at its Full Council meeting on 26th July 2016. The Leaders recommendation was to progress **Option 2 (merger)** and his reasoning, as presented to TDBC, is shared below for completeness.

4.2 *“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.*

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.

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.

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.

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.

- 4.3 The Council debated this important issue for over 5 hours before moving to vote on this proposal. The recommendations were agreed by votes in favour of 32; against 16; abstentions 2.
- 4.4 The Leader made it clear to that meeting that he had embraced the recent contact from Sedgemoor and should the work on a tri-partite proposal progress to deliver an updated business case then he would be willing to reconvene Full Council to consider this matter further post the WSC decision on 7th September 2016.
- 4.5 The decision of TDBC effectively rules out Option 1 and leaves Options 2 and 3 for WSC to consider at their meeting on 7th September 2016.
- 4.6 For the avoidance of doubt, the Option 2 (merger) proposed in the business case is a “whole” council merger. The existing communities served by the entire area of WSC, and the entire area of TDBC would be served by a new Council. There is no proposal to split the existing Council areas. This is a different approach than that traditionally used by the Local Government Boundary Commission for England (LGBCE) reviews, and is delivered in accordance with the provisions of Section 15 of the cities and Local government Devolution Act 2016 that enables entire Council areas to merge with the Secretary of States approval. Section 16 of the High Level Transformation Business Case outlined this in more detail and is shared again at **Appendix B** for completeness.

5. UPDATE FROM SDC FULL COUNCIL MEETING 3RD AUGUST 2016

- 5.1 Following recent contact from SDC, and both Leaders encouragement for work to be done to allow them to join our transformation work, a report was presented to their Full Council meeting on 3rd August 2016. Although there was no recommendation on a way forward, the report invited Councillors to comment on the invitation to work together.
- 5.2 This was debated and pending publication of the minutes, the guidance shared by their democratic team advises that SDC decided to:-
- To endorse the contents of the letter from the Leader of SDC to the Leaders of WSC and TDBC on 26 July and that the Council continues to explore with those authorities any ways to improve and streamline services for the community in a tripartite way”; and
 - To refer the matter to the Local Government Boundary Commission.

6 HIGH LEVEL TRANSFORMATION BUSINESS CASE - SUMMARY

- 6.1 For the full document please refer to the agenda papers for Scrutiny meetings on 11th and 12th July 2016. This section summarises the proposals in the business case.
- 6.2 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.

- 6.3 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.
- 6.4 Confidence in the ability to deliver the savings is such that this could be built into the Councils' Medium Term Financial Plans (MTFPs). 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.
- 6.5 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.
- 6.6 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 don't yet have confidence on the level or timing of these to formalise them into our plans. 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.
- 6.7 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.
- 6.8 The indicative one-off costs required, on an "invest to save" basis, are projected to be:-

Total	WSC	TDBC	TDBC	
£	£	GF	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

- 6.9 The business case offers both Councils significant savings. The payback period is within acceptable “invest to save” parameters.
- 6.10 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 at least £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.
- 6.11 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.
- 6.12 Financial Summary of Business Case Options, with Option 1 shaded out as it has been effectively ruled out by the TDBC decision:-

OPTION 1 Joint Transformation	TOTAL £m	WSC £m	TDBC £m	<i>TDBC Gfd</i>	<i>TDBC HRA</i>
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	<i>TDBC Gfd</i>	<i>TDBC HRA</i>
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

7. ASSURANCE REVIEW

- 7.1 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 C** to this report.
- 7.2 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.

7.3 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.

7.4 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:-

- 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. FINANCE/RESOURCE IMPLICATIONS

8.1 As referred to in the earlier Scrutiny report, a funding plan has been developed for both Councils and is shared below for context. The recommendations to Full Council on 7th September will need to reflect the funding approach.

8.2 Funding Recommendations

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. The details below show what the funding plan would look like under each of the options. Although Option 1 is no longer deliverable, it is the base position for transformation. Option 2 is simply Option 1 plus additional costs of achieving a merger.

OPTION 1

8.3 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
<i>Note: TDBC Fund Split:</i>			
Taunton Deane – General Fund	3,134	664	3,798
Taunton Deane – Housing (HRA)	1,562	331	1,893

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

8.5 West Somerset Council – Funding Plan

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
<i>Assets to Be Sold</i>	163		163
TOTAL	925	196	1,121

8.6 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.

8.7 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.

8.8 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
<i>Assets to Be Sold</i>	<i>1,130</i>	<i>444</i>	<i>1,574</i>
TOTAL	3,134	664	3,798

8.9 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.

8.10 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.

8.11 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
<i>Assets to be sold</i>	<i>1,062</i>	<i>98</i>	<i>1,160</i>
TOTAL	1,562	331	1,893

- 8.12 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

- 8.13 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.
- 8.14 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.
- 8.15 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

- 8.16 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

- 8.17 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

- 8.18 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

- 8.19 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).
- 8.20 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

- 8.21 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. 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.

- 8.22 For WSC the programme will require significant down-sizing as outlined in the business case.
- 8.23 Should option 3 be triggered contractually, then there will be significant additional costs to be borne by the authority making that decision.

9 COMMENTS OF S151 OFFICER

- 9.1 I have set out my advice below, and this may need to be updated once the recommendations to Full Council are clear. 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.
- 9.2 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.
- 9.3 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.
- 9.4 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.
- 9.5 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.

9.6 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.

9.7 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.

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

OPTION 1	
TDBC	WSC
<p>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.</p> <p>The funding proposal leaves GFd Reserves above the minimum level and considerable NHB resources to progress ambitions.</p> <p>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.</p>	<p>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.</p> <p>The funding proposal leaves GFd Reserves at minimum level and little financial capacity to deal with risk.</p> <p>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 <u>serious concerns</u> on the Councils ability to deliver this over the medium term. This aligns with the</p>

	<p>concerns shared in the conclusion of Bill Roots report.</p> <p><u>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.</u></p> <p>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.</p> <p>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.</p>
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OPTION 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.

OPTION 3

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.

<p>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.</p>	
TDBC	WSC
<p>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.</p> <p>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.</p> <p>The funding proposal leaves GFd Reserves above the minimum level and considerable NHB resources to progress ambitions.</p> <p>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.</p>	<p>The outcome from Option 3 is described in terms of what it means for the community.</p> <p>The down-sizing required to achieve this result is considerable and strong leadership will be required.</p> <p>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.</p> <p>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.</p> <p>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.</p>

9.9 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?

9.10 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.

9.11 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.

10. LEGAL IMPLICATIONS

10.1 Full legal advice will be shared with Members to support the recommendation in the Full Council report on 7th September. The advice below was shared at the TDBC Full Council meeting on 26th July and is shared to WSC for completeness only.

10.2 *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

10.3 *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.*

10.4 *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

10.5 *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.*

- 10.6 *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.*
- 10.7 *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

- 10.8 *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.*
- 10.9 *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

- 10.10 *Any new arrangements should be discussed at the Joint Partnership Advisory Group (JPAG) under clauses 2 and 16.*
- 10.11 *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.*
- 10.12 *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).*
- 10.13 *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).*
- 10.14 *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.

- 10.15 *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.*
- 10.16 *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 being 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

- 10.17 *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.*
- 10.18 *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.*
- 10.19 *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.*
- 10.20 *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.

- 10.21 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.
- 10.22 In those circumstances the S151 Officer may need to issue a section 114 (3) Local Government Finance Act report.
- 10.23 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.
- 10.24 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.
- 10.25 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

- 10.26 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

- 10.27 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.

10.28 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.

10.29 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.

10.30 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.*

10.31 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.

10.32 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

10.33 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.

11. SUMMARY OF PREVIOUS SCRUTINY MEETINGS

Taunton Deane Borough Council

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

11.2 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.

11.3 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.

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

West Somerset Council

11.5 Scrutiny for West Somerset Council discussed the High Level Transformation Business Case at their special meeting on 12th July 2016 where the key discussion points were:-

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.

11.6 The meeting concluded with only one member expressing a view – that option 3 should not be considered for WSC. There were no formal recommendations from this meeting for Full Council to consider. The minutes have been circulated to all Councillors

12. CONSULTATION WITH UNISON

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

12.2 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.

12.3 UNISON attended the TDBC Full Council meeting and commented (as advised by democratic services pending publication of the minutes) as follows:-

UNISON asked Councillors to be particularly mindful of the recommendations of the Councils' Section 151 Officer regarding financial viability of the three Options. Ultimately the services delivered to the community and the welfare of staff and their terms of conditions were crucially dependent on the ability to come up with a financially sound option for the longer term. It appeared that Option 3 did not look to be financially sound and even if it was possible to do so, it would be very disruptive to employees working in the currently combined workforce of the two Councils. It was not clear that Option 1 for the two Councils was viable either based on the Section 151 Officer's recommendation. These views needed to be taken very seriously by Members when making their decision.

12.4 UNISON will be asked to consider the recommendations in the 7th September 2016 Full Council report and provide WSC Full Council with any further comments.

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 (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 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.

21. CONSULTATION IMPLICATIONS

21.1 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. A further Informal briefing of WSC Council was held on 26th July 2016 to deal with queries on the proposals. 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
- TDBC Full Council Meeting – 26th July 2016
- WSC Informal Full Council Briefing – 26th July 2016

List of Appendices

Appendix A – Scrutiny Report 11th & 12th July & WSC Scrutiny Minutes

Appendix B - Extract From Business Case – Option 2 Merger

Appendix C – Assurance Review Report

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APPENDIX A

Report Number:

Taunton Deane Borough Council & West Somerset Council

Scrutiny – 11 July 2016 (TDBC) and 12 July 2016 (WSC)

HIGH LEVEL TRANSFORMATION BUSINESS CASE

Report of the Leaders of the Councils

1 EXECUTIVE SUMMARY/PURPOSE OF REPORT

- 1.1 In March 2016, our Councils confirmed commitment to a core, and on-going JMASS Partnership and authorised that we prioritise the development of high level Transformation Business Case that tested the following sequential options:-
- ONE Team supporting two Councils (TDBC and WSC);
 - ONE Team supporting a merged Council (TBC and WSC);
 - Two Councils progressing their own transformation agendas
- 1.1 Since then we have shared progress updates at the “Making A Difference” Member events and have undertaken an external Assurance Review on our draft proposal. This has now concluded and we are comfortable to share the High Level Transformation Business Case for discussion at Scrutiny meetings in both Councils.
- 1.2 The proposal for transformation is radical and will bring change on a scale not seen before (whatever option is progressed) for our community, our customers, our staff and ourselves as Members.
- 1.3 The document sets out how our transformation vision could be delivered, and the key areas where we would need to invest in change. It sets out the likely one-off costs of achieving this and the likely ongoing savings it could deliver for our Councils. This is

Option 1 – a transformation programme jointly delivered for 2 separate Councils. The document then looks at what additional costs and savings could be delivered should we deliver this transformation programme to a new merged Council – this is Option 2. And finally, the document shares the Option 3(a and b) scenario where each Council has a different stand-alone future.

- 1.4 The potential savings are significant and we share the headline financials from the document again here for clarity.

OPTION 1 Joint Transformation	TOTAL £m	WSC £m	TDBC £m	<i>TDBC Gfd</i>	<i>TDBC HRA</i>
Ongoing Savings	2.6	0.4	2.2	1.5	0.7
<i>Further potential savings:</i>	?	?	?	?	?
One-Off Costs	6.8	1.1	5.7	3.8	1.9
Payback	2.59	2.59	2.59	2.59	2.59

OPTION 2 Merged Council	TOTAL £m
Ongoing Savings	3.1
<i>Further potential savings</i>	?
One-Off Costs	7.1
Payback	2.29

OPTION 3 Stand Alone Futures		WSC £m	TDBC £m	<i>TDBC Gfd</i>	<i>TDBC HRA</i>
Ongoing Savings		To Meet MTFP	1.9	1.3	0.6
<i>Further potential savings:</i>		-	?	?	?
One-Off Costs		Unknown	6.7	4.5	2.2
Payback		-	3.5 Yrs	3.5 Yrs	3.5 Yrs

- 1.5 Councillors are requested to review and comment on the High Level Transformation Business Case and the options therein. Following debate at Scrutiny, we will then present our final proposal to our Full Council meetings on 26th July 2016.

2 RECOMMENDATIONS

- 2.1 Scrutiny is requested to consider the High Level Transformation Business Case and offer comment on the proposals therein.

3 RISK ASSESSMENT

- 3.1 The JMASS project maintains a risk register which is updated regularly. Pending the decisions on 26th July the key risks for the JMASS partnership are shared below.

3.2 Risk Matrix

Description	Likelihood	Impact	Overall
There is a risk to TDBC being unable to continue to fund its growth ambitions at a satisfactory level and a risk to WSC being unable to continue to operate as an ongoing concern	5	5	25
<i>The mitigation for this 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</i>	3	5	15

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 this 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 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), we have 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 This Business Case is the produce 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 means in terms of other savings that could be made to become sustainable over the longer term.

5. THE HIGH LEVEL TRANSFORMATION BUSINESS CASE

- 5.1 The proposal is shared as an Appendix to this report. It is a comprehensive report and we encourage you all to review thoroughly as the decision ahead is crucial for services to our community, our staff and our democratic arrangements.

6. LINKS TO CORPORATE AIMS / PRIORITIES

- 6.1 The High Level Transformation Business Case meets the request of our Full Councils (Mandate Report 2016).

7. FINANCE/RESOURCE IMPLICATIONS

- 7.1 The business case clearly sets out the financial implications of the 3 sequential variants. Funding plans are being developed for both Councils and will be included in the final report to Full Council alongside the recommendations.

8. LEGAL IMPLICATIONS

- 8.1 The legal and governance arrangements for the JMASS partnership are set out in the Inter Authority Agreement approved by both Full Councils in November 2013.
- 8.2 There are a raft of legal implications associated with each of the three options outlined in the High Level Transformation Business Case. When Members have determined their preferred option the legal implications will be scoped and form a key element of the transformation implementation programme.

9. ENVIRONMENTAL IMPACT IMPLICATIONS

9.1 None in respect of this report.

10. SAFEGUARDING AND/OR COMMUNITY SAFETY IMPLICATIONS

10.1 None in respect of this report.

11. EQUALITY AND DIVERSITY IMPLICATIONS

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

12. SOCIAL VALUE IMPLICATIONS

12.1 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).

13. PARTNERSHIP IMPLICATIONS

13.1 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.

13.2 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.

14. HEALTH & WELLBEING IMPLICATIONS

14.1 None in respect of this report.

15. ASSET MANAGEMENT IMPLICATIONS

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

16. CONSULTATION IMPLICATIONS

16.1 The headlines from the business case were shared informally at the very well attended Member Briefing on 29th June 2016.

16.2 The business case has been shared with UNISON and formal consultation is underway.

16.3 Staff briefings are being held to ensure the transformation proposals are well understood and staff are informed of the scale of change ahead. Formal letters are also being 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 – 8th June 2016**
- **All Member Briefing – 29th June 2016**

List of Appendices

Appendix 1	High Level Transformation Business Case
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Contact Officers

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SCRUTINY COMMITTEE

Minutes of the Meeting held on 12th July 2016 at 3.30 pm

Present:

Councillor G S DowdingChairman
Councillor B HeywoodVice-Chairman

Councillor I Aldridge
Councillor B Leaker
Councillor J Parbrook

Councillor R Clifford
Councillor B Maitland-Walker
Councillor R Woods

Members in Attendance:

Councillor M Chilcott
Councillor M Dewdney
Councillor A Hadley
Councillor K Mills
Councillor A Trollope-Bellew
Councillor D Westcott

Councillor H Davies
Councillor S Goss
Councillor R Lillis
Councillor C Morgan
Councillor K Turner

Officers in Attendance:

Chief Executive – P James
Director of Operations – Resources – S Adam
Assistant Chief Executive – B Lang
Assistant Director – Corporate Services – R Sealy
Principal Accountant – E Collacott
Corporate Strategy & Performance Manager – P Harding
Transformation Lead Officer – K Batchelor
Press Officer – D Rundle
Democratic Services Officer – Scrutiny – M Prouse

SC 14 Election of Chairman

RESOLVED that Councillor S Dowding be elected as Chairman for the meeting.

SC 15 Appointment of Vice-Chairman

RESOLVED that Councillor B Heywood be appointed as Vice-Chairman for the meeting.

SC 16 Apologies for Absence

Apologies were received from Councillors P Murphy and N Thwaites. Councillor B Heywood was substituting for Councillor N Thwaites.

SC 17 Declarations of Interest

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

Name	Minute No.	Description of Interest	Personal or Prejudicial or Disclosable Pecuniary	Action Taken
Cllr B Maitland-Walker	All Items	Carhampton	Personal	Spoke and voted
Cllr J Parbrook	All Items	Minehead	Personal	Spoke and voted
Cllr I Aldridge	All Items	Williton	Personal	Spoke
Cllr H Davies	All Items	Williton and SCC	Personal	Spoke
Cllr S Goss	All Items	Stogursey	Personal	Spoke
Cllr C Morgan	All Items	Stogursey	Personal	Spoke
Cllr A Trollope-Bellew	All Items	Crowcombe	Personal	Spoke
Cllr K Turner	All Items	Brompton Ralph	Personal	Spoke
Cllr D Westcott	All Items	Watchet	Personal	Spoke

SC 18 Public Participation

Phil Bisatt – Branch Secretary of Taunton and West Somerset UNISON had provided a statement to Members and made a statement highlighting specific areas of concern in relation to the proposals. Overall, the view of UNISON was that the case for adopting the proposed operating model had not been fully demonstrated for all council services. He referred to doubts raised about the suggested ICT solutions and most importantly, requested that any proposals should be fair to staff and should not risk damaging the current One Team as this would undermine effective service delivery.

SC 19 High Level Transformation Business Case

Councillor Anthony Trollope-Bellew – Leader of the Council presented this item.

The purpose of the report was to set out how the transformation vision could be delivered, and the key areas needing investment to enable change. The report set

out the likely one-off costs of achieving this and the likely ongoing savings it could deliver for the Council.

During discussion, the following points were raised:

- The Leader introduced the item and stated that this was the most important decision for the future of the Council past or present, and it was important we get it right. Also the Leader recognised that around Governance more work needed to be done, with some more Member input, but the duplication in the processes is something we needed to address.
- The Director of Operations then went through a presentation to Members highlighting the key details of the report.
- The UNISON representative Mr Bisatt then made a statement based on the document circulated to all Members beforehand.
- Mr Bisatt fully understood the need for financial savings, but the transformation model had risks for staff and the Local Authority (LA) as it has been done elsewhere.
- Mr Bisatt informed Members that staff have walked out in the other authorities due to recruitment regime – 50 percent for West Devon and 40 percent for Eastbourne.
- Mr Bisatt warned Members that the software the LA is looking to buy may have issues with it – this was an IT driven solution and there was a risk this could not be as good as promised.
- Members raised concerns over how this new way of working is being stated, this is high level but back up detail must be provided for a permanent decision.
- Members wanted to know who had written the Business Case. Members wanted to know had there been a payment to the consultants for this work and how much is anticipated to be paid out in the future? *Officers stated that the report was written by the Director for Operations and the project team, and there was some overall project support from consultants IESE at a cost of £45,000; in addition there was advice from Civica/Ignite free of charge/at risk.*
- Member felt that locally based teams is a costly approach, in a diverse rural environment.
- Members wanted to know why the High Level Business Case does not mention products?
- *Officers responded that this is a High Level 'proof of concept' not the implementation stage and so did not have specific information around IT products.*
- Members felt that under the section 'Benefits for Members' there was nothing new here, only the mobile access part.
- Members raised concerns over the allocated budget for Video Conferencing costs of £40,000, why was it this figure and who did they envisage using it?

- *Officers responded that this area was currently being looked at in detail at the moment, and would depend on what Councillors decide to do at the implementation stage.*
- Member felt that the overall impression is that it does not gel and that there are details that are not provided that are needed before a major decision is made.
- Members were concerned over cash flows and as to how would we finance what we have to pay out before we get payback?
- *Officer responded that in terms of the funding of the proposals, there are a range of options that could be considered depending on what members choose to do. Transformation could be funded up front but difficult choices would have to be made to facilitate this.*
- Members felt that savings are still having to be made regardless, and that transformation will not close the gap on its own, and it is not, therefore, the 'silver bullet'.
- Member felt that having drafted a Local Plan to 2032 and all the work associated with that, and to then go for the merger option, could result in the Council being largely subsumed and that this would cut across the stated aspirations of the current Council.
- Members stated that it cannot just be focus on the financials, as there have to be others such as legal implications.
- Members sought reassurances that the conclusions around financial assumptions were credible and realistic and asked how confident Officers were of raising the £800,000 shortfall of year on year revenue funding by 2021 through commercial means in West Somerset if Option 1 was chosen? Also, if that is not achieved, what will happen after spending £1,100,000 to implement Transformation?
- *Officers responded that Option 2 provides the better payback return, but commercial activity would honestly probably not deliver £800,000 worth of ongoing resilient income for WS.*
- Some Members were of the view that the figures in this report are the worst case scenario, we may actually gain from Business Rates and other things, and it may not be as bad as this report actually states.
- Portfolio Holder for Economic Regeneration expanded that as WS has virtually no economic regeneration resources, this area has a difficult climate of business regeneration, the £800,000 is going to be hard to deliver with a population of 35,000 people.
- Portfolio Holder for Resources considered that Financial Planning was key, and that the council cannot wait 18 months or a year, from this point to find this shortfall. Council decisions are made on spending on the cost of democracy verses services and it is owed to the public to deliver the best services possible and to keep democracy costs to a minimum.
- A view was expressed that whilst the economic Silver Bullet is Hinkley, it will not bring the benefit to the value needed to make the council sustainable. Other

Councils are thinking outside of the box, one Council is borrowing money cheaply and then re-lending out at a higher value to fund their economic development. So the Council had to be brave, make change, otherwise it is dead in the water, the choice is fundamental to the survival of the Council.

- Members felt that the suggested benefits to members are things that Councillors are doing anyway, apart from the part about mobile access. Does that affect the costings as this is done anyway by some councillors?
- *Officer responded that it does not, as the technology will deliver the resource to support members to be the best they can in their localities.*
- Figures start from 2020/21, are any of these benefits going to be delivered before the new council would be in place?
- *Officers responded that Option 2 would take place, hopefully, in 2019, and so the financial benefits will be delivered from 2019 onwards. Savings from transformation come in earlier, but one off costs have to be dealt with.*
- Members queried the Design Principles include; would it be possible to have outputs or key performance indicators for each of the design principles, to judge whether they were successful or not?
- *Officers stated that this would take place at the implementation stage.*
- It was acknowledged that Mobile Access be good for members and the public
- Members requested clarification around Option 2 – if that was chosen, is it safe to assume that all current ring-fenced community benefits from the Hinkley project will remain ring-fenced?
- *Officers responded that the Hinkley Point funding is covered by existing legal agreements and governance arrangements which will not be affected by a merger.*
- Members also requested what happens to the TDBC Growth Agenda, or is any of that funding ring-fenced?
- *Officers responded that this would be a matter for the new merged Council and so it would not come with automatic ring fencing, and any New Homes Bonus would accrue to the new Council.*
- Members queried the Civica Business Case and the possibility for greater savings than 22% - more clarity was requested and would it be possible to get a higher % saving?
- *Officers responded that the suggested target savings were based on what they believed was possible on a range of figures and that the Council has gone for middle/lower figure which they were confident of delivering.*
- Concerns were raised around the Ignite/Civica Partnership particularly in regards to the working relationship/'partnership' between Ignite and Civica.
- *Officers responded that they are not in partnership and are individual companies that would have to be engaged separately in the procurement process. They have worked together before and therefore had a proven track record. Officers clarified that it was the approach suggested by Civica/Ignite that was being*

considered favoured whilst no specific ICT package for adoption had yet been chosen/procured as this would be art of the implementation stage.

- Members had queries around HR Support and enquired whether it would be better perhaps to have a contract out to tender?
- *Officers responded that these questions would be considered as part of the implementation plan.*
- Members warned that IT was a very high risk area to work in - if the IT goes wrong it can be expensive, and unless it is known what the software architecture and the package looks like it would be hard to make a decision.
- Members requested a special session/drop-in session for those especially interested in the IT.
- *Officers responded that Civica have offered to come down and explain what the proof of concept is built on.*
- Members wanted to know if any additional IT services were required, was the council being asked to pay for these separately?
- *Officers responded that this was correct but that an allowance was already in the business case figures to cover for this.*
- Members had questions around the IT Solution as part of this package.
- *Officers reassured Members that, if they wished, Scrutiny could be involved in monitoring the ICT element of transformation process in the implementation stage.*
- It was pointed out that the Council cannot afford to buy a system that doesn't work, could there be some reassurance around this that there will be a test of the system and that it will be futureproofed?
- *Officers concurred that this was the case.*
- A Member indicated that the new proposed system would be an improvement over the current ways of working where you have to approach each council service area separately.
- Members raised the possibility of a Joint Scrutiny process with TDBC to look at HR and IT when in the implementation stage.
- Members did state that West Somerset, with one of the oldest population profiles in the country, with broadband access issues could pose a problem for customers of the council under the proposed new ways of working.
- *Officers responded that there still would be provision to meet the needs of customers who were unable/unwilling to use ICT based options.*
- It was also stated that to deal with the Council sat in your own home was easier than travelling into Williton. Other places are using such technology and the council needs to embrace change to move into the 21st century.
- Members queried whether true democracy was too expensive to operate and the proposed streamlined governance proposals would emasculate the role of the Members and could erode the principle of democracy

- The Leader emphasised the current governance arrangements do need to be refreshed as they were antiquated, with lots of duplication from PAG to Scrutiny to Cabinet to Council etc.
- Councillor Parbrook read through a prepared statement representing some of the Scrutiny Committees shared thoughts as follows:
 - The Councils can transform only once and should be looking at more than 22% savings, possibly something between the two business cases e.g. 30-35%.
 - Consideration should be given to putting all staff at risk to ensure that the council can recruit what we need; possibly increased redundancy costs could be set, to some extent against training and associated costs.
 - HR Support – consideration should be given to putting the HR Contract out to tender.
 - Consideration should be given to more Councillor involvement in HR issues e.g. an HR Committee.
- Some Members highlighted concerns when it comes to investment in a merged scenario as the majority of the investment would situate on the areas near Taunton with its connections to infrastructure. If West Somerset will lose out, how will that be managed?
- Other Members countered that a new council would have to cater for the whole of the new area.
- Members considered that the size could be considered a strength as opposed to a weakness – Taunton – M5 corridor but also WS coastal strip with tourism.
- In terms of the three options no member expressed a preference, only Councillor Aldridge commented that Option 3 is an option he considered would not be viable.
- The Chairman noted that Option 3 had not been supported by any of the Members during the debate.

RESOLVED (without a vote) that:-

- Scrutiny has considered the High Level Transformation Business Case and has offered comment on the proposals therein as set out above.

SC 20 Scrutiny Committee Work Plan.

(Copy of the Forward Plan for 2016, circulated with the agenda.)

Members were reminded that this was their opportunity to suggest items for the Work Programme – all requests will be considered using the process agreed by the Committee in June 2015. In the first instance, all suggestions should be made to the Scrutiny Team.

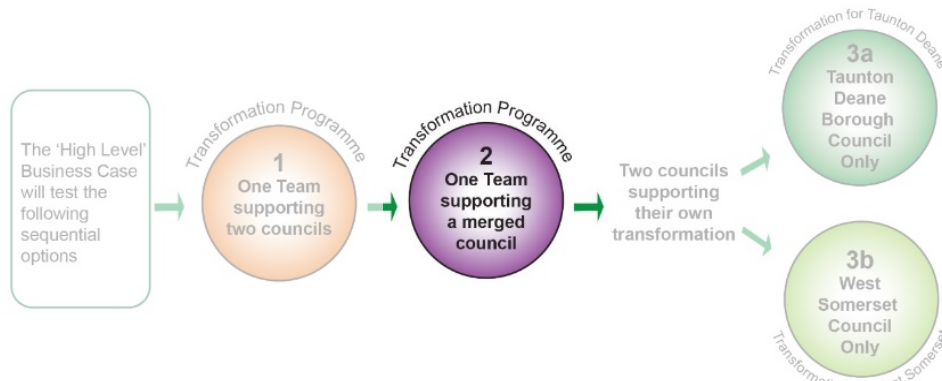
RESOLVED that the Scrutiny Forward Plan published on 12th July be noted.

The meeting closed at 6.52pm.

EXTRACT FROM BUSINESS CASE OPTION 2 - MERGER

APPENDIX B

16. Option 2 – One Team Supporting a Merged Council



- 16.1 This option explores the opportunity and the process required to merge the two currently sovereign councils of TDBC and WSC, in response to the visit to DCLG in Jan '16 and discussions with the local government minister. In summary this means that the two existing councils of TDBC and WSC would be stood down and the creation of a new single council with its own identity, functions, budget, policy framework, political and organisational structure.
- 16.2 The transformation programme would progress for this option in the same detail as for option 1; The ambitions reflected in the design principles apply whether the one organisation is served two separate sovereign councils or for one newly created council.
- 16.3 The remainder of this section looks at the process and financial implications of a merger.
- 16.4 The Merger Process**
- 16.4.1 If this option is chosen then it will be necessary to seek formal approval, probably via a formal business case, from the Secretary of State regarding the Merger. As part of the business planning process a detailed research document has been produced entitled 'Merger Insight Report' which sets out the detail behind the assumptions made in this section of the report. The obvious target date for implementation would be 2019 as use could be made of the scheduled May 2019 local elections thereby saving the extra expense of holding an additional election and it would also provide a 'clean break' from the existing arrangements. The definite timeline for the merger process will only be known once a decision is made but for the purpose of the business case it makes sense to outline how the May 2019 target date could be achieved.

- 16.4.2 Under the current arrangements, the Boundary Commission Principal Area Boundary Review process can take up to 18 months and then normally a year needs to be allowed for the formal establishment of the new area. Therefore this would need to be completed by April, 2018. It may be possible for this process to be expedited, but it is best to assume that if the merger option is chosen, then discussions with Boundary Commission should commence immediately so whatever process is required can get underway without delay.
- 16.4.3 Having received the decision to progress to a merger, the two existing councils would then establish a Transitional Executive or cabinet of members assembled from the existing councillors to act on behalf of the new (but not yet formed) merged authority. These members will then make decisions during the transitional process. This should be done about a year before the implementation date, so say in April/May 2018.
- 16.4.4 The Transitional Executive then has to establish a recruitment process and appoint the senior officers. These include the statutory officers such as the Head of Paid Services, The Monitoring Officer and Section 151 officer who, working with the Transitional Executive, operate as a joint implementation board and oversee on-going running of services. This Board should be established by about January 2019.
- 16.4.5 An implementation date needs to be set, say 1 April 2019, when the two old local authorities stand down and on the same date the new merged authority is formally established via a statutory instrument. All the members stand down and the new Local Authority takes control of all services.
- 16.4.6 During the standing down period of the two former authorities, the members stand down and accounts are closed. The assets of each authority are in some way, shape or form transferred to the new authority and the process for staff is agreed, although it is assumed that TUPE transfer will be the most likely option. Contracts and Partnerships are re-negotiated for the new Organisation. The ICT infrastructure is also looked at with a decision to be made in regards to a single system implementation. The equalisation of the council tax needs to be undertaken and the appropriate branding and communications taking effect. The accounts, budgets and a new Medium Term Financial Plan are then established. A new corporate Strategy is drawn up. New contracts and partnership agreements are drawn up. A new constitution is drawn up. A new IT infrastructure is put into place. The head of Paid Service defines the new structure and staff are either transferred, stood down or recruited to the new structure.
- 16.4.7 More detailed work is required to define the exact detail of some of these processes.
- 16.4.8 Once the Boundary Commission has concluded its principal boundary review and established the ward boundaries through the electoral review, the elections will take place a month or so after the new implementation date, and/or in accordance to the statutory instrument that has made the merger legal, the elections for the members of

the newly established wards. Therefore, if all goes to plan and timescale, such elections should be held in May/June 2019 to ensure a smooth transition.

- 16.4.9 A diagram summarising this process is included as Appendix C to this report (as an extract from Merger Insight Report)
- 16.4.10 Initial advice from SHAPE Partnership Services – Law and Governance on the legal requirements relating to the merging of authorities indicates that the current legal position is regulated by the new Cities and Local Government Devolution Act 2016, and also by the previous Local Democracy Economic Development and Construction Act 2009 (with the 2009 Act having been significantly amended by the 2016 Act). There are also a number of relevant provisions in the Local Government and Public Involvement in Health Act 2007
- 16.4.11 The relevant provisions (effectively SS 103-113 of the 2009 Act, as amended by the 2016 Act) refer to combined authorities, which are a legal structure which may be established via an Order made by the Secretary of State at the request of two (or more) local authorities.
- 16.4.12 Following the introduction of the 2016 Act, combined authorities and merged authorities can be established via
- The original 2009 Act process, where the authorities carry out a governance review, which leads to the production of a scheme recommending the creation of a combined authority, following which the Secretary of State by Order may agree the creation of the combined authority.
 - The provisions in the 2016 Act, under which the Secretary of State may by order create a combined authority with the consent of the councils concerned (following public consultation and the publication of a “scheme). The Secretary of State is required to be satisfied that the combination is likely to improve the exercise of statutory functions in the area in question.
- 16.4.13 Following the 2016 Act, there is now no effective limit (as there was previously under the 2009 Act) on the functions which can be “transferred” to the combined authority. The general expectation (and the strong preference of Government) is that the combined authority will operate under a Mayor (Section 107A of the 2009 Act allows the Secretary of State to provide for there to be a mayor in the area of a combined authority), but authorities are able to propose alternative governance arrangements, which in the WSC/TDBC case would place emphasis on the merger and would also refer to proposed member numbers, frequency of elections etc.
- 16.4.14 In operational terms, the general power of competence for local authorities, as per Section 10 of the Localism Act 2011, will need to be applied to combined authorities by regulations to be made by the Secretary of State. (At present combined authorities only have a general power of competence in relation to economic development).

- 16.4.15 As stated above, an Order of the Secretary of State is required and prior to making any such Order the Secretary of State would need to be satisfied as to the decision making arrangements in any lead-in period. Without detailed Regulations in place, it is slightly difficult to identify what would be required at this stage, although it is envisaged, as suggested above, that a specific jointly appointed shared Committee of senior Members being established, supported by (a) subject-related sub committees and (b) officers.
- 16.4.16 Council contracts will ordinarily contain provisions which allow the assignment of contracts to a “successor in duties”, which would encompass transfer following a merger. There would be a practical difficulty, in that in some cases services delivered under a contract would only be directed at one of the two authorities, but this would be a matter of detail rather than a fundamental obstacle.
- 16.4.17 There will be specific cases in which more complex situations will arise, e.g. the leisure services provision in Taunton, but in such cases the services as provided will presumably remain the same i.e. exclusive to TDBC, with the only change being the identity of the contracting authority.
- 16.4.18 Existing partnership arrangements (e.g. building control, private sector housing) also allow for the possibility of a succession to duties. In the case of building control, the position would remain largely the same, as Sedgemoor are the host authority and TDBC and WSC are merely participating authorities. The private sector housing partnership is also effectively led by Sedgemoor.
- 16.4.19 Another factor which benefits any merger proposal would be the fact that WSC has no staff directly employed by the authority, with all staff providing services to the two authorities already being employed by TDBC.
- 16.4.20 It must be stressed that any merger proposals will require far more detailed legal analysis, and that there will be a need for a clearly defined set of transitional arrangements covering elections, governance and finance in the main, as well as all operational measures which can be procured should this be the chosen option to pursue.

16.5 Governance of a merged council

- 16.5.1 If this option was chosen, there would need to be an Electoral Review covering the existing Taunton Deane and West Somerset administrative areas. This process would determine the size (number) that would be elected to the new merged authority. Research into the size of councils with a similar number of electors to the proposed new merged authority suggest that an estimate of a size of Council consisting of 53 members would seem reasonable.
- 16.5.2 On this basis and reflecting the same streamlined governance principles as adopted in option 1 and set out in section 8.14 of this report would lead to a member decision making structure being modelled as follows:

4 x Council meetings (53 members).
4 x Cabinet Meetings (7 members).
4 x Scrutiny Meetings (14 members).
4 x Audit and governance meetings (10 members).
12 x Planning meetings (14 members).
4 x Licensing meetings (10 members).

- 16.5.3 Even with such a reduced democratic structure in place, there needs to be demonstrable commitment to the principles of open and accountable decision making and time will need to be spend on effective delegated decision making arrangements.
- 16.5.4 Whilst the additional financial savings in respect of governance compared to option 1 are limited, the advantage that merged option delivers under this heading is that automatically all processes will be aligned (being one organisation) to maximise efficiency. There will also be less meetings to be serviced overall for one set of members compared to two under option 1. Finally, it is far easier to set the culture in a new organisation for how a more minimal, light touch form of governance, which still protects the principles of transparency, probity, good leadership and management can be introduced and embedded.

16.6 Option 2 – Financial Position

- 16.6.1 Based on recent experience and evidence in other councils the table below provides a very rough indication of the Ongoing Savings/ Costs and One-off Transition Costs that could potentially be expected as a result of the creation of a new merged authority. Taunton Deane and West Somerset have already achieved a high degree of integration and savings from joint management and shared services and consequently in the management and delivery of services, and consequently, the bulk of further savings that could be generated as a result of merger are largely related to elimination of relatively fixed costs associated with existence of separate legal bodies. The following notes provide some very brief information on the basis of these estimates.

16.7 Members Allowances

- 16.7.1 Based on an analysis of the member arrangements across the country, it has been assumed that a review of ward boundaries could reduce the number of members within option 1 of the business case from 43 for Taunton Deane and 21 for West Somerset Council to around 53 (an average of 2100 electors per Councillor). It has been assumed that there would be no additional increase in allowances from the increases assumed in option 1 of this business case.

16.8 External and Internal Audit

- 16.8.1 Savings could be anticipated on external and internal audit fees as a result of the need to only audit one set of accounts, statements, etc. and from one set of policies and practices and one set of meetings.

16.9 Further Service Integration/Savings

- 16.9.1 A very cautious approach has been taken to estimates of ongoing savings, which have been confined to those Support Service areas where the authorities being separate bodies generates a degree of additional work. In practice in the event of a merger and full integration, including the managing and maintaining one set of strategies and policies some further savings might also reasonably be expected in the management and delivery of other services. In the table below a prudent approach has been taken and only savings within those Support Services has been included, with these savings coming on stream the year following the creation of the new merged body due to support required for enabling a smooth transition.
- 16.9.2 There is the expectation that we can take out further costs and efficiencies by unnecessary duplication, for example when drafting policies for one council rather than two. Also, the opportunity to co-locate service provision when operating across a single administrative area.

16.10 Office Accommodation/HQ

- 16.10.1 Although it is recognised that a presence within the locality is critical to the success of public services there is a presumption that a new merged authority would wish to rationalise accommodation and occupy one main head office.

16.11 Transition Costs

- 16.11.1 Rough estimates of one-off transition costs have been largely based on experience and evidence in other councils although they are estimated at this stage, with some figures still to be worked up in detail. There is estimated to be only small level termination costs estimated due to the reduced number of resources as a result of transformation (option 1).

16.12 Financial position

- 16.12.1 Overall, the table below indicates approximate ongoing savings of £551k assuming there is no need for an additional election. It can be seen that payback is delivered the year following the merger.

16.12.2 Financial Model - 'One Merged Council'

	Year 1 2017/18 £'000	Year 2 2018/19 £'000	Year 3 2019/20 £'000	Year 4 2020/21 £'000	Year 5 2021/22 £'000
Saving Area					
Democratic and Elections					
All out elections - over 4 years			(25)	(25)	(25)
Members Allowances			(113)	(113)	(113)
Reduce in Corporate Subs			(6)	(6)	(6)
Reduce in Support – Leader/Chair			(25)	(25)	(25)
Efficiencies – 1 Exec/Cabinet			??	??	??
Reduce Democratic Support			(25)	(25)	(25)
Building/HQ					
Notional sum identified for one HQ				(60)	(60)
Financial Services					
Reduction in staffing				(46)	(46)
External Audit Fees			(39)	(39)	(39)
Internal Audit Fees			(39)	(39)	(39)
Bank Fees (1 set of bank accounts instead of 2)			(45)	(45)	(45)
Corporate Issues					
Potential change of Terms and Conditions			??	??	??
Reduce Public Relations Support			??	??	??
Reduce Cost of Local Plan Process			(33)	(33)	(33)
Reduce IT Subs					(85)
Procurement – 1 Process/1 Contract			??	??	??
Efficiencies – 1HQ			??	??	??
Reduce Travel Budget – 1HQ			(10)	(10)	(10)
Savings from maintaining one set of Strategies, Policies, etc			??	??	??
	0	0	(360)	(466)	(551)

	Year 1 2017/18 £'000	Year 2 2018/19 £'000	Year 3 2019/20 £'000	Year 4 2020/21 £'000	Year 5 2021/22 £'000
Costs					
Democratic and Elections					
Electoral Review (sunk cost?)	??	??			
Shadow Authority set up and running costs		50	25		
Cost of additional election if date other than May 2019 (assume not required)				??	
Corporate Issues					
Termination/redundancies (redundancies made by new authority)			30		
Branding			54		
Legal costs (changing bi-laws, licences, novation of contracts)			20	??	
Cost of re-billing (Council Tax and NNDR)			100		
Cost of CEO appointment (and 2nd and 3rd tier?)			50		
Potential change of Terms and Conditions			??		
	0	50	279	0	0
Net Annual Saving	0	50	(81)	(466)	(551)
Net Cumulative Saving	0	50	31	(497)	(1,048)

16.12.3 Additional Financial Benefits and Efficiencies

As well as the financial benefits identified above, there are significant efficiency benefits that would be achieved by supporting only one democratic body. For example, having one set of policies and strategies, having one set of Members and PFHs to brief, having one HQ to provide services from – will all bring financial and efficiencies benefits. At this stage, it is difficult to assess these with any certainty.

16.12.4 The table above shares our assessment to date, which concludes that – **in addition to the savings delivered by Option1, there are additional financial benefits of at least £551k from merging the Councils.** Where there are question marks, these

are areas where we know there will be savings and costs but we cannot ascertain the value at this stage.

16.13 Council Tax Equalisation

16.13.1 If the councils merge it would be necessary to set the Band D council tax to one figure that applies to all households within the boundaries of the new council. Taunton Deane's 2016/17 Band D figure is £142.88 and West Somerset Council's 2016/17 Band D figure is £145.56, a difference of £2.68 which is less than 2% of the Band D council tax figures. Taunton Deane's tax base (number of Band D equivalent properties) is 39,072.9, and West Somerset Council's is 13,482. The total council tax requirement of the two councils in 2016/17 is shown below.

	Tax Base	Band D	Council Tax Income
		£	£'000
Taunton Deane	39072.9	142.88	5,583
West Somerset Council	13482.0	145.56	1,962
Total	52,554.9		7,545

16.13.2 The new council will need to decide at what level it wishes to set council tax. The decision is likely to be based upon a combination of the cost and what is deemed to be acceptable to the residents of the new council.

16.13.3 A factor which may have an impact upon the level at which council tax is equalised is the principle for local referendums for excessive council tax rises, which is currently 2% or £5 for Shire Districts. For the purposes of this note, is assumed that this limit would be in place at the time of merger.

16.13.3 The 2016/17 Local Government Finance Settlement marked a change in Government policy towards Council Tax – Council Tax Freeze Grant is no longer payable and is not a consideration for Council Tax levels.

16.13.4 The difference between the two council taxes is at a level that significantly reduces the financial risks of equalisation, in terms of the magnitude of potential reductions. Council tax equalisation does not have to be achieved in one year, but a strategy needs to be adopted to achieve it over a defined period of time. The margin between the two tax levels is so small that it points to equalisation in one year because the level of change would not trigger a referendum.

16.13.5 At current levels, the taxes of the two authorities are so close that council tax equalisation would not be a particularly material issue in respect of the transition costs or ongoing costs/savings of a merged authority.

16.14 Business Rates Pooling

16.14.1 Taunton Deane is currently part of an NNDR Pooling arrangement with other authorities across Somerset namely Bath and North East Somerset, North Somerset, Somerset, South Somerset, Mendip and Sedgemoor. Annually these authorities have to agree to continue in this arrangement and confirm to DCLG (Department of Communities and Local Government) if they are not wishing to carry on with this arrangement. It would need to be decided whether the new body would be part of this pooling arrangement and the financial implications of this arrangement and the options would need to be assessed and considered. This is not currently built into the financial table above.

16.15 Resource equalisation

16.15.1 If the Councils were to merge their collective resources, now and in the future, will be available to be deployed and spent equally across the new Council area.

16.15.2 In reality TDBC has enjoyed and will continue to enjoy more growth over the medium term than WSC. TDBC currently has £16m of NHB allocated to Growth that would become available to spend across the new and wider Council area. In the longer term WSC has the potential to benefit significantly from Business Rate retention and growth associated with the Hinkley Point C. Again these resources would become available to spend across the new and wider Council area.

16.15.3 In effect all of the resources and income flowing currently into TDBC and WSC would be 'equalised' across the new geographical area, and become available to benefit all of the communities then served by the new Council.

16.16 Conclusions

16.16.1 The merger option will contain many of the transformation benefits of the other options, for example of having streamlined governance arrangements, and so will not produce significant additional tangible cashable savings over and above those which have been identified in the financial details section

16.16.2 Also identified are costs which are specific to this option. There are, nevertheless other qualitative benefits from the merger option such as maintaining one set of strategies and policies, allowing greater compliance, enhanced political influence of being a bigger player, reduced risk of challenge, general resource efficiency, no post code lottery for the public, etc which need to be taken into account.

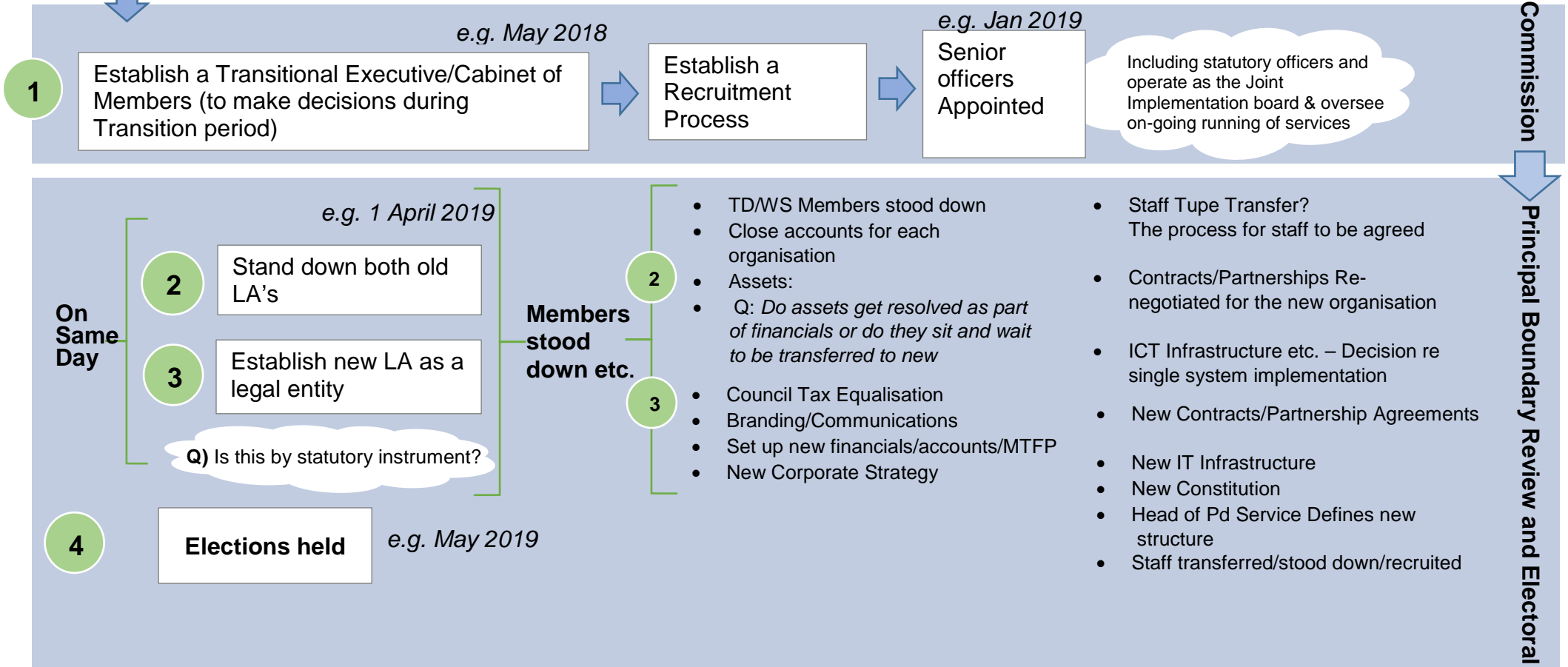
16.16.3 The merger option could be implemented alongside the transformation work required to establish the new operating model for the new Council based on the same approach as option 1.

Merger Process

Decision by the Secretary of State

into Transitional

Discussions with Secretary of State on the process to follow and to establish a new Authority – Timeline/Process





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 leSE 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 leSE 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