



Suffolk LGR – Two Unitary Councils

North Haven (Ipswich and Felixstowe Unitary)

**Independent Validation of the Council's submission
supporting the financial case for reorganisation**

19th September 2008

Final Report

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Final Report	Independent Validation of the DCLG spreadsheet submission supporting the financial case for reorganisation	19 September 2008
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1 Introduction

1.1 Background

The Department for Communities and Local Government (DCLG) announced its intention to challenge the existing structure of local government within England in 2006, with the publication of a White Paper that invited bids from Councils to:

- Improve two-tier governance structures of governance; or
- Set out the business case for restructuring into a unitary governance structure.

Following a process of appraising bid submissions from a range of county and district councils against the CLG's stated criteria, a number were invited to proceed, some rejected and in other areas, including Suffolk and Norfolk, the Government asked the Boundary Committee to review the local government structure across a wider geography.

Two approaches for unitary governance have been identified by the councils in Suffolk. The approach preferred by the boundary committee is for two Unitary Councils. This proposal is for one area broadly encompassing areas around Ipswich and Felixstowe being served by one unitary authority, currently being termed "North Haven" by the Boundary Committee, with the rest of Suffolk forming another Unitary Council, known as "Rural Suffolk". An alternative approach identified by the Committee is for a single Unitary Council across the whole of Suffolk.

This validation report considers the financial proposals submitted in respect of North Haven, in the context of the 2-Unitary Suffolk solution.

1.2 Objectives of the Review

We were engaged to provide a:

".. risk register and risk assessment for the implementation of unitary status including an assessment of the effect of the risk of underachieving projected savings and incurring higher than expected costs. "

We have done so using the same methodology used in 2007 to validate the Ipswich unitary business case, amongst others. The detail of this is provided below.

1.3 Our Approach

1.3.1 Overview

We have analysed the calculations supporting the submissions.

This incorporates a two-stage assessment of the financial case:

- At the detail level, to test whether the assumptions and calculations supporting the estimates of transition costs estimates and predicted savings are robust;
- At the summary level, whether the issues (if any) highlighted against individual components could materially affect the ability of the reorganisation to deliver payback of the costs of reorganisation within a relatively short period following transition;

We consider the latter criterion to be the ‘acid test’, and are in line with the October 2006 invitation to Councils by DCLG, which we understand still represents the overall template for this process.

1.3.2 Detailed Approach

The approach to arrive at our validation assessment is outlined below:

1. **Data gathering & underlying assumptions** -
2. **Initial scoping & understanding** – after an initial review of the base data and assumptions Deloitte reaffirmed their interpretation and understanding of the financial submission. In particular, it gathered additional assumptions where £nil values were input in the spreadsheet or supporting calculations were not immediately evident.
3. **Evidence gathering** – Deloitte used a range of sources to inform the development of both risk assessment and validation of the robustness of the case. These predominantly focused on the principle of evidence through benchmarking the financial submission against bids submitted during the 2007 round or validating the underlying methodology for cost/saving derivation.
4. **Initial risk assessment** – the evidence gathered was then utilised to undertake the risk-based assessment of the financials in the spreadsheet. This was provided to the Councils as a draft to allow for them to review the initial findings and pass comment on the accuracy of the stated assumptions in their case that we had validated.
5. **Final Assessment** – after discussion of the highlighted risks associated with individual components, we provided a view at the summary level of the extent to which adverse scenarios relating to these risks might impact upon the ability of the reorganisation to deliver the predicted payback of transitional costs.

1.3.3 Evidence & Validation Approach

Sources of validation have been stated throughout the report, but the main sources are as follows:

- IPF Ltd and ‘cipfastats’ benchmarking datasets;
- Published Statement of Accounts;
- The financial cases of other bids for unitary status;

- Experience and academic literature from the previous round of Local Government Review (LGR) in England; and
- Raw data received from comparative Unitary Councils.

Our methodology focused on challenging the base financial assumptions and method of calculation, through posing a consistent set of questions as follows:

- Are base budget and reserve estimates validated by audited accounts?
- Does the derivation of cost/savings in the spreadsheet have consistencies with the 2007 District-led bids?
- Does the derivation of cost/savings in the spreadsheet have consistencies with the successful 2007 County Council-led bids?
- Do benchmarks from prime or third party sources provide a degree of comfort over the financial projections – especially in relation to staffing structure?
- Does academic research or experience of the previous round of reorganisation provide any consistencies of method of calculations and quantum of cost/savings incurred?
- Does our experience and observation of similar or relevant programmes support the derivation of components of the cost and savings estimates and the assumptions that underpin them – e.g. around ICT costs or real estate assumptions?

2 Summary of Assessments

2.1 Overall Assessment

Following our review of the spreadsheet submission supporting the bid for North Haven, and taking in consideration:

- The timescale which the financial case was developed and the spreadsheet populated; and
- The extent to which reliance has been put on financial information provided by the relevant Councils;

We believe that the overall financial case submitted should be classified as **intermediate** risk.

3 Detailed Validation Analysis

3.1 Approach & Understanding

This section sets out the analysis we undertook on completed DCLG spreadsheet responses. In order to derive an overall risk assessment for the financial case we validated the individual sections of the spreadsheet as follows:

- **Base data** – financial data entered for the original cost of services for the region and the starting reserves levels;
- **One-off costs** – costs resulting from restructuring that are one-off and in generally, but not exclusive to, the transition years of reorganisation;
- **Ongoing costs** – ongoing costs incurred as a direct result of restructuring;
- **Ongoing reductions** – estimated ongoing savings identified as a result of the restructuring;
- **Capital** – capital expenditure as a direct result of restructuring and the impact on revenue expenditure; and

In order to provide an overall assessment all these sections have been validated upon a risk-based approach. We have classified the degree of risk associated with each component as ‘high’, ‘intermediate’ or ‘normal’, by matching our judgement against the following characteristics:

- **Normal** - typically this will mean that the financial estimate and method has consistency with other submissions, benchmarked data and/or is consistent with experience of the previous round of LGR or academic research undertaken. We would expect that the potential for adverse variances in practice is either low, or relatively easy to manage or mitigate for each component.
- **Intermediate** - this risk assessment indicates that the validation analysis has provided a broadly acceptable degree of comfort around the values submitted in the spreadsheet but a moderate risk exists to the potential for the actual cost to vary during reorganisation. This might mean that there is a likelihood that benefits may be realised later, or to a lower value. In general, a medium assessment indicates that this risk is acceptable but specific measures should be put in place on implementation – these are indicated in the analysis where appropriate.
- **High** - this risk assessment indicates that the validation analysis has failed to provide the acceptable level of comfort around either the financial inputs or the method that has derived it in comparison to other submissions, benchmarks or experience. A high risk in relation to the potential variance of the estimate contained in the spreadsheet during transition will demand either a significant mitigating strategy to be put in place, and/or a revision of the timetabling of associated planned benefits.

Overall risk assessments presented in section 2 are based upon the findings of sections 3 in order to provide a comprehensive and fully considered assessment.

3.2 Base Data

3.2.1 Validation & Risk Assessment

The table below summarises the validation of the base data that is presented within the DCLG spreadsheets for North Haven Unitary Authority:

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
BD	Base Data	Not Applicable	Normal	<ul style="list-style-type: none">• The base data included within the submission is drawn from the Finance and General Statistics - 2007-8 budget books of the relevant Councils;• Apportionments of councils are calculated using 2006 population figures

3.3 One-Off Costs

3.3.1 Spreadsheet Submission

ID	Category	Sub-Category	LUY 1	LUY 2	Year 1	Year 2	Year 3	Year 4	Total 2008/9 - 2013/14
			2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	
			£m	£m	£m	£m	£m	£m	£m
OO-1	Staffing	Redundancy			2.4		0.4		2.8
OO-2	Staffing	Early Retirement and pension fund contributions			1.8		0.3		2.1
OO-3	Staffing	Pay Harmonisation							
OO-4	Staffing	Relocation			0.2	0.2	0.1	0.1	0.6
OO-5	Staffing	Recruitment		0.2					0.2
OO-6	Accommodation	All costs			0.3	0.2			0.5
OO-7	Information Technology	Additional staff		0.6	0.1		0.3		1.0
OO-8	Change Mgmt & Shadow Planning	Staffing	0.5	1.6	0.3				2.4
OO-9	Change Mgmt & Shadow Planning	Shadow / Planning			0.1	0.1			0.2
OO-10	Contingency	Contingency		0.4	0.3	0.3			1.0
OO-11	Contract Novation	Contract Novation			0.1				0.1
OO-12	Localisation	Localisation			0.5	0.5			1.0
OO-13	Communications & Branding	N/A			0.2				0.2
OO-14	Closedown	Staffing			0.6				0.6
OO-15	Other costs	Transformation Team				0.3	0.2		0.5
OO-16	Other costs	Senior staff 6 months early		0.1					0.1
OO-17	Other Costs	Fire Authority set-up		0.2					0.2
TOTAL (£m)			0.5	3.1	6.9	1.6	1.3	0.1	13.5

3.3.2 Assumptions & Underlying Calculation

ID	One-Off Cost Category	Total 2008/09 – 2013 £m	Assumption / Basis for Calculation		
OO-1	Redundancy Cost	2.8	<ul style="list-style-type: none"> All current staff will transfer to a new authority on 1 April 2010. <table border="1" style="margin-left: 20px;"> <tr> <td>North Haven</td> <td>Full Time</td> </tr> </table>	North Haven	Full Time
North Haven	Full Time				

ID	One-Off Cost Category	Total 2008/09 – 2013 £m	Assumption / Basis for Calculation							
			<ul style="list-style-type: none"> Surplus staff will be identified using normal recruitment processes to fill positions. Surplus staff numbers will be kept to a minimum by redeployment and natural turnover. As both IBC and SCC have recently introduced the same policy in respect of redundancy and early retirement, any staff being made redundant will be eligible for similar amounts irrespective of their current employer. Differences in policies in place at other councils are assumed to have a minimal impact. All employees who are made redundant will be eligible to a payment based on statutory redundancy based on the employees weekly wage times 1.5 and a length of service component. Turnover rates are based on the existing authorities average turnover (30% in total over 4 years) 	<table border="1"> <tr> <td>Total</td> <td>6,802</td> </tr> <tr> <td>Surplus</td> <td>202</td> </tr> <tr> <td>Percentage</td> <td>3%</td> </tr> </table>	Total	6,802	Surplus	202	Percentage	3%
Total	6,802									
Surplus	202									
Percentage	3%									
OO-2	Early Retirement and pension fund contributions	2.1	<ul style="list-style-type: none"> All staff over 55 years on 1 April 2010 and with continuous service since 1 April 2008 will be eligible for early retirement payments. 							
OO-3	Relocation	0.6	<ul style="list-style-type: none"> North Haven is assumed to retain headquarters in Ipswich with local service centres. It is assumed that this will not apply to SCC staff as they are located in Ipswich Relocation reimbursements' are to the nearest Park & Ride 							
OO-4	Recruitment	0.2	<ul style="list-style-type: none"> Advertisement for the 25 posts in the 1st to 3rd tier of new organisation 							
OO-5	Accommodation	0.5	<ul style="list-style-type: none"> Key staff will be relocated to reflect the change in priorities of the new council Expect to relocate 500 staff at an average cost of £1,000 per person. Existing and transferred assets will be used for accommodation 							
OO-6	IT – Additional Staff	1.0	<ul style="list-style-type: none"> This represents the revenue costs of IT and hence only additional staff costs £4.0m of costs will be capitalised (Councils' assumption is that as much as possible of this category of one-off cost will be capitalised). Transition costs were based on consultation with key IT suppliers, supplemented by data from other authorities. 							
OO-7	Change Mgmt & Shadow Planning – Staffing	2.4	<ul style="list-style-type: none"> 12 Officer teams will be needed to establish the new unitary council and bring together elements from the other relevant legacy authorities for 1 April 2010 This group of officers would work together for the 15 months prior to 1 April 2010, and for the 6 months after 							
OO-8	Change Mgmt & Shadow Planning – Shadowing/planning	0.2	<ul style="list-style-type: none"> One-off transitional costs to provide additional training so staff can be incorporated into new culture of North Haven. 							
OO-9	Contingency	1.0	<ul style="list-style-type: none"> Transition contingency costs of £1m spread over 2009/10, 2010/11 and 2011/2012 based on benchmark data 							

ID	One-Off Cost Category	Total 2008/09 – 2013 £m	Assumption / Basis for Calculation
OO-10	Contract Novation	0.1	<ul style="list-style-type: none"> North Haven will initially take on all contracts relating to service provision at the predecessor authorities. Contract renegotiation will be dealt with by the Transition Team. A provision of £100,000 for 100 days of a specialist consultancy's advice on minority contracts has been allowed for
OO-11	Elections	0.0	<ul style="list-style-type: none"> It is assumed there will be no additional costs to elections
OO-12	Localisation	1.0	<ul style="list-style-type: none"> It is proposed to create 10 Neighbourhood areas and give each area £50,000 each for the first 2 years to engage the community and make the changes they want in that area Transitional investment of £500,000 has been included in each of the financial years 2010/11 and 2011/12 to improve service levels.
OO-13	Communications & Branding	0.2	<ul style="list-style-type: none"> Property, equipment and fleet will need re-branding To minimise costs it is proposed to renew fleet and equipment branding on renewal
OO-14	Close down	0.6	<ul style="list-style-type: none"> Closedown is estimated to be completed in 9 months Using average benchmarks costs this is estimated at £600,000 for 2010/11
OO-15	Transformation Team	0.5	<ul style="list-style-type: none"> 500 days consultancy at £1000 per day
OO-16	Senior staff 6 months early	0.1	<ul style="list-style-type: none"> Assumed that chief executive and directors would be appointed 6 months early, incurring an additional £100k cost in 2009/10 This assumes that staff will be recruited to new posts from existing authorities.
OO-17	Fire authority set up	0.2	<ul style="list-style-type: none"> Estimated cost of £200,000 to set up the combined fire authority.

3.3.3 Validation

OO-1 - OO-6 – Staffing

Staffing costs consist of Release costs (Redundancy and Retirement Pensions), Relocation Costs and Recruitment Costs.

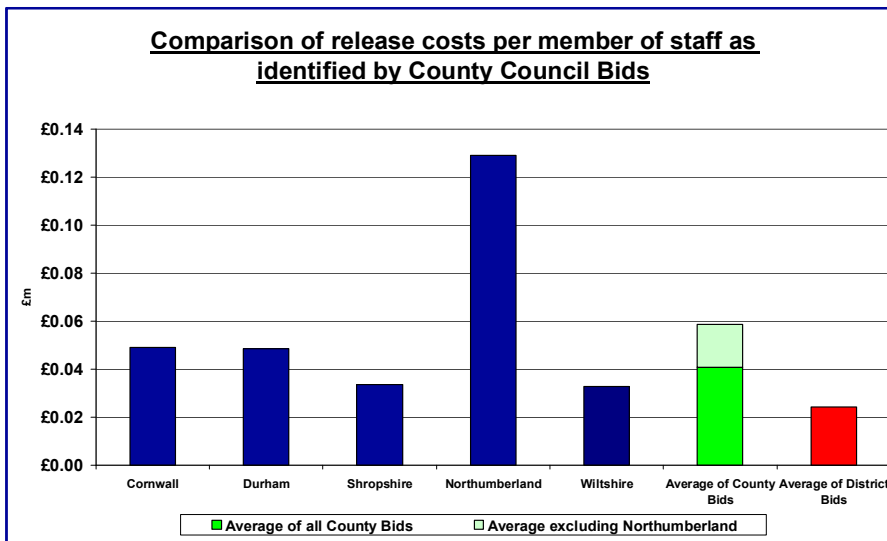
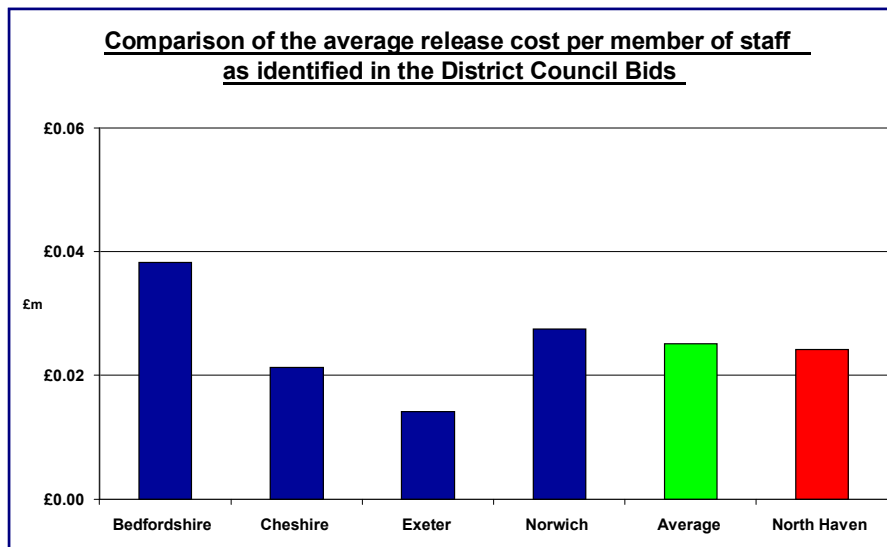
Release Costs have been calculated by the following high level process:

1. Current staffing levels were identified by each Suffolk authority
2. The required staffing levels have been identified by Heads of Service, in consultation with professional colleagues, to take account of service design and integration opportunities, with regards to similar unitary councils.
3. The number of FTEs surplus in total is used in further calculations.
4. Surplus staff numbers are kept to a minimum by redeployment and natural turnover (30% over 4 years, current average)
5. Surplus staff are assumed to have the same demographic profile as current staff.

6. All staff over 55 and with continuous employment since 31 March 2008 are eligible for early retirement.
7. Ipswich Borough Council (IBC) and Suffolk County Council have recently adopted similar payment methods for early retirement and redundancy; hence the costs are estimated using IBC levels. The other councils have different policies but the effect of not including these is assumed to be minimal.

This is a relatively consistent method of estimating release costs, as it attempts to profile the age groups of the released staff to calculate pension costs. However, the relative grades of released staff and the subsequent differences in redundancy payments are not taken into account; this would have been in line with the best approach.

The chart below illustrates a comparison of the total release costs identified for redundancy and early retirement per staff member released by North Haven and other District-led and County-led submissions in 2007. Note that for this and other analyses we have for convenience grouped the North Haven submission with the 2007 district bid group, although we recognise that the context has changed in the intervening period.



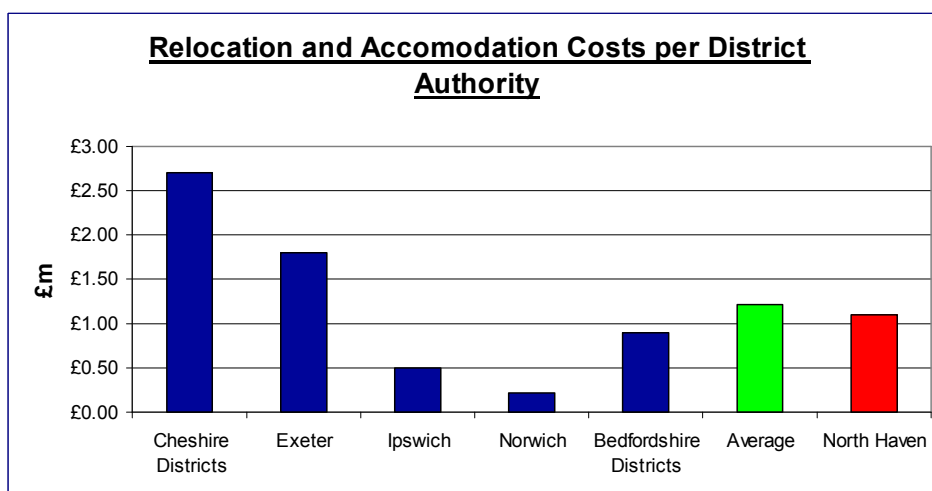
The average level of expenditure identified for redundancy and early retirement for North Haven is broadly equal to the average rate for the other District led submissions and lower than the average of the County Council submissions, in the 2007 round. If the outlying result of Northumberland is excluded the average rate applied by North Haven is closer, but still below the average of the benchmarking class. However, the pension rules have subsequently changed since the 2007 round and the age of staff qualifying for early retirement is now 55 instead of 50.

Relocation and Accommodation Costs

North Haven relocation costs do not account for Ipswich and Suffolk County Council staff on the presumed basis that they are currently located either on site or very close to the site for North Haven. Whilst we would contend (and our own recent experience in decanting around our corporate HQ and Manchester offices supports this view) that there would be at least some cost involved in decanting people and equipment even within an office campus this can be minimised in the short term through decisions taken around common desktop environments etc.

In addition, a green travel plan will be used so contributions to the travel plan will be limited to the nearest Park and Ride. In total 500 staff will need to be relocated, and they will incur an accommodation cost of £1,000 each.

The chart below shows that North Haven’s estimates are just below the average for District Councils. Their assumption is that the green park and ride measures assumed will lead to lower relocation costs and hence the figures are in line with other bids.



Recruitment

Recruitment of the 25 new senior officers is expected to cost £200,000. In addition a further £100,000 has been included in figures as Chief Executives and Directors are expected to be appointed 6 months earlier.

Northumberland’s 2007 bid estimated their recruitment cost of £200,000 for chief executives and directors, and this is in line with these figures.

Research undertaken by the Chartered Institute of Personnel and Development (CIPD) placed the average cost of recruitment of one post to be approximately £4,000. This results in a total cost of Recruitment for North Haven of £100,000, give or take the effects of inflation – which in the

current environment is uncertain in this industry. Although a higher figure can be expected due to the seniority of staff recruited, a £4,000 variance per staff member would provide a substantial contingency.

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO-1	Redundancy	2.8	Intermediate	<ul style="list-style-type: none"> Release costs have been calculated in a thorough manner; however they could have been improved by including different costs for different levels of staff. This leaves scope for some variation in the figures. The figures are generally close to average when compared to other bids, but are on the lower side when compared with county bids. These factors result in the intermediate rating. However, pension rules have changed since 2005 which explains pension costs.
OO-2	Early Retirement and pension fund contributions	2.1		
OO-3	Relocation	0.6	Intermediate	<ul style="list-style-type: none"> Although we believe some additional cost maybe required to decant, good reasons such as park and ride have been used to suggest lower relocation costs. Hence an intermediate rating is provided.
OO-4	Accommodation	0.5		
OO-5	Recruitment	0.2	Normal	<ul style="list-style-type: none"> Recruitment costs are in line with Northumberland and for the budget is twice as much as the CIPD estimates. Hence we believe that £0.2m is a reasonable estimate

OO-7 IT – Additional Staff

The Councils' approach to estimating one-off IT Costs involved:

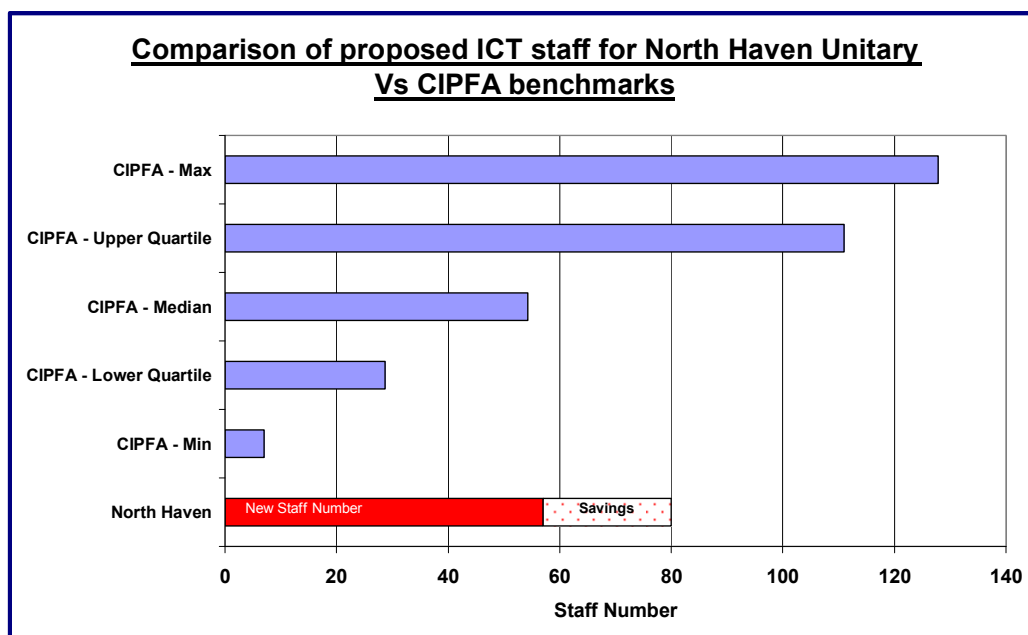
- understanding the different IT systems used by the Suffolk Authorities;
- estimating transition costs in consultation with key IT System suppliers.

Transition costs have been capitalised where possible and hence there are only one-off costs for additional staff of £1million, with 60% of this cost required in year 1.

Substantial IT costs can be expected in order to integrate the different authorities. The method in using SOCITM to identify the range of IT Services is consistent with other submissions.

IT hardware costs have been capitalised. However, these represent a one-off cost of £4 million.

The IT organisation will constitute of 80 FTE to begin with, but it is envisaged that this will be reduced to 57 FTE. When compared to CIPFA benchmarks, the IT organisation to begin with is in between the median and upper quartile. The reductions will bring the organisation close to the median number of FTEs.

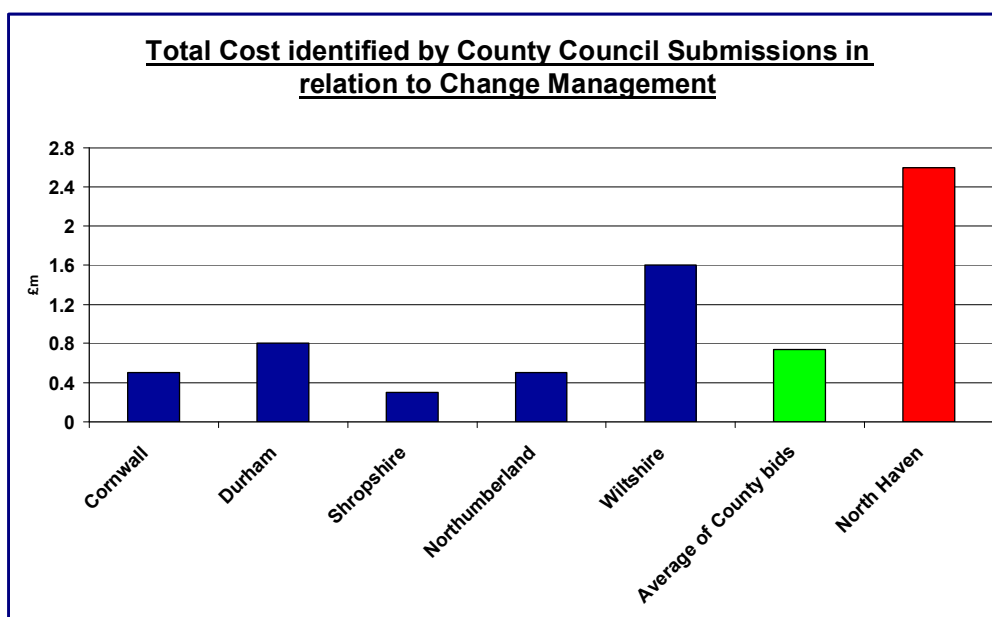
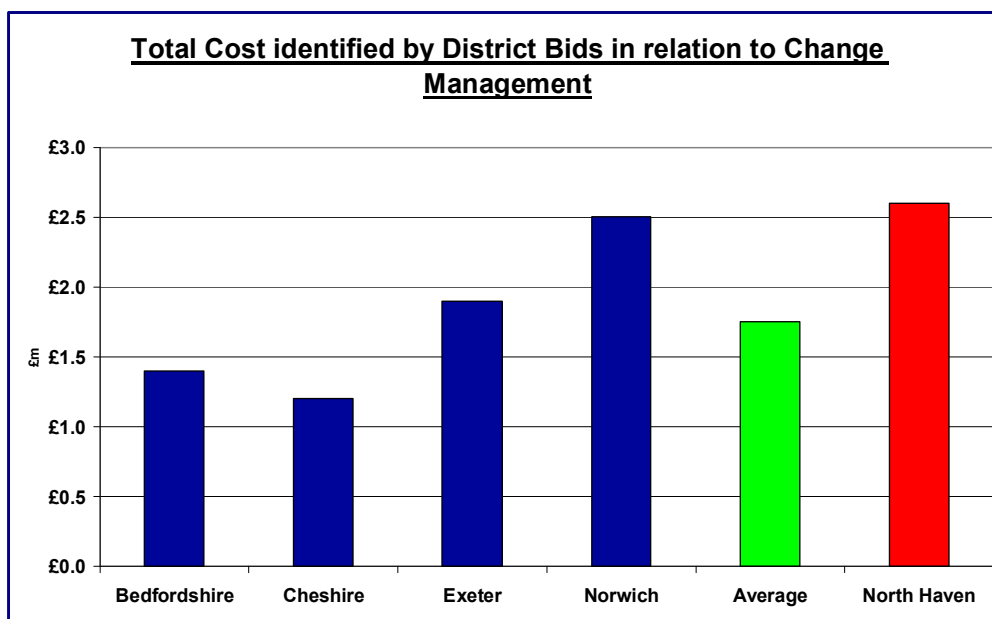


ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO - 7	IT – Additional Staff	1.0	Normal	<ul style="list-style-type: none"> IT Costs have been calculated in a manner comparable to other bids. The envisaged size of the IT organisation is comparable to the CIPFA benchmarked median.

OO-8 – OO-9 Change Management and Shadow Planning

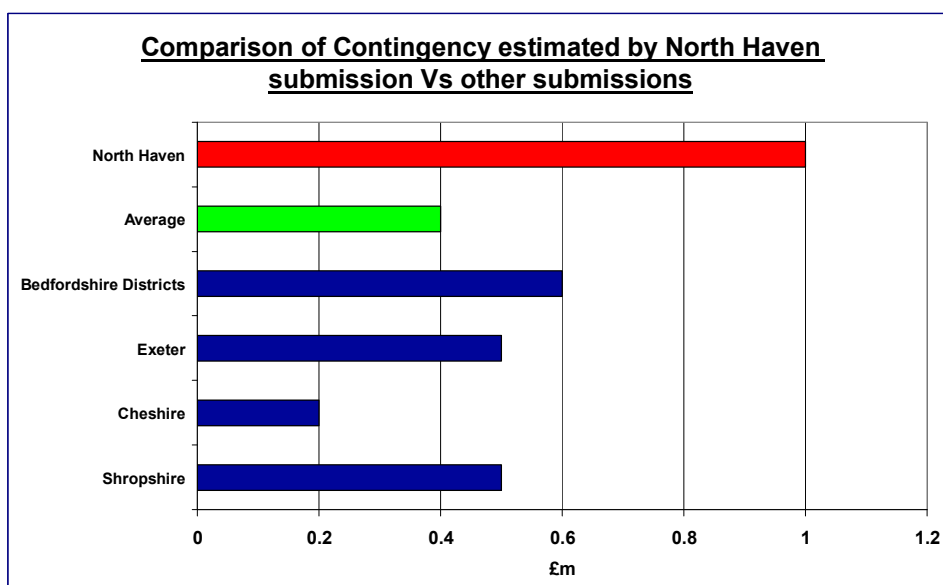
It is proposed to establish a number of teams in order to conduct change management and training at a total cost of £2.6m. The costs have been calculated by estimating the number of staff required in the transition teams, together with any co-ordination effort between the teams and the costs of back-filling posts. The teams include different grades from across the councils to present a fair value per team. The approach taken in calculation is consistent with the bids in the 2007 round.

The charts below show the relative costs attributed to change management. North Haven have attributed substantially more costs to change management than the other County or District bids in 2007. This can be seen as (*relative to the others*) prudent given the numbers of organisations required to consolidate in each case.



ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO – 8 OO – 9	Change Management	2.6	Normal	<ul style="list-style-type: none"> Change Management costs have been calculated in a consistent manner with other bids. However, the cost estimate attributed to change management is relatively high compared with the reference bids from 2007. We believe the risk of exceeding this budget is therefore comparatively manageable

OO-10 – OO-11– Contingency and Contract Novation



ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO – 10	Contingency	1.0	Normal	<ul style="list-style-type: none"> Costs are calculated using benchmarks. The cost represents a very cautious estimate, and hence the chance of additional costs is minimal. Hence, contingency costs are seen to have a normal risk.
OO - 11	Contract Novation	0.1	Normal	<ul style="list-style-type: none"> It is assumed that all relevant contracts will be novated to North Haven This cost represents advice to be taken on minority contracts to assist transition teams with renegotiation and can be managed directly by the implementation team. Hence we believe the likelihood of variation is no greater than a normal risk.

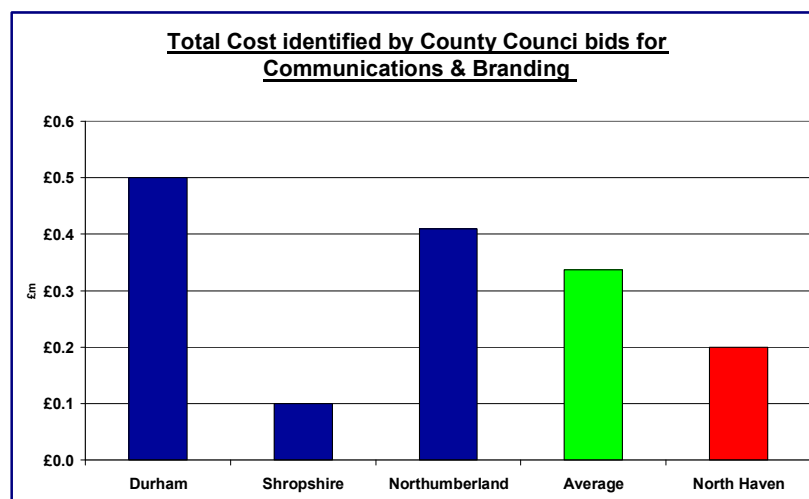
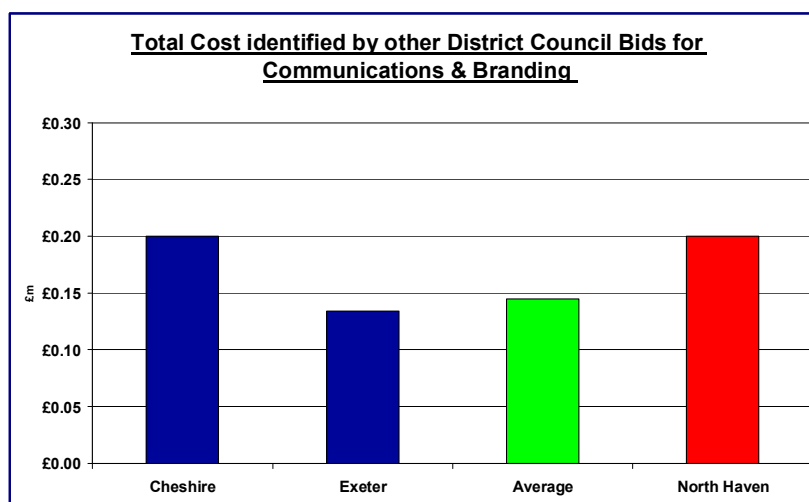
OO-12 – Localisation

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO - 12	Localisation	1.0	Normal	<ul style="list-style-type: none"> This represents additional funding to create 10 neighbourhood areas. This funding is to be used for community priorities. This is discretionary spend that can be kept within budget.

OO-13 – Communications and branding

£0.2m is allowed for re-branding of property, equipment and fleet. Costs are calculated using other unitary submissions. However when compared to other District and Council bids below, North Haven allow for more than districts but less than counties, as per the charts below.

A recent exercise by Cheshire East has been reported as costing £250k for the complete rebranding of Council vehicles, signs, stationery etc. Their logo was designed through an in-house competition. If North Haven proceeds on an ‘as and when replaced’ basis then their assumptions are in line with this being a reasonable benchmark:



ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO – 13	Communications and branding	0.2	Normal	<ul style="list-style-type: none"> Costs are lower than the 2007 county bids, suggesting that there is room for variation in the cost of branding. This is especially true as costs are based on other submissions and not detailed analysis.

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
				<ul style="list-style-type: none"> However the sums quoted are in line with recent figures reported by Cheshire East and therefore we consider this a normal risk

OO-14 – Closedown

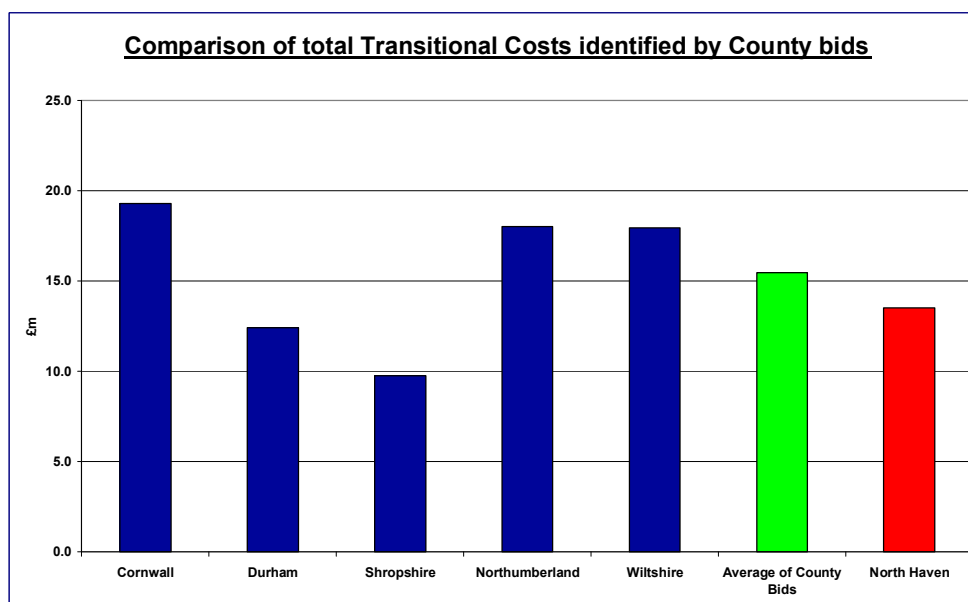
ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO – 14	Closedown	0.6	Normal	<ul style="list-style-type: none"> Closedown costs cover staff and transfer costs. It is estimated that this will take 9 months. Durham estimated £0.8m in close down costs, however they have greater closedown activities than North Haven. The cost estimates are greater than either of the Rural or single Unitary Suffolk cases Hence this cost is deemed to have normal risk

OO-15 – 17 Other Costs

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OO – 15	Transformation Team	0.5	Normal	<ul style="list-style-type: none"> The transformation team has been estimated using consulting fees of £1,000 per day. The consultants will support officers who will form a transitional team. The cost of an existing cost reduction consulting team the Borough Council have hired has been used, this figure includes the discount they receive from this firm.
OO – 16	Senior staff 6 months early	0.1	Intermediate	<ul style="list-style-type: none"> It has been assumed that new senior staff will be from within the existing authorities. Hence this value represents the pay increases expected as people are promoted to these new roles. However, it is possible that senior staff will be recruited from external sources, or key roles require back-fill.
OO – 17	Fire authority set up	0.2	Normal	<ul style="list-style-type: none"> A simple cost model was created by SCC which estimated these costs Whilst we have undertaken no detailed analysis on this model we have seen no evidence to suggest that this brings greater than normal risk.

Total Transitional Costs

The total transitional costs for the 2007 county bids are presented below:



North Haven has estimated costs of transition close to the average of other submissions. The variation in the figures may be explained by each organisation's policy on capitalising IT expenditure.

3.4 Ongoing Costs

3.4.1 Spreadsheet Submission

ID	Category	Sub-Category	LUY1	LUY2	Year 1	Year 2	Year 3	Year 4	Total 2008/9 - 2013/14
			2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	
			£m	£m	£m	£m	£m	£m	£m
OC-1	Staffing	Pay Harmonisation			0.3	0.3	0.2	0.2	1.0
OC-2	Staffing	Relocation							
OC-3	Accommodation	All costs			0.1	0.1	0.1	0.1	0.4
OC-4	IT	Hardware and Software							
OC-5	Localisation	Staffing			0.3	0.3	0.3	0.3	1.2
OC-6	Localisation	Localisation							
OC-7	Additional ongoing expenditure items	Fire Authority			0.1	0.1	0.1	0.1	0.4
TOTAL					0.8	0.8	0.7	0.7	3.0

3.4.2 Assumptions & Underlying Calculation

ID	One-Off Cost Category	Total 2008/09 – 2013/14 £m	Assumption / Basis for Calculation
OC-1 OC-2	Staffing	1.0	<ul style="list-style-type: none"> There will be costs associated with pay harmonisation for North Haven. The estimated cost of £300k is based upon a proportion of recent SCC pay harmonisation costs given that the majority of staff will be transferred Pay harmonisation is assumed to only be applicable to staff employed by North Haven. The costs in each successive year is reduced by 15% to reflect natural turnover Relocation costs are covered in one-off costs
OC-3	Accommodation	0.4	<ul style="list-style-type: none"> An additional comprehensive and modern customer services centres will be located in Felixstowe to complement the Ipswich Customer Services Centre The running cost of a new centre is expected to £50k per annum from 2010/11 onwards.
OC-4	ICT costs	0.0	<ul style="list-style-type: none"> It is anticipated that operational/support staff levels can be met within existing resources, and ongoing costs of operations will also be met from existing budgets
OC-5 OC-6	Localisation	1.2	<ul style="list-style-type: none"> In order to pass power to local communities and provide local joined up neighbourhood service delivery, it is proposed to create ten neighbourhood areas with three Community Coordinators servicing these areas. An additional CCTV Controller would be provided to cover Felixstowe
OC-7	Other additional ongoing expenditure items	0.4	<ul style="list-style-type: none"> The current fire service is provided as part of SCC. A combined Fire Authority will be needed to serve North Haven and Rural Suffolk with costs apportioned appropriately It is assumed that this will incur £100,000 per annum of ongoing costs. These costs have been identified by SCC

3.4.3 Validation & Risk Assessment

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
OC-1	Pay Harmonisation	1.0	Normal	<ul style="list-style-type: none"> Cost of Pay Harmonisation is reduced by turnover every year. The cost came from SCC who have recently carried out a pay harmonisation exercise. These are indicative costs across all 3 Suffolk cases
OC-2	Relocation	0.0	Normal	<ul style="list-style-type: none"> All relocation costs are covered in one-off costs.
OC-3	Accommodation	0.4	Intermediate	<ul style="list-style-type: none"> One comprehensive service centres are to be established, costing £50k a year each to run. This is for running costs except staff of setting up a Customer Services Centre in Felixstowe
OC-4	Hardware and Software	0.0	Intermediate	<ul style="list-style-type: none"> It is anticipated that support levels will be met by current budgets. However, with increased scale there is a strong chance of variation and a requirement for further

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
				costs due to IT investments.
OC-5 OC-6	Localisation - Staffing	1.2	Normal	<ul style="list-style-type: none"> Costs of Community Co-ordinators and CCTV operator. This suggests salaries of approximately £30,000 per resource if 9 Co-ordinators and one CCTV operator is employed. This represents a reasonable cost of localisation.
OC-7	Fire Authority	0.4	Normal	<ul style="list-style-type: none"> Based on thorough calculations by SCC

3.5 Gross Reductions

3.5.1 Spreadsheet Submission

ID	Category	Sub-Category	LUY1	LUY2	Year 1	Year 2	Year 3	Year 4	Total
			2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2008/9 - 2013/14
			£m	£m	£m	£m	£m	£m	£m
GR-1	Corporate & Democratic	Support Staff			0.5	1.0	2.5	2.5	6.5
GR-2	Corporate & Democratic	Senior Staff			1.7	1.7	1.7	1.7	6.8
GR-3	Corporate & Democratic	Information Technology			0.1	0.1	0.8	0.8	1.8
GR-4	Corporate & Democratic	Procurement			0.5	0.7	0.9	0.9	3.0
GR-5	Education	Education			0.3	0.6	0.6	0.6	2.1
GR-6	Social Services	Social Services			0.1	0.2	0.2	0.2	0.7
GR-7	Other services	Highways, Roads and transport services			0.2	0.4	0.4	0.4	1.4
GR-8	Other services	Housing Services (GF only)							
GR-9	Other services	Cultural and related Services			0.3	0.6	0.6	0.6	2.1
GR-10	Other services	Environmental Services			0.0	0.1	0.1	0.1	0.3
GR-11	Other services	Revenues and benefits			0.1	0.2	0.2	0.2	0.7

ID	Category	Sub-Category	LUY1	LUY2	Year 1	Year 2	Year 3	Year 4	Total
			2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2008/9 - 2013/14
			£m	£m	£m	£m	£m	£m	£m
GR-12	Other services	Team Leader Integration			0.5	1.0	1.0	1.0	3.5
GR-13	Other services	Better processing/Efficiency Savings			0.0	0.9	1.2	1.8	3.9
GR-14	Other savings	Elections				0.1	0.1	0.1	0.3
GR-15	Other savings	Rationalise property				0.2	0.3	0.6	1.1
GR-16	Other savings	Waste Integration			0.2	0.2	0.3	0.4	1.1
GR-17	Other savings	Insurance			0.3	0.3	0.3	0.3	1.2
TOTAL					4.8	8.3	11.2	12.2	36.5

3.5.2 Assumptions & Underlying Calculation

ID	One-Off Cost Category	Total 2007/08 – 2012 £m	Assumption / Basis for Calculation
GR-1	Staff reductions – support staff	6.5	<ul style="list-style-type: none"> Reduction of a total of 69 Support staff via streamlining. Identified via an analysis of current roles
GR-2	Staff reductions – senior staff	6.8	<ul style="list-style-type: none"> A reduction in the number of managers required via streamlining and integration of services The new management structure will constitute of a Chief Executive, 5 Directors and 19 Heads of Service
GR-3	IT	1.8	<ul style="list-style-type: none"> Savings through the rationalisation and integration of IT systems A reduction of 23 IT Staff Opportunities for service improvement and business process re-engineering will be taken. This will be coordinated by the transition/transformation teams. The opportunities for savings will arise from: <ul style="list-style-type: none"> Rationalising infrastructure and applications Consolidation of services
GR-4	Procurement	3.0	<ul style="list-style-type: none"> A central procurement function will be formed to ensure efficient and effective procurement of goods and services The authority will have sufficient mass to generate savings through the implementation of best practice, aggregating spend, and utilising economies of scale It is anticipated that this authority will achieve transactional savings of 1% of total service expenditure (excluding employee expenditure assumed at 70%) The anticipated savings have been include in the North Haven workbook at 50% in 2010/11, 75% in 2011/12, and 100% in 2012/13
GR-5	Education	2.1	<ul style="list-style-type: none"> Reduction of 15 CYP admin and support staff due to streamlining

ID	One-Off Cost Category	Total 2007/08 – 2012 £m	Assumption / Basis for Calculation
GR-6	Social Services	0.7	<ul style="list-style-type: none"> Savings via projects that lead to better processes Includes transferring some services to the independent sector Reducing agency spend Resulting in a reduction of 5 Social Services staff
GR-7	Highways, Roads and Transport Services	1.4	<ul style="list-style-type: none"> Reduction in 10 FTEs Streamlining of depot, area office and fleet management arrangements
GR-8	House Services		<ul style="list-style-type: none">
GR-9	Cultural and Related Services	2.1	<ul style="list-style-type: none"> Reduction in 16 FTEs The Ipswich, Felixstowe and Flatford Tourist Information Centres will be brought into a single management structure
GR-10	Environmental Services	0.3	<ul style="list-style-type: none"> There have been 3 posts identified in Port Health, Registrars and Licensing that can be saved through the integration of councils. This reflects a reduction of 3 staff
GR-11	Revenues and Benefits	0.7	<ul style="list-style-type: none"> Reduction in 4 FTEs through integration
GR-12	Team Leader Integration	3.5	<ul style="list-style-type: none"> Reduction in 20 FTEs through operational effectiveness
GR-13	Better Process	3.9	<ul style="list-style-type: none"> Cost savings measures in Social Services, Housing, Planning, Highways, Roads and Transport, Culture and Environment
GR-14	Elections	0.3	<ul style="list-style-type: none"> The current annual cost of elections are £100,000 per annum Moving to a 4-year cycle will save £100,000 in non-election years
GR-15	Rationalise property	1.1	<ul style="list-style-type: none"> There will be a large number of operational buildings transferred to North Haven from SCC The savings made on rents, national non-domestic rates, repairs, utilities etc are assessed at 10% of the rationalised property value
GR-16	Waste Integration	1.1	<ul style="list-style-type: none"> Savings via greater partnership and a reduction in management
GR-17	Insurance	1.2	<ul style="list-style-type: none"> Both Ipswich and SCC self-insure up to a threshold in order to keep premiums down. Current excesses are generally £100,000 and £500,000 respectively. North Haven will benefit from increased capacity to self insure with a likely excess of £250,000 giving an ongoing saving on premiums

3.5.3 Validation & Risk Assessment

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
GR-1 GR-3 GR-5 GR-6 GR-7 GR-8 GR-9	Staff reductions – support staff, IT, Education, Social Services,	18.8	Intermediate	<ul style="list-style-type: none"> Heads of Service at the lead Authority, after discussion with district and county colleagues have determined the staffing required at the new authority. This has then been compared with the number of staff, by function, transferring from predecessor authorities, as advised by the HR Group.

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
GR-10 GR-11 GR-12	Highways, Roads, Transport Services, Cultural and Related services, Environmental Services, Revenues and Benefits, Team Leader Integration			<ul style="list-style-type: none"> Staff costs are Average Salary including On Costs. The approach is in line with other submissions. However, variations could occur once the scale and scope of the new organisation is more developed (as has happened for example in Cheshire West & Chester), hence an intermediate rating has been given.
GR-2	Staff reductions – senior staff	6.8	Normal	<ul style="list-style-type: none"> A reduction in the numbers of management. 32 senior staff positions will be saved. This is detailed calculation based on existing staff and the proposed new structure.
GR-4	Procurement	3.0	Normal	<ul style="list-style-type: none"> It is anticipated that this authority will achieve transactional savings of 1% of total service expenditure. This is a reasonable expectation if procurement improvement programmes are in place and in line with Gershon/CSR07 expectations etc. The anticipated savings have been staggered to include 50% in 2010/11, 75% in 2011/12, and 100% in 2012/13
GR-13	Better Process	3.9	Normal	<ul style="list-style-type: none"> Cost savings measures in Social Services, Housing, Planning, Highways, Roads and Transport, Culture and Environment Continuous improvement measures have been presumed. A view that 0.5% savings on gross expenditure of £375m can be achieved per year. As the councils performance management partner has identified 9-14% of potential savings this appears a realistic target, subject to the performance management partner delivering on its brief.
GR-14	Elections	0.3	Normal	<ul style="list-style-type: none"> Moving to a 4 year cycle from the current annual cycle will save the £100k annual costs of elections for the fallow years.
GR-15	Rationalise property	1.1	Intermediate	<ul style="list-style-type: none"> Substantial property assets will be transferred to North Haven. However, receipts from the sale of this property are not deemed to be recognised in the early years. Therefore only savings on rent, utilities etc are included in this calculation. These are estimated to be 10% of rationalised property value. Although this approach to property is a reasonable one to take it does not give a calculated estimate of

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
				savings. Hence there is room for variation until a more accurate estimate is provided.
GR-16	Waste Integration	1.1	Normal	<ul style="list-style-type: none"> The Saving assumptions are based on SLR Report - Evaluation of Options for Greater Partnership Working on Waste - May 2007, Annex F - Option 8Bii The savings estimates for North Haven have been damped by 30% due to concerns over the ability to realise benefits in early years and also over some of the assumptions in the report. We believe this reduces the risk of not achieving the savings.
GR-17	Insurance	1.2	Intermediate	<ul style="list-style-type: none"> The calculation is not based on a estimate quotation as this has proved difficult to obtain. This does lead to the possibility of some variation, in the current market conditions, however its ability to self-insure can damp down any renewal increases and in any event other authorities not subject to LGR are in a similar position

3.6 Capital

3.6.1 Spreadsheet Submission

ID	Category	Sub-Category	LUY1	LUY2	Year	Year	Year	Year	Total 2008/9 - 2013/14
			2008/09	2009/10	1	2	3	4	
			£m	£m	£m	£m	£m	£m	£m
C-1	Capital Expenditure	Customer Service Centre in Felixstowe		0.1					0.1
C-2	Capital Expenditure	Web Services and Call Centre			0.2				0.2
C-3	Capital Expenditure	IT Hardware, Software migration		2.0	2.0		0.1	0.1	4.2
C-4	Capital Expenditure	Gt Blackenham Depot			0.1				0.1
C-5	Capital Expenditure	CCTV Roll Out			0.2	0.2	0.2	0.2	0.8
TOTAL				2.1	2.5	0.2	0.3	0.3	5.4
C-6	Capital Funding	Capital Receipts		(2.1)	(2.5)	(0.2)	(0.3)	(0.3)	(5.4)
TOTAL				0.0	0.0	0.0	0.0	0.0	0.0

3.6.2 Assumptions & Underlying Calculation

ID	One-Off Cost Category	Total 2007/08 – 2012 £m	Assumption / Basis for Calculation
C-1	Customer Service Centre in Felixstowe	0.1	<ul style="list-style-type: none"> Estimated one-off transition costs for establishing the new Customer Services Centre
C-2	Web Services and Call Centre	0.2	<ul style="list-style-type: none"> Due to accommodation of the wider area and to develop the contact centre, further investment is required in web based services
C-3	IT Hardware, Software migration	4.0	<ul style="list-style-type: none"> Capitalised part of IT costs identified in OO-7
C-4	Gt Blackenham Depot	0.1	<ul style="list-style-type: none"> Refurbishment of depot required
C-5	CCTV Roll Out	0.8	<ul style="list-style-type: none"> New investment in CCTV at £250,000 per year to account for the wider area.
C-6	Capital Receipts	5.4	<ul style="list-style-type: none"> The amount required to fund capital projects will be met by existing capital receipts (£5.7m) and the sale of property (£6m).

3.6.3 Risk Assessment and Validation

ID	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
C-1 C-2 C-4 C-5	Capital Expenditure (except ICT)	1.2	Normal	<ul style="list-style-type: none"> Costs broken down to component level and are manageable individually. However detailed models of the costs required would provide a more accurate picture of the capital expenditure incurred. Most of this cost is discretionary expenditure as the CCTV roll out is not necessary so it will be kept within budget
C-3	IT Hardware, Software migration	4.0	Normal	<ul style="list-style-type: none"> IT costs have been calculated as described in on-going costs. This is comparable with other recent bids.
C-6	Capital Receipts	5.4	Normal	<ul style="list-style-type: none"> The amount required to fund capital projects will be met by existing capital receipts (£5.7m) and the sale of property (£6m). As there are substantial identified capital receipts in excess of the funding required we presume that any reasonable variation in funding requirement can be covered without detriment to services.

4 Sensitivity Analysis

We have modelled a scenario where:

- an ‘on target’ variance is applied to the cost and savings components classified as normal risk;
- an adverse variance is applied to those classified as intermediate risk;
- a significantly adverse variance is applied to those with a high risk rating.

This section costs this scenario in order to assess whether the financial effect has a material impact on the ability to recover reorganisation costs in the period of transition.

4.1 One-Off Costs

ID	Category	Sub-Category	Total 2007/08 – 2012 (£m)	Sensitivity Level	Sensitivity Percentage	Value With Sensitivity (£m)
OO-1	Staffing	Redundancy	2.8	Intermediate	15%	3.22
OO-2 OO-3	Staffing	Early Retirement and pension fund contributions	2.1	Intermediate	15%	2.42
OO-4	Staffing	Relocation	0.6	Intermediate	15%	0.69
OO-6	Staffing	Accommodation	0.5	Intermediate	15%	0.58
OO-5	Staffing	Recruitment	0.2	Normal	5%	0.21
OO-7	Information Technology	IT – Additional Staff	1.0	Normal	5%	1.05
OO-8 OO-9	Change Mgmt & Shadow Planning	Change Management	2.6	Normal	5%	2.73
OO-10	Contingency	Contingency	1.0	Normal	5%	1.05
OO-11	Contract Novation	Contract Novation	0.1	Normal	5%	0.11
OO-12	Localisation	Localisation	1.0	Normal	5%	1.15
OO-13	Communications & Branding	Communications and branding	0.2	Normal	5%	0.21
OO-14	Closedown	Closedown	0.6	Normal	15%	0.69
OO-15	Other costs	Transformation Team	0.5	Normal	15%	0.58
OO-16	Other costs	Senior staff 6 months early	0.1	Intermediate	15%	0.12
OO-17	Other Costs	Fire authority set up	0.2	Normal	5%	0.21
TOTALS			13.5			14.92

4.2 Ongoing Costs

ID	Category	Sub-Category	Total 2007/08 – 2012 (£m)	Sensitivity Level	Sensitivity Percentage	Value With Sensitivity (£m)
OC-1	Staffing	Pay Harmonisation	1.0	Normal	5%	1.05
OC-2	Localisation	Relocation	0	Normal	5%	0.0
OC-3	Localisation	Accommodation	0.4	Intermediate	15%	0.46
OC-4	Other	Hardware and Software	0	Intermediate	15%	0.0
OC-5	Other	Localisation - Staffing	1.2	Normal	5%	1.26
OC-6						
OC-7	Other	Fire Authority	0.4	Normal	5%	0.42
TOTALS			£3.0			3.19

4.3 Ongoing Reductions

ID	Category	Sub-Category	Total 2007/08 – 2012 (£m)	Sensitivity Level	Sensitivity Percentage	Value With Sensitivity (£m)
GR-1 GR-3 GR-5 GR-6 GR-7 GR-8 GR-9 GR-10 GR-11 GR-12	Staff and services	Staff reductions – support staff, and other services	18.8	Intermediate	15%	15.98
GR-2	Senior staff reductions	Staff reductions – senior staff	6.8	Normal	5%	6.46
GR-4	Corporate and Democratic	Procurement	3.0	Normal	5%	2.85
GR-13	Other services	Better Process	3.9	Normal	5%	3.71
GR-14	Other savings	Elections	0.3	Normal	5%	0.29
GR-15	Other savings	Rationalise property	3.3	Intermediate	15%	2.81
GR-16	Other savings	Waste Integration	1.1	Normal	5%	1.05
GR-17	Other savings	Insurance	1.2	Intermediate	15%	1.02
TOTALS			38.4			34.15

4.4 Capital Costs

ID	Category	Sub-Category	Total 2007/08 – 2012 (£m)	Sensitivity Level	Sensitivity Percentage	Value With Sensitivity (£m)
C-1 C-2 C-4 C-5	Capital Expenditure	Capital Expenditure (except ICT)	1.2	Normal	5%	1.26
C-3	Capital Expenditure	IT Hardware, Software migration	4.0	Normal	5%	4.20
C-6	Capital Expenditure	Capital Receipts	(5.4)	Normal	5%	(5.13)
TOTALS			0.00			0.33

4.5 Payback Period

We compare the unadjusted payback period, (i.e. ignoring the phasing of costs and savings), with and without these sensitivities and note that in both scenarios the Council achieves payback of transition costs within three years.

On this basis we do not propose to adjust the overall risk assessment for the financial case.

Payback Period Without Sensitivities	Payback With Sensitivities	Overall Risk Rating
1.53 years	1.97 years	INTERMEDIATE

5 Summary of Validation & Risk Assessment

The table below summarises the overall risk assessment of the financial information that has been validated as part of this report:

ID	Report Section	Cost / Saving	Total 2007/08 – 2012 £m	Risk Rating	Validation Summary
BD	3.2	Base Data	n/a	Normal	<ul style="list-style-type: none"> The base data included within the submission is drawn from the Finance and General Statistics - 2007-8 budget books of the relevant Councils; The risk associated with this is therefore normal
OO	3.3	One-Off Costs	£13.5	Intermediate	<ul style="list-style-type: none"> One-off costs have mostly been calculated using thorough methods. Overall transition costs are slightly lower than other submissions. Hence the risk associated with this is intermediate.
OC	3.4	Ongoing Costs	£3.0	Intermediate	<ul style="list-style-type: none"> On-going costs have been assessed against risk criteria and have been assessed as intermediate risk.
OR	3.5	Ongoing Reductions	£38.4	Intermediate	<ul style="list-style-type: none"> Reductions have been assessed to have intermediate risk.
C	3.6	Capital	£0.0	Normal	<ul style="list-style-type: none"> The risk associated with capital expenditure is assessed to be normal.