

LGR Business Cases - financial risk assessment
Final version issued 2pm 18 September

Important note

The risk assessment has been performed based upon the business cases discussed by SCFOA on 5 September and refined on 12 September. An effort has been made to take into account revisions issued since 12 September although due to the lateness of some changes it cannot be guaranteed that this document is wholly consistent with the finalised business cases and workbooks.

The risk assessment has been based on a comparison of 3 business cases: North Haven, Rural without Lowestoft and Unitary without Lowestoft. It is felt that the conclusions drawn can be applied to the Rural with Lowestoft and Unitary with Lowestoft business cases.

For avoidance of doubt, any items with a risk score of 8 or more are deemed High Risk (or Very High Risk) and warrant close attention prior to sign off. Items with a risk score of 4 or 6 are deemed Medium Risk and therefore also have relevance to informing the overall assessment of risk.

General risks applicable to all business cases

The Boundary Committee methodology requires the use of 2007/08 budgets and balances as at 31 March 2007. There is a risk that this historical data may be sufficiently different from the current position, and the conditions that will exist in April 2010.

Although it is felt that finance officers of the lead authorities have done the best possible job in the circumstances, the extremely tight timescale imposed by the Boundary Committee creates a risk that the business cases are not based upon robust policy making and political direction, and there is a risk that errors and weaknesses in the business cases may not have been detected due to insufficient scrutiny.

A sensitivity analysis (see separate tab) shows that the margin for error in the business cases ranges from 8% (Rural w/o Lowestoft) to 39% (North Haven). Bearing in mind anecdotal evidence of significant variations from business cases in other parts of the country, there is a risk that the Suffolk business cases will later be proved to be unreliable with the margin of error insufficient to guarantee "affordability". The independent risk assessment performed by Deloitte, which draws upon experiences elsewhere, needs to be taken into account.

It is recommended that CFOs pay particular attention to items in the business case where the proportion of savings and costs in North Haven and Rural Suffolk relative to each other and to the Unitary business case differ from what the relative sizes of the proposed authorities may otherwise suggest. A few examples of this are noted in the detailed risk assessment below.

Although narrative business cases, details of underpinning assumptions and working papers have been shared with CFOs, the actual Workbooks themselves for Rural Suffolk and Unitary Suffolk were not shared with CFOS until 5.40pm 12th September. This has prevented detailed scrutiny of the workbooks so the CFOs have provided sign offs on the assumption/condition that the lead authority has ensured that the Workbooks are consistent with the supporting information

There is an inherent risk that financial implications relating to Housing Revenue Account (HRA) services have not been identified, as the Boundary Committee methodology and Workbooks exclude consideration of HRA. Although risks are primarily with the HRA itself, there are interactions between General Fund and HRA which may not be captured by the exercise.

Council tax equalisation figures in the business cases are felt to be affordable although it is noted that the Workbooks do not capture this information in the same way as the narrative business cases and working papers produced. (to be tailored when we know what the figures are !!)

The key areas where CFOs have "agreed to disagree" relate to assumptions within the Rural and Unitary business cases regarding Corporate Support Services (disproportionately low saving in Rural), Dividing County Services (disproportionately high cost in Rural) and the inclusion of substantial efficiency savings in all business cases relating to the SCC Securing the Future programme.

The CFOs have also noted examples of less significant inconsistencies of approach between the lead authorities for example the treatment of IT investment costs, property assumptions and contract novation costs.

Detailed risk assessment	Business Case	Probability	Impact	Risk Score
Savings				
<u>Corporate Support Services, IT and Shared Services</u>				
<p>Composite item due to different classifications between the business cases. North Haven £9m, Rural w/o Lowestoft £4.3m, Unitary w/o Lowestoft £22.1m.</p> <p>There is an apparent disparity in the relative savings quoted in the Rural and Unitary business cases. Unitary quotes £22.1m which if scaled by 68% gives £15m, which compares with £4.3m in the Rural business case. The Unitary saving is felt to be reasonable so there is a risk that the Rural saving is too low.</p> <p>There were late adjustments to the Rural & Suffolk Business Cases due to "exclusion of legal case work". This has not been explained. There was a late unexplained adjustment to Rural Corporate Services so that is now a net cost.</p> <p>In the Rural and Unitary business cases, late revisions to the Shared Services savings calculation were made without explanation or opportunity for scrutiny of the changes. There is a suggestion that the proportion of savings from existing district budgets has been increased. There is a risk that savings have been overstated.</p>				
	Rural	4 Almost Certain	3 Bad	12 Very High
	Unitary	2 Possible	2 Noticeable	4 Medium
	North Haven	2 Possible	1 Minimal	2 Low

	Business Case	Probability	Impact	Risk Score
<p><u>Senior management</u> Assumptions and base data have been thoroughly tested already</p>	All	1 Very Unlikely	1 Minimal	1 Low
<p><u>Elections</u> Immaterial</p>	North Haven	1 Very Unlikely	1 Minimal	1 Low
<p><u>Councillor allowances</u> Figures to be revised, but figures appear sound and not material.</p>	All	2 Possible	1 Minimal	2 Low
<p><u>Service Integration (waste/street scene/environmental health)</u></p> <p><u>Waste</u> There appears to be general unease about the reliability of the consultant's conclusions, on which the calculations have been based, creating risk that the savings are based on an unsound premise and may therefore be overstated. Some savings have already been realised e.g. Babergh/Mid Suffolk joint refuse collection contract.</p> <p><u>Street scene</u> Assumptions and base data appear OK</p> <p><u>Environmental Health</u> There is a risk that the number of senior staff has been overstated and the proportion of time spent on management is overstated, so the saving may be overstated, although figures are not material</p>	All	2 Possible	2 Noticeable	4 Medium
<p><u>Education, Social Services, Highways, Cultural (North Haven only)</u> There are no equivalent savings in the Rural and Unitary business cases, creating the risk that savings in the NH business case are overstated, and understated in the Rural/Unitary business cases</p>	All	2 Possible	2 Noticeable	4 Medium
<p><u>Revs & Bens / Team Leader integration (North Haven only)</u> There are no equivalent savings in the Rural and Unitary business cases, creating the risk that savings in the NH business case are overstated, and understated in the Rural/Unitary business cases</p>	All	2 Possible	2 Noticeable	4 Medium

	Business Case	Probability	Impact	Risk Score
<u>Property</u>				
It is noted that there are limited savings from operational property rationalisation in the business cases (as opposed to office accommodation)				
It is questioned whether assumptions regarding closure of existing District Council offices are reasonable given locality/community based imperative and the modern condition and handy location of certain premises.				
	All	3 Probable	2 Noticeable	6 Medium
<u>External Audit & Insurance</u>				
There is a risk that External Audit will view the new authorities as higher risk and charge a higher fee than assumed in the savings calculations				
	Rural	3 Probable	1 Minimal	3 Low
	Unitary	3 Probable	1 Minimal	3 Low
	North Haven	1 Very Unlikely	1 Minimal	1 Low
Assumptions about the level of self insurance may be overstated as reserves will take a hit to fund transition costs				
	Rural	3 Probable	2 Noticeable	6 Medium
	Unitary	3 Probable	2 Noticeable	6 Medium
	North Haven	1 Very Unlikely	1 Minimal	1 Low
<u>Procurement</u>				
There is insufficient explanation or justification for these figures and a risk of double counting with other opportunities (e.g. shared services, service integration) although the risk that the saving is overstated is reduced because it is likely that the volume of residual spend will still enable a procurement saving of this scale to be made.				
	All	2 Possible	2 Noticeable	4 Medium

	Business Case	Probability	Impact	Risk Score
<u>Efficiency Savings - £46.2m Unitary, £27m Rural, £15.2m North Haven</u>				
Largely based on SCC securing the future programme - savings were already identified and computed and pre-date LGR so there is a risk that including these savings in the business cases is inconsistent with Boundary Committee methodology				
The numbers were generated by SCC before LGR and there is a risk that the successor organisation's capacity to deliver the savings is reduced due to managing the transition.				
There has not been an opportunity to scrutinise or challenge the figures.				
There is a risk of double counting with other opportunities e.g. corporate support services, property, service integration				
In addition to amounts declared in the business case there are undeclared "transformation" savings which provides a degree of comfort that in practice savings of this magnitude are realisable.				
The figure is material to the viability of the Rural business case, although if our other concerns about the Rural case (ie., over inflated costs and understated savings) were addressed, this would not be the case				
	Rural	3 Probable	4 Disaster	12 Very High
	Unitary	3 Probable	3 Bad	9 High
	North Haven	3 Probable	3 Bad	9 High
<u>Ongoing Costs</u>				
<u>Pay Harmonisation</u>				
Discussed and accepted by SCFOA 5 September. Inherent risk associated with extrapolating savings calculations based on HR data				
	All	3 Probable	2 Noticeable	6 Medium

	Business Case	Probability	Impact	Risk Score
<u>Dividing County Services</u>				
A convincing argument has not been advanced to justify inclusion of this number in the Rural business case, so there is a risk that costs are overstated				
The Rural & Unitary working paper is not sufficiently detailed to enable judgement on the reliability of the figures quoted				
There is a risk that the additional costs quoted duplicate the scaling down of savings elsewhere in the business cases, particularly in relation to the Rural Business Case				
CFOs generally feel that it is acceptable for the North Haven Business Case to exclude this item but in view of the different approach taken there is a risk that costs have been understated.				
	Rural	4 Almost Certain	3 Bad	12 Very High
	Unitary	2 Possible	1 Minimal	2 Low
	North Haven	2 Possible	2 Noticeable	4 Medium
<u>Supporting Community Boards</u>				
There is a risk that costs have been understated				
	Rural	2 Possible	1 Minimal	2 Low
	Unitary	2 Possible	1 Minimal	2 Low

	Business Case	Probability	Impact	Risk Score
<u>Transition costs</u>				
<u>Staff Related (North Haven £6m, Rural w/o Lowestoft £5.1m, Unitary w/o Lowestoft £10.7m)</u>				
This calculation is by its very nature based on assumptions about staff data which cannot be known until the new authority is created and staff are appointed. The costs therefore contain an unavoidable element of uncertainty.				
Costs in the North Haven business case are higher than Rural Suffolk creating the risk that either North Haven costs are overstated and/or Rural Suffolk costs are understated				
There is an apparent disparity in the relative costs quoted in the Rural and Unitary business cases. Unitary quotes £10.7m which if scaled by 68% gives £7.3m, which compares with £5.1m in the Rural business case. There is a risk that the Unitary costs are too large and/or the Rural costs are too low.				
Proxies have been used in the Rural & Suffolk business cases, but not in North Haven. It is felt that use of proxies is preferable				
Rural/Unitary relocation costs changed 11 September - insufficient time for scrutiny but appears that a different rationale has been used between Rural/Unitary with risk that Rural costs are understated				
	All	3 Probable	2 Noticeable	6 Medium
<u>Accommodation (North Haven only)</u>				
Immaterial	North Haven	1 Very Unlikely	1 Minimal	1 Low
<u>Localism (North Haven only)</u>				
Immaterial	North Haven	1 Very Unlikely	1 Minimal	1 Low
<u>Combined Fire Authority</u>				
Discussed and accepted by SCFOA 5 September. There is uncertainty about sustainability and future funding levels will need to be reviewed.				
	All	2 Possible	3 Bad	6 Medium

	Business Case	Probability	Impact	Risk Score
<u>Changes to systems & current practices</u>				
There appears to be an inconsistent approach to capitalisation between the business cases.				
Where assumptions have been made about capitalisation, there is a risk that External Audit may disallow an element of the capitalisation, creating a revenue impact.				
It is noted that there is nothing in the North Haven business case for Information & Public Access, it is felt that it is not a realistic assumption to state that there will be no rebranding	All	3 Probable	2 Noticeable	6 Medium
<u>Closedown</u>				
Immaterial	All	1 Very Unlikely	1 Minimal	1 Low
<u>Investment to achieve efficiency savings</u>				
There is a significant difference between the business cases suggesting the risk that costs are understated in the North Haven business case and overstated in the Rural and Unitary business cases				
Some costs appear to have been capitalised, there is a risk that External Audit may disallow an element of the capitalisation, creating a revenue impact. The corollary is the possibility that additional costs in the Rural and Unitary business cases may be capitalised, reducing the costs in those business cases.				
There is a risk that the assumptions used to estimate the costs of contract novation for Rural Suffolk may be unrealistic and/or overstated compared to the single unitary				
	All	3 Probable	2 Noticeable	6 Medium
<u>Contingency</u>				
This represents a tiny percentage of the gross savings and costs figures in the business cases such that it is felt that this is actually a meaningless number. In practice the contingency is bottom line net saving after allowing for council tax equalisation				

Risk scoring matrix

Impact

Disaster	4	4 Medium	8 High	12 Very High	16 Very High
Bad	3	3 Low	6 Medium	9 High	12 Very High
Noticeable	2	2 Low	4 Medium	6 Medium	8 High
Minimal	1	1 Low	2 Low	3 Low	4 Medium

1 2 3 4

Very unlikely Possible Probable Almost certain

Margin for error

The following calculation shows the margin for error inherent in the business cases before which they cease to break even

Updated as per information emailed 16.9.08 pm

The North Haven council tax equalisation figure is the most expensive of the various options modelled in the business

1. Without Lowestoft

	Unitary	Rural Suffolk	North Haven	Rural Suffolk + North Haven
Savings	110.8	52.3	51.7	104.0
Ongoing costs	-14.4	-21.0	-3.0	-24.0
Transition Costs	-24.3	-18.1	-13.5	-31.6
Council Tax Equalisation	-19.1	-5.9	-6.0	-11.9
2014 Total	<u>53.0</u>	<u>7.3</u>	<u>29.2</u>	<u>36.5</u>
Gross costs + savings	168.6	97.3	74.2	171.5
% Margin for error	31%	8%	39%	21%

2. With Lowestoft

	Unitary	Rural Suffolk	North Haven	Rural Suffolk + North Haven
Savings	130.0	69.9	51.7	121.6
Ongoing costs	-15.2	-18.2	-3.0	-21.2
Transition Costs	-25.5	-19.0	-13.5	-32.5
Council Tax Equalisation	-17.9	-4.7	-6.0	-10.7
2014 Total	<u>71.4</u>	<u>28.0</u>	<u>29.2</u>	<u>57.2</u>
Gross costs + savings	188.6	111.8	74.2	186.0
% Margin for error	38%	25%	39%	31%