

Local Government Reorganisation – ACRA Financial Analysis

1. Once it became clear that the reorganisation of Dorset Councils was inevitable we undertook a study of the likely financial implications with three objectives:
 - 1.1. To ensure that we would understand material produced by our local Councils
 - 1.2. To give ourselves insights that would enable us to explain what might be complex matters to our members
 - 1.3. To put us in a position to lobby for equality of treatment for Christchurch residents as against residents of other Authorities
2. An initial overall assessment led us to four conclusions:
 - 2.1. Bournemouth and Poole unitaries have large funding deficits, are both too small to be economically viable and have little choice but to merge.
 - 2.2. The second tier rural councils of Dorset such as West Dorset all have large funding deficits; Christchurch is an urban council and doesn't; East Dorset is mainly urban in terms of population and doesn't.
 - 2.3. It is cheaper in terms of cost per head to provide local authority services in an urban area than in a rural area provided the urban area is of sufficient size. *This in turn suggested that financially Christchurch residents would be best served as part of a new Bournemouth-Poole conurbation rather than some arrangement with rural Dorset*
 - 2.4. The geography of the area supports and underpins our conclusions. It also introduces parts of East Dorset such as Ferndown into the equation
3. We next considered which financial factors were most important. The 80/20 rule suggests to us that a small number of financial areas are likely to be far more significant than many others. We concluded that these are:
 - 3.1. The funding gaps that exist in most of Dorset's Councils, the need to eliminate them (particularly those in Bournemouth and Poole) and the pace at which that can be achieved
 - 3.2. The need to harmonise Council Tax within tax bands which, we felt, could only be prudently done by increasing the lower levels of Poole and Bournemouth up to the level of Christchurch. The 3.99% capping rules meant that this process would have to be spread over several years and could only be accomplished by Christchurch sacrificing potential tax income, which could in turn cause financial problems for Christchurch. This financial area of "tax sacrifice" we saw as a key component.
 - 3.3. The one-off costs incurred in converting from where we are today to where we would like to be by say 2020-21. That begged the question of where exactly would we like to be in 2020. Clearly we have an opportunity here to radically reform systems and structures but

should that be delayed in favour of an initial simplistic, safer, lower cost, alternative? We estimated that the safer, lower cost, alternative would prevail and that would likely involve primarily moving Poole and Christchurch onto Bournemouth's work structures and systems. We ignored the possibility of creating new ventures similar to Dorset Waste Partnership from outset in the belief that these would be better tackled once the dust of initial merger has settled.

- 3.4. This approach to conversion had the added bonus of creating relatively easily achievable initial savings in the cost of Councillors and senior staff early in the process leaving the more subtle savings for a later day. We concluded that longer term savings would require more thought and more development costs and that it would be virtually impossible to estimate any of these longer term variables with any degree of accuracy.
- 3.5. We identified the actuarial strain that the early retirement of senior staff would place upon the already under funded staff pension funds in Poole and Bournemouth as a difficult area. The Local Authority Staff Pension Scheme is a final salary, guaranteed benefit scheme. This dictates that it is the employer (for which reader local Council Tax payer) that is responsible for funding any shortfall. We estimated that the environment of low gilt yields that has prevailed for some time is likely to continue, exacerbating the situation (which could be made worse by the introduction of negative interest rates). We saw this as an important area in which Christchurch residents could potentially be treated inequitably.
4. Using simple modelling techniques before we saw the Local Partnerships analysis we concluded that:
 - 4.1. A structure embracing Bournemouth + Poole + Christchurch is financially superior to Bournemouth + Poole alone and better for Christchurch residents than a rural combination provided they obtain equitable treatment as against existing residents of Poole and Bournemouth.
 - 4.2. The inclusion of East Dorset makes for a slightly superior financial arrangement than Bournemouth + Poole + Christchurch but involves a higher level of "tax sacrifice". We did not attempt to split East Dorset into rural and suburban having insufficient information to enable us to do that.
 - 4.3. Given that Central Government will not allow a single unitary authority for the whole of Dorset (and such a structure would in any case create other problems related to size) including Christchurch with rural areas such as North Dorset is the worst possible financial scenario for Christchurch residents.

- 4.4. Leaving things as they are is a financial non-starter. It also surrenders the opportunity to get rid of dead wood and reorganise service delivery to achieve higher productivity
5. We finally saw the work undertaken by Local Partnerships (LP) on 26th August 2016 and quickly established that they have reached conclusions similar to the ones outlined above. We had identified a number of areas that we felt we needed to understand:
 - 5.1. We needed knowledge of the main assumptions made by LP in undertaking their work. The LP report deals with many of them and they seem sane and sensible. Of course if there are flaws in the raw data neither we nor LP can do much about that (particularly given the timescales involved) and we simply have to trust Accounting Officers in the Councils
 - 5.2. An understanding of the conversion approach that is envisaged – what are we aiming for, by when and how will we get there. The manner in which the approach will be phased both between Councils and between functions. We believe that the more complex the answer is the lower the probability of a cost effective successful outcome. This is covered to a degree but we intend to ask David McIntosh and Ian Milner for more detail
 - 5.3. The make-up of the funding shortfalls in Poole and Bournemouth. Do they arise from Social Services, Children’s Services, or from other causes? This is not covered in the LP report
 - 5.4. The steps being taken by Poole and Bournemouth to significantly reduce their funding shortfalls before any merger is put into effect and the timeframe envisaged. This is not fully covered in the LP report and is important given their history. If anything, in our opinion the shortfalls disappear rather too quickly in the LP model. Our own model had them spread over a longer period. This does not affect fundamental conclusions but does change the time taken to reach “profitability”
 - 5.5. The proposed treatment of the portion of the DCC funding shortfall that can theoretically be attributed to events that occurred in Christchurch. This is covered in the LP report
 - 5.6. The source and estimated size of the initial savings that should result from the three-way merger where again we believe that the more complex the answer is the lower the probability of a successful outcome. This is covered in the LP report but we would like further details
 - 5.7. The process by which tax levels will be harmonised within tax band and specifically how that will affect tax payers in Christchurch as compared with Poole and Bournemouth. This is covered in the LP report
6. And in relation to questions that we felt may well have been outside the scope of the initial financial analysis:

- 6.1. The functions earmarked for the creation of central services along the lines of the Dorset Waste Partnership and any timeframe envisaged
- 6.2. The extent of due diligence that will be exercised in examining the larger assets of Poole and Bournemouth (particularly but not restricted to commercial property) and ensuring that Christchurch residents will not be underwriting any assets whose market value is below their book value
- 6.3. The estimated additional actuarial strain that will be put upon the staff pension schemes and how it is envisaged that this will be funded without penalising the residents of Christchurch. This is covered as additional funding is mentioned as having been built into the LP model
- 6.4. The extent to which an analysis has been conducted of “managerial overload”. Managers in Poole and Bournemouth in particular will simultaneously be (a) keeping day to day affairs working properly (b) working to effect change that reduces the funding gap and (c) trying to merge operations to form the new structure. We identified this squeeze on skilled resources as one of the largest potential stumbling blocks in the whole enterprise. We don't think an analysis in depth has been conducted
- 6.5. The steps that are envisaged to identify and retain key personnel over the difficult 5 year period of change. In our experience such people often inhabit IT departments, have unique knowledge of arcane parts of the system that nobody else ever visits and are identified a week after they leave to join a competitor!

Jim Biggin

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