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South Hams Council

Title:	**Agenda**
Date:	**Thursday, 28th July, 2016**
Time:	**10.00 am**
Venue:	**Council Chamber - Follaton House**
Full Members:	***Chairman*** Cllr Smerdon ***Vice Chairman*** Cllr Cuthbert *Members:* Cllr Baldry, Cllr Bastone, Cllr Birch, Cllr Blackler, Cllr Bramble, Cllr Brazil, Cllr Brown, Cllr Cane, Cllr Foss, Cllr Gilbert, Cllr Green, Cllr Hawkins, Cllr Hicks, Cllr Hitchins, Cllr Hodgson, Cllr Holway, Cllr Hopwood, Cllr May, Cllr Pearce, Cllr Pennington, Cllr Pringle, Cllr Rowe, Cllr Saltern, Cllr Steer, Cllr Tucker, Cllr Vint, Cllr Ward, Cllr Wingate, Cllr Wright
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

Page No

1. Urgent Business

the Chairman to announce if any item not on the agenda should be considered on the basis that he considers it as a matter of urgency.

2. Exempt Information

To consider whether the consideration of any item of business would be likely to disclose exempt information and if so the category of such exempt information

3. Declarations of Interest

Members are invited to declare any personal; or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting;

4. LACC Business Case **1 - 134**

Supplementary paper on Implementation Costs for the LACC

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Council Body	**Date of Meeting**
d) Executive*	21 July 2016

*Indicates minutes containing recommendations to Council

Establishing a local authority controlled company

Business case and implementation plan

South Hams District Council and West Devon Borough Council

23 June 2016

Private and confidential

Ms Sophie Hosking
Executive Director,
Service Delivery and Commercial Development
South Hams District Council
Follaton House, Plymouth Road, Totnes

23 June 2016

F014SHWD Management Consultancy Services (South Hams and West Devon)

Dear Sophie,

Business Case

Please find enclosed our Report setting out our Business Case and Implementation Plan content, outlining our findings in respect of the potential establishment of a Local Authority Controlled Company (LACC) for the delivery of existing services back into South Hams District and West Devon Borough Councils. This has been developed in accordance with the scope of our engagement, dated 29 March 2016, including concentrating on a comparison between the two key options under consideration:

- "As is" – The continuation of the current arrangements of in-house service delivery with some outsourced services (e.g. Leisure Centres and the West Devon waste collection, grounds maintenance and street cleansing service);
- "Transferring all Council services to a LACC" – where the LACC is jointly owned by South Hams District and West Devon Borough Councils. This does not include transferring the Elections Team, Democratic Services or the Strategy & Commissioning function to the proposed LACC.

In undertaking this engagement we have considered various sources of information, including: our internal network; existing information provided by the Councils and publicly available information. We have not validated the information provided to us by your or by third parties. We have also made assumptions (highlighted as appropriate) where information could not be sourced or provided.

This Report has been developed for the sole consideration of South Hams District and West Devon Borough Councils (the Councils) and, if this were to become the Business Case, it should be adopted by the Councils, with appropriate reference to PwC input. This document should not be provided to any other parties as our duty of care with regard to our engagement is to the Councils and to no other party.

Except for an overall legal review, the provision of legal advice was not included as part of our scope of work for this engagement. We recommend the Councils seek legal advice with regard to the items discussed and considered in this report should they wish to proceed to the next phase.

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We have enjoyed working with you on this engagement and I will be pleased to answer any further questions you may have.

Yours sincerely,

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Important Note

This Report has been prepared by PricewaterhouseCoopers LLP ("PwC") for South Hams District and West Devon County Councils ("Councils"), under the terms of the Council's engagement letter with PwC dated 29 March 2016 (the effective date) (the "Engagement") and its contents are strictly confidential.

This Report contains information obtained or derived from a variety of sources as indicated within the report. PwC has not sought to establish the reliability of those sources or verified the information so provided. Accordingly no representation or warranty of any kind (whether express or implied) is given by PwC to any person (except to the Councils under the relevant terms of the Engagement) as to the accuracy or completeness of the report. Moreover the report is not intended to form the basis of any investment decisions and does not absolve any third party from conducting its own due diligence in order to verify its contents. For the avoidance of doubt this Engagement is not an assurance engagement and PwC is not providing assurance nor are the services being performed in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000).

PwC accepts no duty of care to any person (except to the Councils under the relevant terms of the Engagement) for the preparation of this Report. Accordingly, regardless of the form of action, whether in contract, tort or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind and disclaims all responsibility for the consequences of any person (other than the Councils on the above basis) acting or refraining to act in reliance on the briefing or for any decisions made or not made which are based upon such report.

In the event that, pursuant to a request which the Councils receive under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made there under (collectively, the "Legislation"), the Councils are required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. The Councils agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, the Councils discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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1. Executive Summary

1.1. Introduction

This Report has been developed to meet South Hams District Council and West Devon Borough Council Project specification requirements, comply with the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 (SI 2009/2393) and also the Treasury's Greenbook business case guidance.

1.2. Strategic Case

The strategic case demonstrates that the Councils' LACC proposal addresses a strategic need:

- Local government is set to face a funding gap of £9.5 bn by 2020. With limited scope for further efficiencies, this can only put at risk valued public services;
- PwC's review identified that the spectre of financial failure across the sector looms large, with nine out of ten Chief Executives believing that some local authorities will get into serious financial difficulties in the next five years;
- The collective budget gap from 2017/18 to 2020/21 for South Hams District Council and West Devon Borough Council is anticipated to be in excess of £2 million; and
- Local authorities see a way ahead through joint working and many are already working closely together and with other local partners to reform delivery and funding of local services by managing demand and agreeing joint objectives.

1.3. Economic Case

The economic case demonstrates that the LACC proposal can offer value for money:

- There is market potential that the current operating model is not able to capitalise on in an effort to offset the projected future funding gap;
- There are a range of potential contracts coming available in the medium term, giving time to develop commercial and tendering skills;
- The options assessment did not consider increasing charges or reducing services, but did consider a range of options for delivery of services through the current operating model;
- The 'As Is' approach does not provide opportunity to generate additional external profit to offset the cost of service provision;
- There are potential management efficiencies to be made as a result of the LACC providing delivery of waste management across both Councils and options to integrate waste services in West Devon should be incorporated into any potential LACC.
- A Multi-Criteria Assessment (MCA) was utilised to qualitatively assess the options of 'As Is' v 'LACC'. The LACC limited by shares scored highest. This option involves a combination including:
  - In-house provision of member services and communications to be retained by the Councils and managed by Strategy and Commissioning;
  - Continue with outsourced contracts for leisure services etc. These are to be retained by the Councils and managed by Strategy and Commissioning; and
  - The LACC will deliver Customer First, Commercial Services (including waste services) and Support Services to the Councils initially. Once T18 transition has been embedded within the LACC and it has been demonstrated that contracts have been bid for and won, there are opportunities to offer services to additional third parties.

1.4. Commercial Case

The commercial case demonstrates that the LACC proposal is commercially viable:

- The Councils are able to establish a LACC within a company structure limited by shares that appropriately allocates roles, responsibilities, voting and returns to the Councils;

- The commercial transition phase will need to focus on contract governance, including the novation of existing contracts, as the majority of the current operational structure, as established as part of the T18 Programme will remain as is;
- Shareholders agreement in the LACC should provide for different shares that enable equal voting and returns based on utilisation of services and assets, as well as terms for share sale, exit and share buyer controls;
- Governance and management reporting and responsibility will change but the operating model is unlikely to require additional change;
- Key areas include:

  - Corporation Tax: There is potential to obtain exemptions from HMRC for trading with the Councils, meaning that tax implications are only attributable to revenue generated external to the Councils;
  - VAT: It is envisaged that all services attract VAT and although the LACC does not have as favourable VAT exemptions as the Councils, it is unlikely irrecoverable VAT would have any adverse impacts on the Councils;
  - Employee tax: Employee taxes are likely to remain the same, although potential for 0.5% apprenticeship levy from April 2017, if the pay bill of a public (e.g. Council) or private body (e.g. LACC) exceeds £3m each year;
  - Pensions: The LGPS fund is likely to require some form of guarantee from the Councils with regard to their existing pension liabilities; however, this should not increase the cash requirement within the LACC; and
  - Accounting: The LACC will require audited financial statements to be developed, which will be an additional cost as each of the Councils will still need to maintain their own financial records.

1.5. Financial Case

The financial case demonstrates that the LACC proposal is affordable:

- There will be set up costs of c£400k relating to the establishment of a LACC;
- There will be additional on-going costs of c£60k per annum relating to the running of a LACC;
- There are opportunities to generate ongoing third party profits (c£<< figures removed – commercially confidential>> a year) from April 2020. Additionally, there are potential savings in the cost of West Devon waste management by providing the service within the LACC (c£<< figures removed – commercially confidential>> a year). This additional saving only applies to West Devon and accounts for the shorter payback period than South Hams (see Appendix 6.6); and
- The net result could be an unindexed c£<< figures removed – commercially confidential>> a year (c£<< figures removed – commercially confidential>> for South Hams District Council and c£<< figures removed – commercially confidential>> for West Devon Borough Council), contributing to a payback of the set up and ongoing costs by 2022 for South Hams District Council and 2020 for West Devon Borough Council (see section 6.4).

1.6. Management Case

The management case demonstrates that the LACC proposal and target date of 1 April 2017 is achievable (notwithstanding the decision to be made in respect of the West Devon waste service):

- The LACC provides:

  - a level of flexibility to respond to future market conditions;
  - is deliverable and appropriately allocates and shares risks across the Councils;
  - has greater risk from set up costs; and
  - presents greater opportunities to generate revenue in the future to offset the project funding gap

- An implementation plan includes:

  - Seeking legal advice on establishment;
  - Developing calculations for pensions; and
  - Application to HMRC for Corporation Tax exemption.

1.7. Summary

Our assessment concluded that:

- There are clear strategic imperatives that support the development of innovative solutions to the projected future funding gap;
- The remaining 'As Is' option is unlikely to be a sustainable long term solution with the additional risk of not taking action potentially constraining the Councils to increasing taxes or reducing services;
- The Councils have established an effective operating model, through T18, delivering all services end to end through Customer First, Commercial Services and Support Services with a clear steer and monitoring interface provided by Strategy and Commissioning and functional allocation of responsibilities for services delivery;
- This is an appropriate platform from which to continue the development of a LACC;
- There are potential market opportunities available to the Councils within their local regions, primarily with adjacent Local Authorities and other Public Sector entities, but also some private sector opportunities;
- The establishment of a LACC:
  - Enables the Councils to build upon the structural changes made as part of the T18 Programme;
  - Will incur setup costs of c£400k that should be paid back by April 2020; and
  - Presents opportunity to generate additional revenues not available under the 'As Is' option if the identified risks are managed appropriately.

We recommend that the Councils:

- Seek confirmation / guidance from HMRC regarding an exemption from paying Corporation Tax on profits related to income derived from services provided to the Councils. This should be undertaken prior to incurring further significant cost as it is fundamental to the assumptions within this report;
- Seek confirmation / guidance from LGPS on how the current pension deficit should be treated;
- Obtain legal advice and support to deliver the proposed corporate and associated share structure of the LACC to ensure that it meets both the governance and spend requirements;
- Obtain legal advice in relation to the Councils' vires to trade the identified services, and ensure LACC constitution has the flexibility required for future change in scope if envisaged as part of the LACC strategy;
- Obtain legal advice to confirm that the business plan conforms with State Aid requirements and public procurement regulations;
- Obtain legal support and advice in relation to Pensions, TUPE and employment matters; and
- Subject to confirmation of the above bullet points that the Councils proceed with establishing the LACC.

2. Introduction

2.1. Context

South Hams District Council and West Devon Borough Council ("the Councils" or "they") have been shared service partners since 2007. As two of the very first Councils to share a Chief Executive, the Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation. Shared services (through sharing staff) has now yielded over £7.7 million in savings across the two Councils since 2007, with each Council generating ongoing savings of over £700,000 every year.

The Councils engaged PwC ("we"), under the terms of the engagement letter dated 29 March 2016, to work with them to develop a business case and implementation plan to determine whether or not to proceed with the setting up of a Teckal[1] compliant Local Authority Controlled Company (LACC). They have previously commissioned work that compared the options of 'As is' against an 'LACC' and have also considered and discounted a number of other options.

The Councils are seeking to make a decision by mid-2016, in time to respond to the forthcoming conclusion of the West Devon waste contract with FCC in March 2017. For completeness, this Business Case has considered:

- The previous assessment undertaken by Grant Thornton, including:
  - Options appraisal for a Local Authority Controlled Company;
  - Options appraisal for waste services in West Devon.
- The current context including political drivers and policy directions, including Devolution;
- The market potential for services provided by the Councils; and
- And we have worked with the Councils to assess a broader number of options.

2.2. Collaboration

The Councils signed a Collaboration Agreement in March 2015. There are some key principles from this agreement that have influenced the assessment and development of this report. The key principles include:

- Each Council has an equal standing, regardless of size or financial contribution;
- The Councils retain their independence as separate local authorities with separately elected members;
- Each Council retains the right to set its own priorities, service levels and outcomes; and
- Achieving net financial savings, including the generation of income, where it is within the power of the Councils.

2.3. Objectives of our engagement

The objectives of the Business Case are to identify and test the strategic fit of options to take forward. In undertaking this engagement we have sought to:

- Confirm the drivers and need for change as identified by the Councils;
- Clearly define the potential scope of services to be provided by the new entity (including the future of West Devon waste services);
- Provide an analysis of potential business growth, market share, income generation and trading opportunities;
- Identify and assess the technical options available, in particular, whether a LACC is flexible, sustainable and represents value for money;
- Identify the commercial and tax implications of the preferred option;
- Identify and assess the set-up costs, ongoing costs and revenue implications of the preferred option;
- Identify the change management requirements and implementation plan for the preferred option; and

[1] Note references to Teckal compliant companies for this Business Case and Implementation Plan, includes the controlled persons conditions and exemptions in Regulation 12 of the Public Contract Regulations 2015

- Recommend an option for the future provision of Council services based on the above information.

2.4. Our approach to this engagement

This engagement is comprised of two phases including:

1. Business Case and Implementation Plan:

To meet the requirements of this phase we adopted the Treasury 5 Case Modelling approach (Appendix 2.1). The primary purpose of Phase 1 was to provide sufficient detail to enable a decision and provide a recommendation on proceeding to Phase 2. Additionally, we also gave consideration to the key tasks to be undertaken in Phase 2.

2. Implementation and establishment:

If Phase 1 results in an approved Business Case for a LACC, Phase 2 is to include:

- Change management: Change readiness and impact assessments and transition strategy;
- TUPE and payroll requirements, calculations and process commencement;
- Pension administration: Calculations on new body contributions, deficit allocations and advice on new body;
- Financial support and advice: Accounting treatments, commercial pricing, VAT registration, taxation, Key Performance Indicator development, insurances and financial policies;
- ICT systems and Resources: ICT strategy and service agreements, ICT governance and engagement with Civica;
- Financial and operational controls and assurance framework: Key financial controls, responsibilities, accountabilities, processes, risk framework and assurance arrangements including risk governance;
- Recruitment: (where required) job descriptions, skills and benchmarking;
- Project Management and implementation: Developing management plan and delivery team and managing risks, issues, changes; and
- Legal advice: Development of the articles of association, service delivery and other contracts including shareholder agreements, pensions, leases/licences etc.

2.5. Constraints

This Report has been developed over a 7 week period and is based on a number of assumptions, which are identified throughout, where relevant. In undertaking this assessment we have not considered other options to address future deficits, such as increasing council charges or other levies, nor have we considered service redesign or service reductions.

We have not been asked to validate the outputs of the T18 Programme and it is assumed that the majority of the available efficiencies have been, or are being realised. The T18 Programme has already delivered significant savings through the redesign process and it is assumed that the current delivery model is not separable; therefore, no further redesign is being considered as part of this engagement, other than the insourcing of the current West Devon waste and cleansing services into the LACC.

We have not undertaken an assessment of the current skills and capacity of the proposed management team, or their ability to deliver a successful LACC. Accordingly, there may be additional skills required that are not available currently and we would recommend a skills and capacity analysis is conducted as part of any subsequent mobilisation period, so that any additional requirements can be identified and addressed in a timely fashion.

We have not considered the potential implications of the outcome of the referendum on European Union membership.

2.6. Dependencies

A number of dependencies were considered in developing this report, including:

- The West Devon waste services contract with FCC is due to expire in March 2017. In discussion with the Councils, we have considered the high level implications of four options. These are at Appendix 2.2; however, throughout the report we have assumed that the intention is to transfer in the waste and street cleansing services at some point, should the LACC be formed;

- <<This information has been removed due to commercial sensitivities>>
- The Councils are currently in re-procurement for a leisure services contract which is likely to be a long term contract (25 years). This would be retained by the Councils and managed by Strategy and Commissioning.

3. Strategic Case

3.1. Introduction

The Strategic Case seeks to demonstrate that there is a need for a new approach to service delivery across the Councils, that the objectives are clear and that there is a clear case for change. The purpose of this section is to:

- Identify the strategic drivers and policy alignment of the initiative;
- Demonstrate the case for change for a new service delivery framework; and
- Consider the consequences of inaction and the risk of not proceeding.

3.2. Strategic Context

The Local Government Association paper, English Devolution Local Solutions For A Successful Nation (2015) identified that the Government has set out a long-term agenda for economic and social reform. Through its proposals for devolution in England, the Government has already recognised the principle that national prosperity can be enhanced by vibrant local democracy, as councils work with residents and businesses in their communities to provide the services people need and expect. The paper outlines that by working together, central and local government can deliver £11bn in savings through radical reform.

The Local Government Association paper, Under Pressure: How councils are planning for future cuts (2015) identifies:

- Councils are currently half way through a scheduled 40% cut in funding from central government. Having delivered £10bn of savings in the three years from 2011/12, local authorities have to find the same savings again in the next two years. As a result of these cuts, councils in many areas will not have enough money to meet all their statutory responsibilities;
- The Local Government Association paper, Our Future Funding Outlook model predicts that, due to protected services, the amount of money available to deliver some of the most popular local services will shrink by up to 66% by the end of the decade. This is likely to result in asignificant reductions in the help that councils can provide to local businesses; and
- Councils across England are preparing strategies to help mitigate these pressures. Local circumstance dictates what options are available for quick cost savings or income generation and the nature of the decisions that need to be made to achieve a sustainable financial position.

The paper also identified 2016 as a year when many councils will have to make very difficult choices about which services to prioritise. Some services have already been reduced and may need to be cut altogether. In order to avoid cuts to services, authorities are increasingly looking for ways to restructure service delivery to ensure that services remain fit for purpose in the context of smaller budgets.

PwC undertake an annual survey of 100 Chief Executives and Leaders of local authorities and the 2015 ‘Local State We’re In’ asked about the challenges facing local government and their responses to them. It found that councils have been successful in managing the significant cuts to date, but that local authorities are now facing challenges on all fronts. Financial pressures continue while demand and public expectations grow with the way ahead being challenging, but full of opportunity that the sector has the confidence to tackle and face.

PwC’s research into local government identified:

- Only one in ten council Chief Executives are confident their council can protect frontline services in the face of continued austerity over the next five years;
- The spectre of financial failure across the sector looms large, with nine out of ten Chief Executives believing that some local authorities will get into serious financial difficulties in the next five years; and
- 80% of our respondents believe that some local authorities will fail to be able to afford to deliver the essential services residents require in the next five years.

Importantly, Chief Executives and Leaders have recognised the need to do things differently and the realisation that councils cannot operate in isolation, partnership working has also risen up the agenda.

> *"It is clear, speaking with Council Leaders and their Chief Executives, that Councils are now considering more radical options – from rethinking relationships with customers and communities and better use of digital technologies, to deeper collaboration with partners. The business model of the public sector is changing rapidly as decision makers are considering what is the role of the public sector within a local area.*
>
> *Local authorities have largely responded well to the budget gap of the last four years. They are now anticipating having to do the same again, with less and less certainty of how to achieve this. We have no doubt that the future business model for public services will change significantly in the next four years - and those leading the sector in localities will be the ones who will deliver this new model – changes won't all necessarily be centrally driven."*

Chris Buttress
PwC partner and local government leader comments

The Future Funding Outlook for councils 2019/2020 (Interim 2015 Update) identified that:

- Councils are continuing to balance their budgets and fulfil their statutory obligations as well as delivering a range of services to promote growth and community cohesion, in spite of continued funding cuts and expenditure pressures; and
- The challenge cannot be solved by back-office efficiencies alone.

An analysis of projected income and expenditure trends of Local Authority funding shows that the overall funding gap starts at just over £3bn in 2015/16 and reaches over £10bn by 2018/19, before shrinking to **£9.5bn** by 2019/20. This equates to a **reduction of approximately 20% in real terms**, see Appendix 3.1.

Local authorities also receive funding from the Non-Domestic Rates they collect from within their area. Before April 2013, all business rate income collected formed a single, national pot, which was then distributed by the Government to councils in the form of formula grant. The Local Government Finance Act (2012) gave Local Authorities the power to keep half of the business rates in their area, the other half being used by Central Government to provide additional grant funding.

The Business Rate Retention: the story continues (March 2015) states that the primary challenges are the level of financial risk that councils face due to appeals and the dependence on a small number of large businesses for a significant proportion of their business rate income. It also identified that mechanisms which were designed to encourage local authorities to grow their economies (e.g. reliefs and discounts) are a counterproductive feature of the new system.

In summarising the national context, there are significant policy drivers of Central Government funding that will continue to influence the way local authorities deliver services and value for money.

PwC view:

- ***The problem is clear that local authorities are facing increasing funding pressures.***
- ***Local authorities will need to consider and change the way they deliver services, not just individually, but collectively.***

3.3. The Case for Change

3.3.1. Building on a history of driving change

The Councils have a successful track record of reducing costs through shared services, whilst improving service delivery and commenced a joint Transformation Programme 2018 (T18) in December 2013, to deliver a new service delivery model (Appendix 3.6) They continue to face significant reductions in Central Government funding and the T18 Programme will continue to develop their financial resilience and reduce the risk of having to make annual budget reductions that would inevitably impact upon front line services.

South Hams and West Devon Councils are pioneering a new model for local government which could be applied to other local authorities, irrespective of the scale, acting as a catalyst for extending shared services without undermining each participating Councils' democratic independence.

They are now providing their services in an entirely new way and have become more flexible and customer focused using the latest technology. Services have been redesigned around customers and communities and, as a consequence, all departmental silos removed. This involved the re-engineering of over 500 business processes and the sharing all of corporate services and information technology systems. The first phase of the programme went live in September 2014, with the main phase of the programme delivered in 2015.

At its heart, the transformation programme is one of cultural change. This radical transformation has been the most significant change in the way that the Councils work for more than 40 years. The Councils' non-manual workforce is now approximately 30% smaller, with all staff roles adapted to be flexible and responsive to the needs of the customer. Officers from different areas of the Councils now work within the communities to improve the service for the customer and reduce the need for office accommodation.

The principle of the new model is a cross functional organisation with matrix management, which can be flexible, respond to the needs of the customer, deliver good quality services, and, ultimately, generate its own income. The model is now split into two distinct parts; the Strategy and Commissioning side, which sets policy and contains the governance structure and then the Service Delivery and Commercial Services side, which delivers the services. The Councils have reduced the work force by 30%, and the T18 Programme has achieved joint savings of £4.7m to date, thanks to these major changes.

West Devon Borough Council and South Hams District Council were recognised on a national stage in March 2015, receiving the Gold Award for 'Delivering through Efficiency' and the Silver Award for 'Council of the Year' at the Improvement and Efficiency Social Enterprise Awards (iESE). The awards celebrate Councils who are developing new ways of working and transforming public service delivery to improve services and reduce costs.

PwC view:

- ***The Councils have made significant progress in responding to the funding constraints and they have determined that further work is required to identify additional opportunities to maintain service provision whilst delivering value for money.***

3.3.2. The future

The Councils have been bold in challenging the traditional local government model and have always been at the forefront of radical change and innovation. Shared services (through sharing staff) and consolidated services through the T18 Programme has now yielded over £7.7m in savings across the two Councils, since 2007.

Current Council budget projections (including a £5 council tax increase from 2016/17); however, identify a collective cumulative budget gap of over £2m from 2017/18 to 2020/21.

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
SHDC annual budget (surplus) / gap	(£767,995) – one-off	155,155	541,170	135,247	178,263
Cumulative SHDC budget gap over the four years from 2017/18 to 2020/21					£1,009,835
WDBC annual budget (surplus) / gap	(669,292) – one-off	506,617	571,781	17,823	(27,547)
Cumulative WDBC budget gap over the four years from 2017/18 to 2020/21					£1,068,674

3.3.3. Risk of not taking action

The risks to the Councils of not planning to address the projected future funding gap and taking further action could result in:

- Reductions in staff and/or services. At its extreme, this could result in ceasing to provide certain services and potential financial failure of the Councils.

- Not capitalising on the opportunities presented by other Local Authorities who have not planned for the future; and
- Not protecting local services if future changes to governance structures consolidates the number of Local Authorities in the South West Region.

A more detailed risk analysis is contained within Section 7 (Management Case).

PwC view:

- ***T18 Programme benefits are not enough to meet the projected funding gap and further action is required.***
- ***This Report is considering an option that could potentially offset some of the projected funding gap and position the Councils for a future where it could provide service to other local authorities that are looking for additional efficiencies and savings.***

3.4. Strategic Case Summary

The strategic case demonstrates that the Councils' LACC proposal addresses a strategic need:

- Local government is set to face a funding gap of £9.5 bn by 2020. With limited scope for further efficiencies, this can only put at risk valued public services;
- PwC's review identified that the spectre of financial failure across the sector looms large, with nine out of ten Chief Executives believing that some local authorities will get into serious financial difficulties in the next five years;
- The collective budget gap from 2017/18 to 2020/21 for South Hams District Council and West Devon Borough Council is anticipated to be in excess of £2 million; and
- Local authorities see a way ahead through joint working and many are already working closely together and with other local partners to reform delivery and funding of local services by managing demand and agreeing joint objectives.

PwC view:

- ***The future funding model for Local Authorities is uncertain.***
- ***Through the T18 Programme, the Councils have made significant savings; however these savings are not sufficient to address the future funding gap.***
- ***Consideration of a Local Authority Controlled Company is an innovative way of being proactive, rather than reactive.***

4. Economic Case

4.1. Introduction

The Economic Case seeks to explore the benefits of options available to the Councils in addressing the need for change. The purpose of this section is to:

- Outline the objectives of the LACC;
- Outline the market context and market potential for local authority services;
- Provide an overview of the current delivery model;
- Demonstrate the options and that they have been considered appropriately;
- Determine the option that presents the best value for money, i.e. the preferred option for delivering services and potential to generate revenue; and
- Identify the scope and elements of the new framework for service delivery.

4.1.1. Objectives

The following objectives for the new entity were developed in conjunction with the Councils, including:

1. Provide the comprehensive range of services required by the Councils and the community across the region in a sustainable manner;
2. Deliver the services required in an efficient and effective way, including reduced duplication;
3. Build on and further support the benefits already achieved through the T18 Programme;
4. Deliver service performance levels expected by the community;
5. Provide greater value for money for residents;
6. Allocate resources in a manner that addresses future funding constraints;
7. Be flexible and able to respond to the Council' changing needs and governance structures over time; and
8. Bring a commercial focus that generates revenues, profits and dividends to shareholders.

These objectives formed part of the options identification and assessment process.

4.2. Market Size

Identifying the market size and penetration potential for the range of services provided by the Councils presented a number difficulties, the key ones being with regard to scope, timing and locational influences. We established a high level assessment to try and quantify the market size for services provided by the Councils by considering other local authorities and their budget spend on services. This was then broken down further to focus on key services that could potentially be provided by the Councils.

Our research identified that the combined Local Authorities in the South West have an annual budget spend of approximately £4.6b, of which approximately **£780m** is the potential market for services currently provided by the Councils, Appendix 4.1. We also identified a range of contracts with a potential value **>£38m** within the South West area that are anticipated to be released to market within the next **4 years**, Appendix 4.1. Even if the Councils can claim a quarter of a percent of this market that equates to approximately £2m additional revenue.

PwC view:

- ***There is a significant spend by local authorities across the South West region.***
- ***The current spend is spread across a broad range of services and demonstrates that there is opportunity within the region for services currently provided by the Councils to be provided to other public bodies.***

4.2.1. Responding to the Market

In considering the potential for a LACC our approach involved:

- Reviewing existing LACCs to identify key characteristics;
- Considering potential regional Local Authority partners;
- Consider other public sector opportunities such as NHS, education/schools and other government agencies such as parks and environment; and
- Assessing potential private sector services.

LACCs

We undertook a desktop review of approximately 20 established LACCs and found:

- LACCs were generally established to realise efficiencies through a restructuring and to bring a commercial focus;
- These are primarily comprised of commercial services with opportunity to generate revenue including:
  - Waste management (including recycling and environmental services);
  - Health and Care;
  - Building, facility management and maintenance; and
  - Energy services.
- Entities were established to predominantly provide services locally; and
- Governance is important in providing clarity on roles and responsibilities of members and/or company directors.

Profiles are available at Appendix 4.1.

Regional considerations

We next considered the regional market opportunities with other Local Authorities. We understand that previous discussions with Torridge District Council were unsuccessful as they did not wish to participate in the T18 programme and shared services. We also understand that an existing relationship exists with Teignbridge District Council who provide specialised procurement, building control and training services to the Councils on a part time basis.

The proximity of other Local Authorities presents multiple opportunities either for the provision of services, or to form partnerships or joint ventures in order to leverage local operations. In the short term it is likely that operations will be focused locally, but longer term opportunities may be presented further afield e.g., Somerset and Wiltshire. An example of this happening successfully is Norse Group, established by Norfolk County Council who have established joint operations nationally.

A table summarising the key features across the South West is at Appendix 4.3.

It is of note that the majority of Local Authorities appear to outsource waste services. This is an opportunity for the LACC to develop third party revenues from other Local Authorities.

Other Public Sector Entities

In addition to Local Authorities, we considered potential for other public sector customers and their requirements for services that the LACC could potentially provide.

With an ageing population, forecast to increase in the future, the provision of health services in the South West region has the potential to expand. There are a large number of privately owned and operated hospitals and health facilities across Cornwall and Devon, with Nuffield Health and Ramsay two of the major providers. Consideration would need to be given to the service offering available to these entities, once a credible track record had been developed through the provision of similar services into other public facilities. There may also be opportunity to leverage waste and cleaning services in expanding into clinical waste treatment, as an example.

Also, in spite of the recent setbacks, the Government is continuing to drive increased autonomy in the education sector through increasing the number of academy schools. Schoolsnet outlines that across Cornwall and Devon there are approximately 730 preparatory, primary and secondary schools.

In addition to health and education, other government bodies include:

- The Department for Communities and Local Government;
- The Department for Business, Innovation and Skills;
- The Department for Environment, Food and Rural Affairs;
- The Food Standards Agency;
- The Department of National Parks, Sport and Racing;
- National Trust, English Heritage or other charitable organisations;
- Environment Agency; and
- Areas of Outstanding Natural Beauty.

These organisations have varying degrees of operation within the region and could present opportunity to provide a range of services.

Private Sector

We assumed that external opportunities in the region are likely to be limited in the near term. There could; however, be medium term opportunities, but market penetration will require commercial pricing and tendering capabilities, which may not currently be available within the Councils. These capabilities will be significant in the Councils ability to generate additional revenues.

A desktop review identified that there are existing suppliers of a range of the services to be provided by the LACC. The Councils would need to consider their unique selling proposition when engaging with the private sector to enhance their brand and improve their ability to compete established private sector suppliers.

In the short term it is considered that the Councils should focus on functions and areas that are more familiar, for example, other local authorities and/or other public sector entities within the Councils geographic area.

PwC view:

We observe the key differences between these examples and the Councils being:

- ***The Councils have already established a commercial operating model through the T18 Programme and, therefore, have an advanced starting point.***
- ***The Councils services have been restructured and efficiencies have been or are being realised meaning operational impacts are likely to be less complex than in other examples of a LACC.***
- ***We did not find examples of LACCs being established to provide majority/all services back to Councils.***
- ***The Councils case management operating model has clearly defined services thereby reducing the potential for duplication.***
- ***There is an opportunity to bid for and win contracts in sectors where the Councils currently provide services across the region.***

4.3. Current Model

The current operating model was created as a result of the T18 programme. This involved the redesign of all services within the Councils across:

- Customer First
- Commercial Services
- Support Services
- Other functions.

Appendix 4.4 shows the split of the services and headcount across the different areas. Under the proposed LACC structure, Customer First, Commercial Services and Support Services would transfer to the LACC, with Strategy and Commissioning retained by the Councils.

The Councils advised significant work has been expended on establishing the current operating model through the T18 Programme. Any further restructure of the model may cause substantial disruption and is not guaranteed to realise any material additional efficiencies. We have not considered restructuring the operating model in detail as part of this engagement; however our assessment does not preclude the Councils from identifying opportunities to improve the operating model in the future.

The key features of the current operating model established through the T18 Programme are:

- The Councils share management and resources and deliver majority of services in-house;
- West Devon waste is contracted whilst South Hams waste services are in-house;
- Leisure services management is currently being procured and likely to be a long term contract of 25 years; and
- Current levers available to the Councils to drive change and realise efficiencies include; contracting for delivery of services (i.e. Leisure and West Devon waste), better asset utilisation and investment to generate income or cost management for efficiencies and productivity improvements.

While the Councils do generate some revenues through leasing out existing office space and charging for services within their existing structure, no additional profit generating revenue is generated from providing existing services to other parties. Where services are provided currently it reflects cost recovery at best. The majority of their revenue; therefore, comes from council taxes, business rates and government grants.

4.3.1. Building Control Partnership

The Councils are also members of the Devon Building Control (DBC) through a partnership arrangement across Teignbridge, South Hams, West Devon and Dartmoor National Park. The DBC Partnership is made up of two councillors from South Hams District Council, two councillors from West Devon Borough Council and two councillors from Teignbridge District Council. The Partnership is administered by Teignbridge District Council and meetings are held bi-annually at Teignbridge District Council offices, Forde House, Newton Abbot.

DBC provides a flexible building control service to businesses and householders for the design, approval and construction of buildings. DBC includes a professional team of chartered surveyors, fire and building engineers and provide clients with clear expert guidance on a range of construction projects. Although we have not investigated DBC’s financial and operating practices or engaged with their customers to determine current profitability or market position; this demonstrates the Councils ability to be innovative and generate revenues from external sources through providing services valued by the market. The market analysis identified building control functions equate to approximately £1.7m per annum across the South West. DBC provides services to the market and may form the foundations of a pricing model that the LACC could leverage in future when tendering competitively in the open market.

In establishing a LACC, the Council could retain involvement in the DBC Partnership and manage it through Strategy and Commissioning; however, there are likely to be benefits of incorporating DBC functions within the LACC as the entity has an established brand and market revenue position that the LACC may be able to leverage or learn from throughout the transition phase.

PwC view:

- ***Consideration needs to be given to Teignbridge involvement and hosting of DBC. The Councils have already established a commercial operating model through the T18 Programme.***
- ***The Council have a range of options available and establishment of a LACC presents opportunity to negotiate with Teignbridge regarding their ongoing involvement and consideration of transitioning DBC to a subsidiary entity of the LACC.***
- ***Councils’ services have been restructured and efficiencies have been or are being realised meaning operational impacts are likely to be less complex than in other examples.***

The current operating model provides the Councils with the platform to bid for opportunities presented by the market. Further changes in the operating model would not be sufficient to offset the projected future funding gap on its own, resulting in further consideration of options to address this.

4.4. Options Assessment

The Councils have already undertaken significant work in considering various options for service and required our analysis to compare the 'As Is' v 'LACC with all services transferred'. Our approach in assessing the options, as directed, included:

- Identifying the objectives in conjunction with the Councils;
- Reviewing the previous work undertaken provided by the Councils, including:
  - Operating company options;
  - Options for West Devon Waste and cleansing services.
- Undertaking a high level options assessment;
- Identifying and agreeing the assessment criteria with the Councils, including weightings;
- Assessing the options against a broad base of criteria; and
- Identifying shortlisted options to be considered further for quantitative impacts.

This section summarises the outcomes of the assessment, with the detailed results provided in Appendix 4.5.

4.4.1. Multi Criteria Assessment

A Multi-Criteria Assessment (MCA) was utilised to qualitatively assess the options. The assessment included scoring and ranking the options on both a weighted and unweighted basis to determine the relative impacts of each option.

The MCA of the options identified that the combined model, where the Councils retain Strategy and Commissioning, management of long term contracts (i.e. Leisure) and establish a LACC for Customer First, Commercial Services and Support Services, scored the highest on both unweighted and weighted scores, when compared to the 'As Is' model.

The table below is a graphical illustration of the results for each of the Strategic Categories. The detailed weighted and unweighted scores are at Appendix 4.5.

Key

○	Very high	◔	High	◒	Medium	◕	Low	●	Very low

Strategic Category	Strategic Fit	Social benefits and impacts	Governance	Commercial	Financial	Implementation and Delivery
Weighting	5%	10%	10%	25%	25%	25%
Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure	◔	◔	◔	◒	◒	◔
A Combined model (a combination of insource for Strategy and Commissioning, outsource for leisure, and LACC for Customer First, Commercial Services, Support Services)	◔	◒	◔	◔	◔	◔

4.4.2. SWOT Analysis

An analysis of the Strengths, Weakness, Opportunities and Threats (SWOT) was undertaken. The table below summarises these.

Shortlisted Option	Strengths	Weaknesses	Opportunities	Threats
'As Is' Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure.	• Understood delivery model. • All services directly controlled by the Councils. • Tax efficient operation through current legislation.	• Does not address projected funding gap. • Not fully commercial operations. • No major opportunity to generate additional revenues.	• Devolution with combined authorities where the District and Borough Councils join with larger Authorities.	• Impacts of Devolution with dilution of services or reduced control within a combined authority. • External funding reductions. • Business rates unknowns. • Potential to pay other Local Authorities.
A Combined model (a combination of insource for Strategy and Commissioning, outsource for leisure, and LACC for Customer First, Commercial Services, Support Services).	• Commercial focus which builds on the T18 Programme and could realise further efficiencies and costs savings. • Additional levers (i.e. pricing mechanism). • The Councils retain control through ownership. • Performance based mechanisms • Ability to innovate and potential to expand service offering (i.e. expand waste to include clinical).	• There is no precedent of other Local Authorities establishing a LACC for a similar operating model. • Arm's length control for the Councils. • Exit strategy required to ensure statutory service provision. • Potential increased tax burden. • Unlikely to generate additional external revenue for a number of years.	• Take on additional partners. • Generate additional revenues. • Apply for HMRC Corporation Tax exemption if trading solely with the Councils. • Better understanding and unit cost analysis.	• Central Government policy changes. • Policy or control changes within the Councils. • Staff and union action. • Future market conditions hard to predict.

The opportunities are further explained in 4.4.4 below.

4.4.3. Anticipated Benefits

The assessment highlighted a number of anticipated benefits from Option 6, including:

- Supports the Councils' visions and objectives of service delivery and obtaining value for money;
- The ability to operate commercially with mechanisms to respond to change and include new partners;
- Teckal procurement exemptions;
- Improved staff mix for the long term that delivers services locally;
- Opportunities to realise additional efficiencies through consolidated waste services across the Councils;
- Potential to generate additional revenues following transitional phase and skills development.

These benefits are further considered in the Management case.

4.4.4. Opportunities

There are a number of opportunities presented by considering establishing a LACC to provide services to the Councils, including:

- To help inform government policy on local service provision in the uncertainty of what Devolution will mean for Local Authorities;
- The ability to be innovative and establish operations that can capitalise on Local Authorities that are reactive, rather than proactive in addressing the projected future funding gap;
- To bring a commercial focus which builds on the T18 Programme that could realise further efficiencies and costs savings of parts that have not yet been fully scrutinised (i.e. grounds/building maintenance);
- Provides the Councils additional levers to address projected funding gap (i.e. pricing mechanism, efficiencies, economies of scale);
- To provide further clarity to the Councils through ownership and management agreements;
- Implementation of performance based mechanisms and culture in service delivery;
- The potential to expand service offering to the market in future (i.e. expand waste to include trade/commercial/recycling/clinical);
- To take on additional partners or establish joint arrangements with other Local Authorities;
- Generate additional revenues from other Local Authorities or Government agencies to offset costs of service delivery;
- Develop a better understanding of cost and implementation of relevant controls;
- Opportunities to realise additional efficiencies through the building control partnership and consolidated waste and street cleansing services across the Councils;
- Potential to generate additional revenues following transitional phase and skills development, including:

  - 'know how' i.e. the selling of experience and knowledge gained from the T18 transformation programme and the establishment of a LACC;
  - Support services (provision of administration services e.g. payroll);
  - Field services (e.g. provision of waste and building control services)

4.5. Options for West Devon waste services

FCC Environmental are currently contracted to West Devon Borough Council to provide waste collection, recyclable and street cleansing services for a period of 7 years, with an expiry date of 31 March 2017. As part of this contract, FCC utilise depots currently owned or leased on a long term basis by West Devon.

We have been instructed to assess the viability of establishing a LACC and consider the implications of incorporating these waste services (including street cleansing) into the LACC after the expiry date. We were briefed to look at the timeframe for incorporating the West Devon Waste and Cleansing contract into the LACC in terms of feasibility and cost, as well as exploring the alternative options for the delivery of the service. We considered efficiencies which might be gained through delivery of joint services through the LACC, whilst recognising the current individual service configuration.

We were informed by the Councils that without the establishment of a LACC, waste services in West Devon would continue to be outsourced and retendered. Although our engagement did not include any in depth analysis and/or service redesign, we have considered the previous work undertaken by Grant Thornton (GT), which identified a number of opportunities, and our assessment has focussed on maximising the benefits associated with incorporating these services into the LACC.

PwC view:

- ***The inclusion of waste and street cleansing services currently outsourced by West Devon Borough Council into a combined LACC will align service offerings across the Councils.***
- ***The inclusion of these services appears to represent an opportunity to generate some additional efficiencies, primarily through management, as waste collection would remain as is in meeting the needs and expectations of the West Devon community.***
- ***The inclusion of these services in the LACC improves the balance of services provided to the Councils by the LACC whereas the continuation of outsourced arrangements would significantly distort the value of services purchased by West Devon Borough Council from the LACC.***
- ***Financially the inclusion of waste and street cleansing services improves the payback period.***
- ***The assumption of no additional revenue for the LACC generated from third parties presents an opportunity to appropriately plan and not rush the process of incorporating within the LACC.***
- ***The establishment of a LACC is not dependent on inclusion of waste and street cleansing services in West Devon.***

Our assessment of waste and street cleansing services in West Devon found:

- That inclusion of these services into the LACC improves the overall offering of the LACC
- That inclusion of these services better represents West Devon Borough Council interest in the LACC as a proportion of the potential service fee
- The transition phase of the LACC does not need to be driven by these services as management mechanisms are available to respond to West Devon Borough Councils decision on its preferred option.

Additional detail can be found in the West Devon Waste Options paper available at Appendix 2.2.

4.6. Economic Case Summary

The economic case demonstrates that the LACC proposal can offer value for money:

- There is market potential that the current operating model is not able to capitalise on in an effort to offset the projected future funding gap;
- There are a range of potential contracts coming available in the medium term, giving time to develop commercial and tendering skills;
- The options assessment did not consider increasing charges or reducing services, but did consider a range of options for delivery of services through the current operating model;
- The ‘As Is’ approach does not provide opportunity to generate additional external profit to offset the cost of service provision;
- There are potential management efficiencies to be made as a result of the LACC providing delivery of waste management across both Councils and options to integrate waste services in West Devon should be incorporated into any potential LACC.
- A Multi-Criteria Assessment (MCA) was utilised to qualitatively assess the options of ‘As Is’ v ‘LACC’. The LACC limited by shares scored highest. This option involves a combination including:

    – In-house provision of member services and communications to be retained by the Councils and managed by Strategy and Commissioning;
    – Continue with outsourced contracts for leisure services etc. These are to be retained by the Councils and managed by Strategy and Commissioning; and
    – The LACC will deliver Customer First, Commercial Services (including waste services) and Support Services to the Councils initially. Once T18 transition has been embedded within the LACC and it has been demonstrated that contracts have been bid for and won, there are opportunities to offer services to additional third parties.

PwC view:

- ***The ‘As Is’ option will not address the future funding gap without future intervention. If the LACC is not established then alternative strategies would be required.***

- ***There are likely to be efficiencies in bringing together the managed delivery of existing waste services.***
- ***The Local Authority Controlled Company using the current operating model presents opportunity to respond to a changing market and generate additional revenues to offset the projected funding gap.***

5. Commercial Case

5.1. Introduction

The Commercial Case seeks to demonstrate that the formation of a LACC is commercially viable with clear governance arrangements, appropriate financial and funding structures, can be implemented and operational responsibilities assigned appropriately. The purpose of this section is to:

- Determine the operational requirements of the preferred model;
- Determine the commercial structure/model including the key elements;
- Identify the charging mechanisms and commercial principles that are required to ensure value for money for delivery; and
- Identify accounting and tax impacts and interfaces.

This section also acknowledges that the Councils have previously received advice regarding a LACC option and also specific advice regarding the provision of waste services.

Additionally, we have sought to test the commercial requirements and identify if there are significant roadblocks that would preclude the Councils from further considering setting up a LACC.

5.2. Operational Requirements

The commercial considerations in this case are quite different to either establishing a new company or expanding services of a Local Authority. The key considerations for the commercial requirements include:

- The different levels of participation of the Councils:
  - Service use;
  - Asset use;
  - Financial return;
  - Voting rights.
- The flexibility to change and include new partners;
- The level of control;
- Teckal requirements;
- Pensions and TUPE;
- Tax implications.

5.3. Commercial Structure

The Councils are considering establishing a LACC which it controls and contracts with to provide and receive services. The LACC would be owned and controlled by the Councils and would need to comply with the Teckal control tests or now, and more significantly, Regulation 12 of the Public Contract Regulations 2015 (Public Contracts between entities within the public sector), making it possible to trade with external parties and provide flexibility for procurement. These are:

- The company should behave and be controlled as a department of the local authority;
- The major part of the Company's business must be with the local authority owner(s), so that public procurement exemptions can be accessed; and
- The conditions in relation to direct private capital participation in the LACC are met.

In practice, the Teckal trading exemption applies where in excess of 80% of the LACC's income comes from those who exercise control over the LACC Board.

Conceptually a LACC can offer:

- New opportunities and potentially greater reward compared to the current model;

- The potential to offset costs through generating additional revenue in response to a changing market; and
- The opportunity to build upon the culture developed as part of the T18 Programme to develop a more commercial operating model.

The establishment includes a different risk profile to the one the Councils are currently exposed to. As outlined above, the key focus is the ability to operate commercially and provide a value proposition in a competitive market.

The general trading power under Section 4 of the Localism Act 2011 requires the Councils to trade using a company structure:

- Company limited by shares;
- Company limited by guarantee;
- Industrial and Provident Society;
- An unlimited company; and
- Community Interest Company (for trading under section 4 of the LA 2011).

The company structure adopted by the Councils will depend to an extent on the services to be provided. Whatever level of trading activity is contemplated by a local authority, the activity can only be carried out by a company within the meaning of the Local Government and Housing Act 1989 (the “1989 Act”). Companies under the control of local authorities and subject to their influence are governed by the provisions in Part V of the 1989 Act. Part V of the 1989 Act is scheduled for repeal in its entirety by section 216 of the Local Government and Public Involvement in Health Act 2007 (the “2007 Act”). Section 212 of the 2007 Act introduces "local authority entities" in place of companies controlled by or under the influence of authorities, although an order under this section has yet to be made by the Secretary of State or Welsh Ministers.

Once the type of company structure has been decided, company formation can take place. Company formation is usually a straight forward process. For example, to set up a private company limited by shares a *Form IN01* needs completion and, with the company’s memorandum of association and incorporation fee, filed with the Registrar of Companies. *Form IN01* sets out:

- the company’s proposed name;
- type of company and members’ liability (e.g. private company limited by shares);
- company’s registered office address;
- proposed articles of association (if the model articles have been amended);
- details of first directors and secretary (if any);
- statement of capital and initial shareholding; and
- statement of compliance.

An option for the Council is the purchase of an off-the-shelf company, which would never have traded before yet is pre-registered with the Registrar of Companies and would be ready for immediate use.

PwC view:

- ***The current model is not able to take advantage of procurement and profit generating opportunities which would be available to a LACC.***
- ***The risks associated with operating a commercial entity are manageable and acceptable when considered against the potential benefits.***
- ***A LACC is able to operate commercially and, in satisfying the relevant ‘tests’, is able to generate additional revenue and provide services to the Councils.***

5.3.1. Ownership

Generally companies have one class of share, traditionally known as ordinary shares. The use of different share classes is increasing for a variety of reasons including, to vary the dividends paid to different shareholders or create non-voting shares. There are no real restrictions on the type or number of shares a company can have and in addition to ordinary shares, common share types are:

- preference shares which reflects the different contributions of the owners and the dividends they receive;
- non-voting shares which reflect the owners input or involvement, but not directly in the decision making;
- A and B shares to reflect or assign different voting rights between the owners; and
- shares with extra voting rights to reflect different shareholding and decision making requirements.

For the Councils it will be important to create a share structure that enables them to appropriately separate items such as control, voting and dividends to the extent that they are unlikely to be equal on all counts. Existing LACCs have been established in various forms within single councils or in partnership with others; although joint ownership presents some challenges, it does not preclude or restrict the establishment of a LACC.

PwC view:

- ***The Councils are seeking to establish the LACC under the same principles as their 2015 Collaboration Agreement. This would represent equal voting rights on matters that impact both of the Councils, therefore A Shares equate to 50/50 for each Council.***
- ***With regard to financial returns, we would propose they be based on the current budget contributions of each of the Councils. This is based on each Council receiving appropriate consideration for their asset contribution through the lease to the LACC and service utilisation for each Council is reflected in their respective service agreements with the LACC.***

5.3.2. Control and Voting

The Councils must retain control of the LACC to meet the requirements of the Teckal case and/or conditions for legal persons under Regulation 12 of the Public Contracts Regulations 2015. All parties need to be clear where voting, control and returns sit within the structure and the shareholders agreement provides the opportunity to clarify this.

The LACC will also require a Board of Directors (and potentially a Joint Ownership Committee) with clearly defined roles and responsibilities. This is to ensure that their purpose is clear and that it is successful in providing services to both the Councils and, potentially, other parties in the future. Membership of the Board (and Committee) requires further consideration as there are decision that need to be made before establishing a LACC, including:

- Whether there should be an Independent Chairperson and whether the scope of this as a part-time or full-time position;
- Whether a new Managing Director is required to achieve long term success of the LACC model and whether, for example the Executive Director, Service Delivery and Commercial Development could fulfil that role in the interim period where the focus is on service delivery back to the Councils;
- The selection of appropriate directors who understand their role and responsibilities and where applicable, are capable of separating LACC and Council roles; and
- The Councils could be represented by, for example the Executive Director, Strategy and Commissioning. There may be a further requirement for elected members to be suitably identified to fulfil roles on the Board (and/or Committee).

Board membership will be defined in the Shareholders Agreement. The Shareholders Agreement also needs to consider other key elements relating to each councils involvement, including:

- Risk to the shareholder;
- Agreement on voting rights and share structure that relates to usage of services and assets provided to the LACC;
- Contribution (i.e. assets) and utilization of the services provided to ensure that each Council receives appropriate return from the assets contributed; and
- Reserved matters, including the potential for additional shareholders joining in the future.

We would recommend each of the Councils seek independent legal advice with regard to Shareholders Agreement and any articles of association or other supporting agreements that may be required so that future opportunities are not precluded.

PwC view:

- ***The Owners would have equal voting rights attributable to their shareholding in the LACC.***
- ***As there will be areas that impact each Council differently, Reserved Matters could be established within the Shareholder Agreements to facilitate effective decision making and voting where impacts are not equally attributable to each of the Shareholders.***

5.3.3. Governance

Establishing a LACC requires the development of a new commercial operating model that maintains the integrity of the T18 programme, but provides the governance required for an incorporated body, as shown in Appendix 5.1. The key differences to the current operating model include:

- Shareholder agreements, to govern ownership rights in a corporate structure, including the preservation of essential services that could potentially be loss making over the longer term, going against commercial priorities of a LACC;
- Management agreements between the LACC and the Councils and other interfacing contracts;
- Senior leadership is likely to be shared between the Councils (i.e. Executive Director, Strategy and Commissioning) and the LACC (i.e. Executive Director, Service Delivery and Commercial Development, Commercial):
  - Strategy and Commissioning will be responsible for strategy and policy direction, member services and contract management (including LACC and others such as leisure);
  - LACC will be responsible for providing services currently provided within Commercial Services, Customer First and Support Services back to the Councils.
- Change mechanisms and levers including pricing and cost controls will be jointly managed within the contract management team;
- LACC management will be responsible for external opportunities, pricing and business development;
- Strategy and Commissioning will be responsible for setting lease, ICT asset and asset management strategies in line with LACC and Councils requirements;
- Benefits realisation processes should be incorporated into the governance structure to maintain a focus on achieving the outcomes.

These items are further explained in this section.

PwC view:

- ***The proposed operating model maintains the integrity of the operating model established by the T18 Programme and the changes will be with regard to ownership and governance arrangements.***

5.3.4. Decision Making

Delegated authorities and decision making responsibilities will be clearly defined in both the proposed structure and the relevant shareholder agreements. Decision making needs to cover the Councils', contracts and the LACC and we would recommend a decision making framework be developed during the implementation phase to facilitate this clarity.

The framework should include, but not be limited to:

- Policy Decisions:
  - Policy development could be by LACC or by Councils requiring different engagement and approvals
  - For Councils: approval by Executive and Hub and then by Councils
  - For LACC: LACC Board approval, shareholder committee and then by Councils
- Strategy Decisions:

  - Strategy development could be by LACC or by Councils requiring different engagement and approvals
  - For Councils: approval by Executive and Hub
  - For LACC: LACC Board approval, Executive and Hub

- Partnership Decisions:

  - Partnership proposals could be by LACC or by Councils requiring different engagement and approvals
  - For both: approval by Executive and Hub, LACC Board and then by the Councils

- Management Decisions:

  - Management decisions for LACC by LACC management
  - Reporting on management decisions to Executive and Hub

- Tactical Decisions:

  - Day to day decisions by respective party with consideration of interfaces

A key lesson to be learnt from our research is that decision making ability and lines of accountability need to be clearly understood as, under this model, the Councils could be exposed to greater risks if decisions are made without understanding broader implications created by the new structure. Alternatively, a structured approach to decision making will provide transparency for members and the community.

PwC view:

- ***Decision making will be similar to the current model where joint decisions and individual decisions are made by the Councils.***
- ***With a LACC, mechanisms for decision making will be formalised within the Shareholders Agreement and service contracts with the LACC.***

5.3.5. Management

The LACC model will require a suitable management structure. Changes already made as part of the T18 Programme are reflective of an appropriate management structure for this model and a number of resources within the Senior Leadership Team (SLT) have experience of both the public sector, as well as LACCs. Although there are no examples of LACCs currently delivering the scope of services proposed, the approach reduces duplication across the Councils and leverages the benefits and efficiencies already realised by the T18 Programme.

The approved management structure will need to work within the new governance model and decision making framework. In the interest of cost control, it would be advisable to create 'dual hatted' posts, where possible, with the current management teams being split between the LACC and the Councils. For example; the Executive Director, Strategy and Commissioning could represent Councils and members interest, whilst the Executive Director, Service Delivery and Commercial Development could represent the LACC on the Councils. It is assumed that the nominated Section 151 Officer remains with the Councils.

Key roles and responsibilities include:

Role	*Responsibilities*
Executive Director, Strategy and Commissioning	Reports to the elected members of the Councils and is responsible for managing the contracts with service providers (i.e. Leisure services) and the LACC
Managing Director LACC / Executive Director, Service Delivery and Commercial Development	Reports to the LACC board and is responsible for the operations and performance of the LACC and for the interfaces between the LACC and the Councils
Finance Director LACC / Deputy 151 officer (potentially)	Reports to the LACC Board and is responsible for the financial performance and governance of the LACC
Director, Customer First	Reports to the Executive Director, Commercial and is responsible for service delivery of Customer First functions
Director, Commercial Services	Reports to the Executive Director, Commercial and is responsible for service delivery of Commercial Services, including consolidated waste functions
Director, Support Services	Reports to the Executive Director, Commercial and is responsible for service delivery of Support Services, including ICT to the LACC and the Councils

However the Councils decide to establish the new LACC board, these decisions will be made either under section 111 of the LGA 1972 (on the basis that having a Council appointee on the board is "conducive or incidental to, or calculated to facilitate" the discharge of the Council's functions, or section 1 of the LA 2011 (general power of competence) based on this participation being likely to produce an economic, social or environmental benefit to the area. See paragraphs titled *Personal liability for directors* and *Conflicts of interest* for more information on director considerations.

Personal liability of directors

Given that directors may incur personal liability, for matters such as breach of duty, wrongful trading, fraudulent trading, breach of a disqualification order, and that some or all of the directors of the LACC will be council members or employees, it is good practice for the LACC to take out insurance in relation to their liabilities as a director.

It is good practice for a local authority to issue guidance to their nominated directors on the responsibilities and liabilities of being a director of a company. Any such guidance should cover the following matters:

- Directors' duties to act in the best interests of the company;
- The provision and use of information;
- Duty to employees;
- Fiduciary duty to creditors.

Although a local authority may be able to indemnify members and officers against this personal risk, any such indemnity will generally only cover actions taken honestly and in good faith.

Conflicts of interest

Members of the Councils who are appointed directors of the LACC have a fiduciary duty to the LACC, not to their respective Council. They have the powers and duties of company directors while they are appointed directors, and as directors, they are answerable to the membership of the LACC in accordance with the company's articles of association. However any member elected as a director is still bound by relevant local authority codes of conduct[2], in so far as these codes do not conflict with their legal obligations under company law.

It is important that the members and officers are aware of potential conflicts of interest when carrying out their roles for their authorities, or when acting as directors of trading companies.

[2] Under section 27 of the Localism Act 2011, a local authority in England is now required to adopt a voluntary code dealing with the conduct that is expected of its members and co-opted members. The voluntary code of conduct must include appropriate provisions for registering and disclosing pecuniary interests and interests other than pecuniary interests (see section 28) of the Localism Act 2011.

PwC view:

- ***There is unlikely to be any management changes initially and maintaining the Executive Director positions is likely to provide continuity through the transition phase.***
- ***Consideration will need to be given to the skills required of a Managing Director for the LACC to deliver the anticipated benefits.***
- ***There may be some governance issues in respect of items required to ensure transparency and assurance for the FD / S151 role. This can be clarified during the implementation phase.***
- ***There may be potential to create a Sales Director role in the future to manage and build external relationships.***

5.3.6. Location

The location of the LACC will need to be considered by the Councils. Operationally there are no major influences for a preferred location. The current operating model across the Councils is representation of a joint working relationship that has resulted in benefits through restructured and sharing of services through the T18 Programme. The LACC will utilise existing assets leased to the LACC on appropriate market rent/lease terms.

PwC view:

- ***The establishment of the LACC and registered office should not impact the operating model or perceptions of the level of control within the LACC.***

5.4. Charging Mechanisms

Pursuant to *Section 1* of the *Local Authorities (Goods and Services) Act 1970* (the "LAG&S Act 1970") the Councils can provide to any other "public body", including local authorities:

- Goods or materials (and the power to purchase and store any goods or materials that in the public body's opinion they may require for the purposes);
- Any administrative, professional or technical services;
- Use of any vehicle, plant or apparatus belonging to the authority (and the services of any person employed in connection with the vehicle or other property in question);
- Works of maintenance in connection with land or buildings for which the recipient public body is responsible (but not the construction of buildings).

The various bodies that can benefit are listed in orders made under the LAG&S Act 1970. These include other local authorities, certain NHS organisations, schools and academies.

A local authority is not limited in the amounts it can charge the public bodies to which the LAG&S Act 1970 applies and may trade for profit (R v Yorkshire Purchasing Organisation ex p British Educational Suppliers' Association (1997) 95 LGR 727).

In respect of the discretionary provision of goods or services to bodies which fall outside the LAG&S Act 1970, the Councils are limited to covering its costs. Unless there is a specific power enabling the authority to charge more than the costs of supply, in general, if the local authority trades with a view to making a profit with any organisation which is not a public body under the LAG&S Act 1970, it may only do so through a company.

To trade commercially, the Councils must rely on either specific or general trading powers. Under specific powers, a local authority may charge in excess of the cost of supply (e.g. Section 38 of the Local Government (Miscellaneous Provisions) Act 1976 for provision for computer based services) without a trading vehicle in place. In the absence of a specific power to trade, the Councils may only trade under a general trading power (e.g. Section 4 of the Localism Act 2011), in conjunction with a power to carry out the activity in question, through a company.

Therefore, prior to trading a range of services through the newly formed LACC, the Council will require legal advice to ensure it has the power to trade each of the proposed services.

The Councils will need to consider charging mechanism and the pricing of services (both internally and externally). To achieve this, it will be important to understand the relevant costs and how they are attributed or apportioned across the service levels. This understanding of costs will enable commercialisation of individual services that have the potential to generate revenue from external parties.

This activity should be undertaken once the business case has been approved and as part of the detailed implementation phase.

Consideration will also need to be given to the current skills and capacity of council staff and where responsibility for this would sit within the organisational structure. If not readily available, they may need to be recruited for at the appropriate time.

Pricing for tenders or work will also need to consider relevant competition legislation as well as local impacts. For example, do the Councils wish to take on additional work at the expense of local contractors. These may be considerations for the future as it is not envisaged that the LACC will be seeking to provide services externally in the initial phases, although opportunities for new business may arise during this time.

PwC view:

- ***Through establishing a LACC the Councils will be able to develop a better understanding of their cost base which will enable appropriate cost allocation across each service over time. This will in-turn inform the relevant charges to cover the costs attributable to each service provided by the Councils.***
- ***Charging mechanisms will be important in the LACC's ability to not only win but also deliver services to external parties cost effectively.***

5.5. Accounting

In the United Kingdom local authorities are required to prepare statutory financial statements in line with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This is based on International Financial Reporting Standards (IFRS). The Companies Act 2006 allows companies to prepare their accounts in accordance with either the International Financial Reporting Standards (IFRS) or the Companies Acts and UK Generally Accepted Accounting Practices (UKGAAP). The Financial Reporting Council (FRC) has issued new accounting standards (FRS 100-102) which will apply to the LACC.

PwC view:

- ***The establishment of a LACC will require audited financial statements to be developed, which will be an additional cost over the current model.***
- ***The Councils will also need to continue to maintain their independent financial statements to account for the treatment of assets for use by the LACC.***

5.6. Tax

The establishment of a LACC means that it will be liable for various tax commitments. Currently the Councils structure and benefits are tax efficient and this section seeks to build upon previous advice and identify the key requirements and obligations.

5.6.1. Corporation Tax

Local authorities are exempt from Corporation Tax on all trading surpluses. LACCs are non-exempt bodies and are generally subject to Corporation Tax on all trading profits. The current rate of Corporation Tax is 20% (reducing to 18% by 2020). Transferring profitable activities from the Councils to the LACC will; therefore, result in a tax cost which would not otherwise occur.

The table below sets out the projected corporation tax liabilities on trading with third parties, assuming no external revenue until FY20. The same tax rates will be applied to profits from trading with the Councils if those activities are also deemed to be taxable.

£'000s	2019/20	2020/21	2021/22	2022/23	2023/24
Combined Councils' Profit before tax (see Financial Case)	137.0	281.0	432.0	590.0	605.0
Corporation Tax rate*	18%	18%	18%	18%	18%
Corporation Tax	24.7	50.6	77.8	106.2	108.9

*assumes no change in rates from 2020

To reduce the effect of Corporation Tax in the LACC on the otherwise exempt local authority trading activities the following options could be considered:

1. Reduce LACC income/increase LACC expenditure - Any transactions between the Councils and their LACC would be subject to the transfer pricing rules. Depending on the nature and direction of the transactions, the application of an appropriate transfer price may reduce the level of profits in the LACC;

2. If required, the LA makes justifiable management charges for central services - Management charges from the Councils to the LACC will have the effect of reducing profit in the LACC. As with option 1 any management charges should be at arms' length and will be subject to transfer pricing rules;

3. Make use of group losses - If the Councils have/form any other LACCs then profits/losses could be group relieved to reduce the overall level of profits within the group. Any residual profits would be subject to Corporation Tax in the usual way;

4. Make Qualifying Charitable Donations (QCDs) - QCDs are an allowable deduction from taxable profits. The LACC could make QCDs equal to the taxable profits each year to charities already established/to be established by the Councils to further a charitable purpose such as the arts or sport within each of the areas. This would have the effect of reducing profits by the amount of the QCD made. An estimate of the profits would need to be made before the end of each accounting period and the QCD physically paid in order for a deduction to be claimed. It should be noted that QCDs cannot be made to the authority directly and must be a physical payment between the LACC and the charity/charities and be from distributable reserves.

   This would however add a further level of complexity and administration should a charity or charities need to be established; and

5. Obtain HMRC clearance that the only taxable trading in the LACC is with third parties. This could be achieved through a non-statutory agreement with HMRC that any trading between the LACC and its members is not a taxable activity (because it is mutual trading or possibly as an Arms' Length Management Organisation (ALMO)). Extracts from HMRC's guidance with more detail on Mutual Trading and ALMOs can be found at Appendix 5.4.

We are aware that in exceptional cases LACCs have been accepted as non-trading by HMRC. Any such agreement is based upon the specific fact pattern and does not guarantee that HMRC would accept such an argument in this instance. Should HMRC agree the position then only profits made from transactions with third parties would be subject to Corporation Tax.

We would advise making an application to HMRC for an exemption. The primary task of the implementation phase and the acceptance of the LACC's exempt status should be an initial Quality Hold Point (QHP).

In addition to the corporation tax cost there would be additional annual tax compliance filing obligations on the new company. We estimate these additional annual costs in relation to corporation tax compliance would be:

- Preparation and submission of an annual Corporation Tax Return (CT600) £3,000-£5,000 *
- iXBRL tagged accounts (required for tax return filing) £500

*depending on the level of activity in the LACC.

A LACC may benefit from tax reliefs such as capital allowances. Further reliefs may also be available but these will rely on a holding company structure (reliefs could include group relief/consortium relief and capital gains tax relief).

PwC view:

- ***The establishment of a LACC will expose the Councils to Corporation Tax liability.***
- ***There are a number of ways in which this liability can be mitigated. Our recommendation is to apply for an exemption from HMRC.***
- ***For the LACC to be viable, it is imperative to engage with HMRC regarding an exemption from paying Corporation Tax on profits related to income derived from services provided to the Councils.***
- ***While this is not guaranteed, based on recent precedent, the impact of Corporation Tax may only be attributable to income derived from additional revenue generated from external sources.***
- ***We would recommend making this a QHP of the implementation phase. There is unlikely to be any additional tax implications whilst only trading with the Councils.***

5.6.2. Transfer Pricing

UK tax legislation requires large enterprises/groups to recognise all transactions between group companies (subject to exceeding the Medium Enterprise conditions as set out in the table below) on an arms' length basis or to adjust the results of such activities for UK taxation purposes.

	Maximum number of staff	And less than one of the following limits: Annual turnover**	Balance sheet asset total**
Small Enterprise	50	€10m/£7.6m	€10m/£7.6m
Medium Enterprise	250	€50m/£38.1m	€43m/£32.8m

**assuming exchange rate of £1/€1.31

The arms' length principle is that transactions between connected parties should be treated for tax purposes by reference to the amount of profit that would have arisen if the same transactions had been executed by unconnected parties. Any transactions not at arms' length should be accounted for in the LACCs self-assessment tax return.

Consideration should also be given to the application of Diverted Profits Tax to any transactions which move taxable profit from the LACC to the tax exempt local authorities.

A detailed commentary on Transfer Pricing and the Diverted Profits Tax can be found at Appendix 5.4.

5.6.3. VAT

In this section, we have considered the potential VAT impact of transferring activities to the LACC and have undertaken our analysis based upon our understanding of the activities undertaken by the two authorities. In some instances, it has not been possible to provide a definitive position at this stage as further information will be required regarding the nature of the activities; however, to the extent it is possible we have sought to provide an indication as to the VAT position that could be achieved to inform your decision making process.

Overview

Local authorities benefit from a special legal regime provided for by s.33 of the VAT Act 1994. The effect of this is that they are able to recover VAT incurred on their non-business activities. In addition to this, they enjoy favourable treatment in respect of costs incurred in relation to their exempt supplies, in that they can recover all of the VAT incurred in relation to these (i.e. the exempt input tax), provided that the total value does not exceed 5% of the total input tax.

Normal businesses that do not fall to be treated as s.33 bodies are generally not able to recover VAT incurred in relation to non-business or exempt activities. The LACC will fall into this category and, as such, care will need to be taken in respect of the transfer of activities to the LACC to offset the risk of creating an irrecoverable VAT cost where one did not exist previously. For the LACC, the irrecoverable VAT costs will include any related to assets that are transferred to the LACC and operated by that entity but which are not income generating as this could be a non-business activity in the hands of the LACC.

The Councils will be able to recover any VAT charged to them by the LACC in line with their current position; however, the outsourcing of activities will lead to an increase in VAT being incurred by the Councils due to the VAT liability on previously non-VAT items (such as labour). Whilst there will be an increase in exempt input tax, there should be a proportionally larger increase in the 5% ceiling in overall £ terms.

Analysis of Activities and Comments

It appears from our analysis that most of the activities that will fall to be undertaken will be taxable activities for VAT purposes and as such, entitle the LACC to VAT recovery.

Of the activities that will be transferred by the Councils to the LACC, the ones that potentially qualify for exemption and could lead to an irrecoverable VAT cost for the LACC are as follows:

- Interests over land (residential accommodation/commercial lets (where no option to tax in place);
- Provision of sporting/leisure facilities (subject to certain conditions);
- Burial and cremation services;
- Vocational Training (where centrally funded).

Exemption is available in other areas; however, they would not appear to be relevant here.

Assets retained by the Councils

In terms of the above, with the exception of vocational training, if the Councils do not transfer the assets in question (i.e. properties/community parks/cemeteries etc.) and retain the right to derive any income, which is our understanding of the intention at this point, then it is likely that the supply by the LACC to the Councils will be a taxable supply of management services only. As such, there will be no restriction to VAT recovery in the LACC and the Councils' VAT position will remain broadly unchanged apart from the increase in VAT incurred as outlined above.

Assets transferred to the LACC

Should the physical assets be transferred to the LACC along with the right to collect and retain any income from their operation, the position will be different and the parties would need to factor in the potential for an irrecoverable VAT cost.

We have calculated that this cost would amount to approximately **£1.3m pa** based on the current level of expenditure Appendix 5.5. Please note that in reality this amount is likely to be overstated as it makes the following assumptions:

- All property rental income to be exempt. It is likely that the LACC will opt to tax any commercial properties, meaning that VAT incurred will be fully recoverable; and
- Leaving aside whether or not leisure centre activities have already been outsourced, if these facilities were to be outsourced to the LACC (which owned and operated the assets), further consideration would need to be given to whether the LACC could qualify to be an eligible body for the purposes of the sporting exemption. If not, the significant proportion of expenditure would relate to taxable activities and be recoverable.

There would also be a restriction on residual VAT recovery, which is more difficult to quantify at this stage but is not likely to be significant given the preponderance of taxable activity.

Other considerations

As noted above, if the assets are retained by the Councils, the VAT impact should be minimal, with the LACC able to recover most if not all of the VAT it incurs (the only exception possibly being VAT incurred in relation to exempt vocational training) and the Councils' VAT position remaining broadly unchanged, apart from the increase in input tax relating to all of its business (taxable and exempt) and non-business activities. The Councils' entitlement to recover that input tax will be in line with the current position.

In our experience local authorities are usually on monthly VAT returns. It is likely that the LACC's output tax will exceed its input tax and, as such, it would be recommended that the LACC requests quarterly VAT. It is of course possible that the level of net VAT due to HMRC will mean that the LACC will be subject to the Payment on Accounts Scheme.

Subject to any other commercial issues, consideration should be given to the timing of payments/invoicing. For example the LACC might consider raising invoices for its services at the start of its VAT period so that it is able to receive payment from the Councils before the end of the period, thus ensuring it has sufficient funds to make payment to HMRC. If this invoice is raised near the end of the monthly VAT period for the Councils, it might be possible for them to receive the input tax from HMRC before making payment to the LACC thus mitigating the impact on their cash-flow position.

PwC view:

- ***The LACC will be responsible for VAT and mechanisms are available to reduce potential impacts on cash flow, such as monthly versus quarterly invoicing.***
- ***The Councils retain their favourable VAT treatments.***
- ***VAT is unlikely to have a negative impact on the Councils as long as the assets remain within the Councils.***

Employee

From an employment taxes perspective there is likely to be little change to the obligations currently incurred by the Councils. There is a proposed Apprenticeship Levy, due to come into force on 6 April 2017. This means that any employer with a payroll (broadly, the amount of wages and salary paid to employees subject to Class 1 NIC) exceeding £3m will have to pay a charge of 0.5% on the balance. The combination of the Councils workforce coming together into what will be a larger one, could give rise to this extra cost. This has been considered within the financial appraisal and is deemed to have minimal impact. Additional consideration needs to be given if the proposed model is one of some services in house/some outsourced, and if an employee has two or more jobs with separate contracts of employment for each. History shows that HMRC have challenged payments that have not been aggregated in these sorts of circumstances. We understand that this is unlikely to occur in this instance and have assumed that employees will have one defined employment contract.

5.6.4. Pensions and TUPE

It is envisaged that the Councils will transfer approximately 400-450 employees to the LACC to in turn provide the services back to the Councils. This may amount to a transfer under TUPE obligations, or it may be subject to directions under section 101 of the LGA 2003. Whether or not there is a TUPE transfer will depend on the facts of the case.

Where a relevant authority is contracting-out a service, section 101 of the LGA 2003 requires that authority to deal with matters relating to the employment of staff who will be transferred or brought back at the end of the contract in accordance with the directions issued by the Secretary of State and have regard to guidance. (In Wales, directions are issued by the National Assembly, and in Scotland, the Scottish ministers.)

Where existing local authority employees are transferred to the new business, which is separate from the local authority, the expectation would be that the employees' existing terms and conditions are protected under TUPE or section 101 of the LGA 2003, unless there are exceptional circumstances.

Section 102 of the LGA 2003 provides that directions under section 101 require local authorities to secure pension benefits for transferred employees which are the same as or broadly comparable to or better than those enjoyed before the transfer. This requirement also applies if there is a subsequent contract transferring those employees to another contractor.

The Councils are committed to meeting their obligations for existing staff in maintaining their terms, conditions and pensions and understand that a change to a LACC will not change their legislative obligations. In addition to meeting their current obligations, a LACC presents greater flexibility of staffing compared to the current model and may present opportunities to incentivise staff through profit sharing or bonus schemes.

A large TUPE transfer of the Councils staff into the LACC will impact on the Councils' current participation in the LGPS. Given that the Councils are "Best Value" local authorities, then under the Best Value (Pensions) Direction 2007, the staff will have an ongoing right to LGPS benefits. This is generally provided by the new employer participating in the LGPS and although the Direction does not explicitly require a past service liability transfer, one is normally implemented.

<<This paragraph has been removed due to commercial sensitivities>>

- Staff remaining with the Councils: 25 in total, 14 at South Hams District Council and 11 at West Devon Borough Council with the staff continuing to participate in their sections of the Devon LGPS Fund (the Fund).
    - Cash: the Councils will continue to pay future service contributions in respect of staff remaining and in respect of a possibly changed funding deficit amount after the transfer. The amount will depend on the terms agreed and could be smaller in £ terms or smaller i.e. worse in funding level % terms. The Councils are due to be notified of a new deficit amount towards the end of 2016 anyway once the results of the triennial valuation due at 31 March 2016 are available. There is no expectation of immediate cash input being required into the Fund unless the LACC establishment triggers redundancies amongst staff over age 55 (who can claim immediate unreduced redundancy pensions), which this is assumed to not be the case;
    - Accounting: There would be a settlement gain or loss in the Income and Expenditure of the relevant financial year's accounts as the transfer terms will not match the accounting basis. Year-end pension assets and liabilities would be reduced post transfer.
- LGPS members transferring to the LACC: approximately 400, 325 at South Hams District Council and 75 at West Devon Borough Council with the staff transfer into a new section of the Fund for which the LACC would be responsible. Legal advice would be needed on the route to participate: the LACC may be accepted as a "Part 2" employer without the need for an admission agreement or via becoming an

admission body with such an agreement. One admission agreement may be required for each contract awarded to LACC at inception, increasing the administration although a single actuarial valuation by the Fund actuary covering multiple admissions may be agreed to reduce this.

- Cash: The LACC would pay future service contributions in respect of its staff (if any and will depend on terms agreed). A common approach to transfer terms would be to receive sufficient assets from the Councils so that those retain the same % funding level after the transfer and the initial % funding level of the LACC section is the average of the Councils' sections funding levels. Under this approach the quantum of the Councils' deficits would be reduced. Another approach is commonly called a "fully funded" transfer so that assets are transferred in line with liabilities to create nil deficit initially for LACC (with no change to the quantum of the Councils' deficits and a lower % funding level). There is no expectation of initial cash inputs to the Fund by the LACC.
- Accounting: Unless the Councils agree to underwrite the LACC's exposure to pension risk via its LGPS participation, the LACC will need to follow full defined benefit accounting which can be volatile i.e. fluctuate year on year in both P&L and balance sheet e.g. due to movements in prescribed bond yields used to assess liabilities. In its opening balance sheet there could be an accounting deficit since the transfer terms (even if "fully funded" as above) will not match accounting assumptions;
- Security requirements: The Fund will assess whether the failure of the LACC poses a risk to the Fund e.g. should the LACC section have an unpaid deficit and consideration of if the LACC collapses. The Fund could either require LACC to pay for a bond or indemnity or require that it obtains a guarantee from a combination of the Councils. The commercial pricing of a bond or indemnity, whose amount would likely be substantial, may render it impractically expensive although taxpayer support to provide a guarantee might also be unacceptable.

Note: a large number of factors will affect the contribution assessments by the Fund actuary of the Councils' and LACC's sections of the Fund at successive triennial valuation. These include the financial and demographic experience (e.g. pay awards, number of ill health retirements). If the LACC does not admit new hires into the LGPS, such that the average age of the membership increases, then its average contribution rate as a percentage of pay will increase though paid on a reducing payroll.

- Non-LGPS members transferring to the LACC: 10 currently (West Devon waste services remain outsourced)

  - Cash: Under the legislation we would expect Council staff who have opted out of the LGPS to retain LGPS eligibility after employment is transferred to the LACC. Subject to legal advice, statutory auto enrolment duties would also mean that these staff would need to be assessed and potentially enrolled into the LACC section of the LGPS Fund on their first day (and re-enrolled every 3 years). If these staff do not immediately opt out then this requirement could increase the LACC's immediate pension costs relative to the Councils' pension costs.

- <<This paragraph has been removed due to commercial sensitivities>>

For new hires of the LACC (subject to legal advice), the LACC would not be obliged to provide LGPS pension provision to new hires (i.e. not compulsorily transferred) even if they work on Council services. Lower cost defined contribution provision accompanied by risk benefits e.g. life assurance and PHI insurance might be provided instead. Using defined contribution provision would give greater certainty of employer pension costs (subject to take up rates) and less pension risk exposure with simple cash accounting applying. Tiered pension provision could create HR and recruitment issues.

A LACC builds on the culture developed as part of the T18 Programme and provides flexibility through staff demographic changes as people leave and new people join the transition is likely to be gradual. The T18 Programme has already delivered the majority of the benefits of staffing changes and this is not a major drive and is not likely to present material benefits in the short to medium term. Establishment of a LACC presents the Councils an opportunity to establish an alternative pension provision for new hires to the LACC which could present some long term savings.

The Councils have requested the latest actuarial reports from the Fund and these are anticipated to be received to inform detailed calculations during the implementation phase.

While it is difficult to predict future pension contribution requirements as a result of fluctuations in the calculations over time, our appraisal has assumed that the existing contributions made by the Councils continue to provide a baseline for the future. Going forwards, there may be an opportunity to fund a portion of the Councils' historic pension liabilities via any profits generated by the LACC; however, alternative mechanisms should also be incorporated to provide flexibility in accounting for fluctuations. A potential impact may arise where fluctuations are higher than anticipated and the LACC is subsequently required to make contributions to the Fund in excess of those forecast. If this situations arises, the LACC and the Councils may need to seek specific accounting advice; however, overall, the Councils would be responsible for accounting for the required pension contributions and address any fluctuations, whether the LACC is established or not. The Councils have requested the latest actuarial reports from the Fund and these are anticipated to be received to inform detailed calculations during the implementation phase. This information will provide a basis for identifying the cashflow requirements and contracts between the Councils and the LACC so that future pension contribution requirements are met.

PwC view:

- ***Council staff transferred to the LACC will need to be re-enrolled into the Fund at the relevant commencement date.***
- ***The Councils will likely be required to provide guarantees to the Fund regarding pension liability for current staff, reducing the establishment impacts of the LACC;***
- ***Seek confirmation / guidance from LGPS on how the current pension deficit should be treated.***

5.6.5. State Aid

Establishing a LACC may have State Aid implications if state resources are used to provide assistance that gives an economic advantage over others. Pricing, selling, ownership, leasing, rebates, grants etc to or from the LACC will need further detailed consideration to determine if they could be classed as State Aid. Legal advice is anticipated to be sought in the next phase of development.

5.7. Contracting with the LACC

Transition to the preferred option requires additional contracting compared to the current model. This section summarises the key considerations to be considered in development, establishment and transition, including:

- Contract management;
- Contract Change;
- Contract term;
- Individual elements;
- EU procurement rules.

5.7.1. Contract Management

Contract management will be critical to the success of the preferred option and this in turn will rely upon the skill and capacity of the management team. As demonstrated by extensive reviews of PFI contracts, the performance of individual contract managers can significantly influence the outcomes over the term of the contract and requires further consideration.

A LACC presents additional complexities and arrangements between the Councils and the LACC management resulting in differences between service expectations and actual service delivery. A contract management manual should be developed to guide the parties through the complex situations as they arise.

5.7.2. Contract Change

It is inevitable within a political environment that there will be continued change and, as demonstrated by recent events, they could be significant in terms of the political standpoint of the leadership. Contract management is the mechanism that enables the contract to be changed or adapted to respond to the changing needs of both parties. It is particularly important where the owner is also the customer and the directors of the LACC will need to understand their individual roles in resolving what could be significant competing priorities. These mechanisms should be embedded in governance, contract management and decision making frameworks.

5.7.3. Contract Term

Establishment of a LACC to provide services to the Councils is likely to require a long term contract that enables the parties to understand performance and to provide certainty of service provision and funding over that term. Consideration has been given to the impacts of assets and funding. As the LACC will lease assets from the Councils it is important that each of the Councils agree on services being provided and assets being contributed.

Leasing agreements between the Councils and the LACC should be considered on appropriate commercial terms which may differ between assets classes, for example:

- Commercial offices 3-5 years;
- Maintenance or depots 5-7 years;
- Commercial, industrial or specialist vehicles 5-10 years.

Further consideration should be given to the contract term and defined in the Shareholder Agreements.

5.7.4. Individual but collective

The Councils will have a Shareholders' Agreement with regard to their interests in the LACC and there will also be individual contracts for the services that the LACC will provide to the Councils respectively. There will also be contracts with the LACC for assets or leases to be provided within the structure to represent the asset utilisation of the LACC in delivering its services and performing its obligations under the contracts.

5.7.5. EU Procurement Rules

It should be noted that the EU procurement rules may apply in any of the following situations:

- Either one or both of the Councils provides services, supplies or staff to the trading company;
- Either one or both of the Councils buys services, supplies or staff from the trading company;
- The LACC itself buys the services;
- The provision of services to another public body[3].

5.8. Commercial Case Summary

The commercial case demonstrates that the LACC proposal is commercially viable:

- The Councils are able to establish a LACC within a company structure limited by shares that appropriately allocates roles, responsibilities, voting and returns to the Councils;
- The commercial transition phase will need to focus on contract governance, including the novation of existing contracts, as the majority of the current operational structure, as established as part of the T18 Programme will remain as is;
- Shareholders agreement in the LACC should provide for different shares that enable equal voting and returns based on utilization of services and assets, as well as terms for share sale, exit and share buyer controls;
- Governance and management reporting and responsibility will change but the operating model is unlikely to require additional change;
- Key areas include:
  - Corporation Tax: There is potential to obtain exemptions from HMRC for trading with the Councils, meaning that tax implications are only attributable to revenue generated external to the Councils;
  - VAT: It is envisaged that all services attract VAT and although the LACC does not have as favourable VAT exemptions as the Councils, it is unlikely irrecoverable VAT would have any adverse impacts on the Councils;
  - Employee tax: Employee taxes are likely to remain the same, although potential for 0.5% apprenticeship levy from April 2017, if the pay bill of a public (e.g. Council) or private body (e.g. LACC) exceeds £3m each year;

[3] The LACC's customers, where they are public bodies, will, in most cases, have to carry out a procurement process before buying LACC services, however, this will depend on the nature, value and type of arrangement: The Council owners of the LACC can purchase directly from it without advertising the contract if it falls within the Teckal exception or conditions under Regulation 12 of the Public Contract Regulations 2015.

- Pensions: The LGPS fund is likely to require some form of guarantee from the Councils with regard to their existing pension liabilities; however, this should not increase the cash requirement within the LACC; and

- Accounting: The LACC will require audited financial statements to be developed, which will be an additional cost as each of the Councils will still need to maintain their own financial records.

PwC view:

- ***There are established examples of commercial structures for ownership, governance and management of the LACC's functions of Customer First, Commercial Services and Support Services.***
- ***Strategy and Commissioning would be responsible for contract management of the LACC's performance.***
- ***The commercial arrangements are likely to have minimal impact on the existing operational and service delivery model, the changes are primarily reporting, governance and ownership.***

6. Financial Case

6.1. Introduction

This section focuses on the financial benefits of the new model. This section also considers affordability and funding requirements. The purpose of this section is to:

- Summarise the outcomes of the financial appraisal;
- Summarise scenarios, the differences in results and the reasons for them;
- Consider cashflow and affordability requirements.

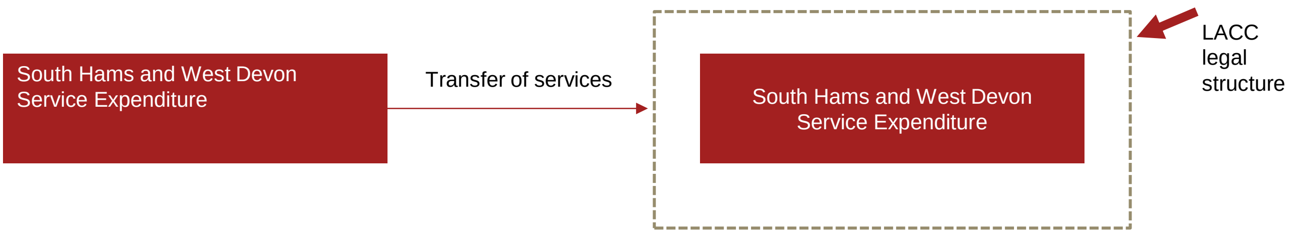
6.1.1. Financial Appraisal Overview

The financial appraisal compares the 7 year forecasted expenditure under the current delivery of the Councils services with the forecasted expenditure of various scenarios under the preferred Option 6 in order to highlight the possible financial impact of adopting a new delivery structure.

6.2. Expenditure with a LACC

The proposition is to transfer all of the Councils' services to a LACC (except for certain Strategy and Commissioning activities). The Councils will fund the LACC for the cost of delivering the transferred services in the LACC whilst continuing to fund Strategy and Commissioning within the Councils. The split of funding between the Councils is assumed to be on the same level of spend relating to each Council. This is discussed further in Appendix 6.1.

The change in legal structure to deliver these services should not change the fundamental costs of delivering these services; however, the LACC will incur both one off set up and annual on-going costs in addition to the service delivery costs. Other than these additional costs, the expenditure profile of the LACC should mirror that of the base case position i.e. the current Councils' expenditure (refer to detailed financials in Appendix 6.2).



Reference to the term expenditure in the Financial Case is the annual cost irrespective of when the cash payment is made. For instance, Employers National Insurance on employee costs (i.e. expenditure) for the month of March would not get paid (i.e. cashflow) until April. Note that this is a timing difference between expensing in the income or profit and loss statement and the subsequent payment through the cashflow statement.

The base case assumption is that the Councils would fund the expenditure of the LACC in advance. This would, however, result in an increase in the short term cashflow funding requirement of the Councils, as currently non-employee related costs are paid for by the Councils on 30 day terms.

This additional funding requirement could be avoided if cashflow arrangements between the Councils and the LACC were put in place. For instance, the cashflow funding of the LACC could be delayed until the LACC is required to make payment, which should mirror payment terms of the existing Councils. See Appendix 6.3 for further detail. As a result, our analysis is based on the expenditure profile, as the only changes resulting from transferring services to the LACC relate to non-cashflow specific items.

Any financial assistance provided by each Council to the LACC, whether in cash or in kind, should be for a limited period with an expectation of returns at a later date.

Providing such assistance should be formalised by an agreement entered into for a commercial purpose between each Council and the LACC. Before entering into an agreement, each Council should be satisfied that what is proposed is not ultra vires. Each Council has the power to do anything reasonably incidental to its express powers. The trading power under section 95(1) of the LGA 2003 is an express power. If a local authority decides therefore that the most appropriate vehicle for trading is a company, it would be able to establish a company under its subsidiary powers.

Until Part V of the 1989 Act is repealed, any company established to carry out a trading activity in which a local authority has an interest is subject to the rules about controlled[4], influenced[5], regulated and minority interest companies in Part V of the 1989 Act and the Local Authorities (Companies) Order 1995 (1995 Order).

If a company is "controlled" it will be regulated, and if it is an "influenced" company it may well be regulated. Regulated companies are treated as if they are the local authority and are therefore subject to financial and propriety controls (see section 5.3.5).

The main consequences of the company being controlled or regulated are set out in the 1995 Order and include the following proprietary controls:

- Any financial support for the LACC, or possible liability for the Councils associated with the company, will have to be included in any assessment of the authority's finances under the prudential framework for capital investment by local government;
- All relevant documents must state that the company is controlled or influenced by a local authority;
- The relevant local authority must be named;
- There are limits on the allowances payable to directors of such companies;
- Regulated companies are bound by the restrictions on publication of information imposed by section 2 of the Local Government Act 1986. This means that they are prohibited from publishing party political material;
- Directors of regulated companies must be removed if they become disqualified for membership of a local authority;
- A controlled company must obtain the National Audit Office's consent to the appointment of its auditor;
- Requirements are imposed relating to the provision of information to the local authority's auditor and members and of financial information to the authority;
- Controlled companies that are not arms' length companies must allow for public inspection of the minutes of any general meeting for four years after the meeting, unless disclosure would be in breach of any statutory requirement or obligation owed to any individual;
- As with any private limited company, at the end of its financial year, full statutory annual accounts must be prepared and filed with the Registrar of Companies. Corporation tax due for that period must be paid to HM Revenue and Customs ("HMRC") or nil tax return notified. Also, a completed Company Tax Return to HRMC must be filed;[6] and
- Business rates and VAT rules apply to a local authority private limited company.

[4] Section 68 of the 1989 Act defines controlled companies. If any one of the following conditions is met, the company will be controlled:
  - o The company is a "subsidiary"4 of the local authority by virtue of section 1159 of the Companies Act 2006.
  - o The company is not a subsidiary, but the local authority has the power to control a majority of the votes at a general meeting of the company.
  - o The company is not a subsidiary, but the local authority has the power to appoint or remove a majority of the directors of the company.

[5] A company is subject to the influence of a local authority if all of the following conditions are met:
- It is not a controlled company;
- There is a business relationship between the company and the authority;
- There is a "personnel association" between the company and the authority. A personnel association exists when:
  - o at least 20% of the total voting rights at a general meeting are held by persons associated with the authority; or
  - o at least 20% of the directors are persons associated with the authority; or
  - o at least 20% of the total voting rights at a directors' meeting are held by persons so associated.

A person is at any time "associated" with an authority if they are at that time a member or officer of the authority, or both an employee and a director, manager, secretary or similar officer of the company under the authority's control, or if they have been a member of the authority within the preceding four years.
A company has a "business relationship" with a local authority if one or more of the following apply:
- Within 12 months up to and including the day on which the question arises, more than half of the company's turnover is made up of payments from the authority or from a company under the control of the authority;
- More than 50% of the company's turnover is derived from exploiting assets in which the local authority or company under the control of the authority has an interest;
- The total of the following exceeds 50% of the net assets of the company:
  - o grants made either by the authority (being expenditure for capital purposes) or by a company under the control of the authority; and
  - o the nominal value of shares in the company which are owned by the authority or by a company under its control;
- The total of grants, shares and loans or other advances made or guaranteed by the authority or by a company under its control exceeds 50% of the fixed and current assets of the company;
- The company at that time occupies land by virtue of an interest obtained from the authority or a company under its control at less than best consideration reasonably obtainable; and/or

The company intends at that time to enter into or complete a transaction and when that is done there will be a business relationship under any of the above.

[6] There is more detailed accounts and tax return information for private limited companies at https://www.gov.uk/prepare-file-annual-accounts-for-limited-company/print

Refer to Appendix 6.6 for assumptions used in the Financial Case.

6.2.1. Additional Costs

The formation of a LACC will result in the following additional costs:

1. One-off set up costs
2. On-going costs.

The impact of these costs are considered further below and at Appendix 6.4 and 6.4.1.

Set up cost expenditure

The formation of a LACC will include the following estimated one-off set up cost expenditure:

Table A

£'000	South Hams	West Devon	Combined	Notes
Legal advice and support	50.00	50.00	100.00	Including assistance drafting shareholder agreements, articles, contract review, novation etc.
Finance support and advice	75.00	75.00	150.00	Including detailed budgeting of LACC, operational planning for transition to LACC, VAT registration, CT establishment, accounting principles, Co. registration, leases, pricing models, commercial governance, finance system interfaces and controls, LACC reporting tools and templates, commercial and financial risk advice.
Pension administration	10.00	10.00	20.00	Including pension calculations, engagement with fund, establishment and registration assistance.
Implementation and change management	37.50	37.50	75.00	For project management, change management, risk management (possible need for external advisors), Director training, Governance establishment (roles and responsibilities), communications and stakeholder engagement, potential resources or advisors for transition i.e. West Devon waste.
Contingency	15.00	15.00	30.00	For unforeseen transition items.
IT system and resource	12.50	12.50	25.00	Civica and other system integration requirements including based, financial, communications, customer systems, web-based applications etc.
Total set up costs	200.00	200.00	400.00	

Note that these set up costs do not include the cost of preparing this Business Case, as this is a sunk cost that is not dependent on the decision to be made. Further detail on these costs is provided in Appendix 6.4.2.

On-going cost expenditure

The formation of a LACC would include the following estimated annual on-going cost expenditure (borne by the LACC). We have assumed that these costs would be required from April 2017.

Table B

£'000	South Hams	West Devon	Combined	Notes
Corporation tax	2.50	2.50	5.00	Annual cost as advised by PwC team for corporation tax compliance
Other Finance	2.50	2.50	5.00	Statutory accounts and other including pensions
Audit	10.00	10.00	20.00	Estimated cost subject to firm used
Chairperson	2.50	2.50	5.00	10 meetings a year at £500 a meeting
Business Development	5.00	5.00	10.00	This could be deferred until private revenue is generated but for prudency is considered to be required from the establishment of the LACC
Legal	2.50	2.50	5.00	Estimate of costs for preparing LACC specific contracts
Contingency	2.50	2.50	5.00	To account for any other costs related to running of a LACC
Civica	2.50	2.50	5.00	Ongoing maintenance
Total on-going costs	30.00	30.00	60.00	

Appendix 6.4.3 shows the detailed profile of these annual on-going costs over the next 7 years. We have assumed that these costs would be funded equally by the Councils, as discussed further in Appendix 6.1.

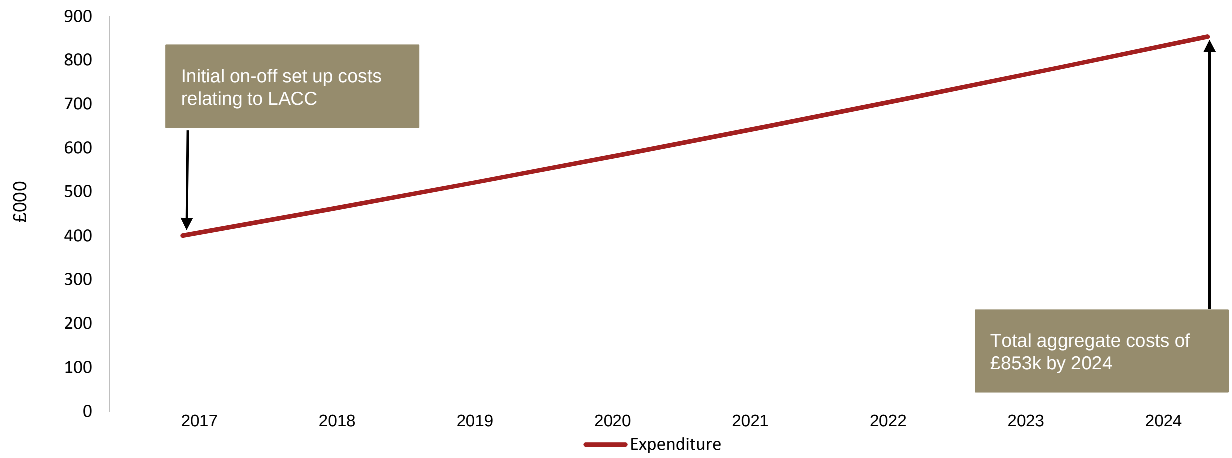
Cumulative impact of additional costs

The impact of the cumulative additional costs on the Councils expenditure profile is shown in Table C and more detail provided in Appendix 6.4.4. The ongoing LACC cost is inflated by 2.5% from 2018/19.

Table C

Cumulative Change in expenditure due to additional costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	200	200	200	200	200	200	200	200
West Devon	200	200	200	200	200	200	200	200
LACC	-	60	122	185	249	315	383	453
Combined	**400**	**460**	**522**	**585**	**649**	**715**	**783**	**853**

Aggregate additional expenditure before opportunities



6.3. Opportunities

The transfer of the Councils' services into the LACC structure provides opportunities for reducing the funding requirement of the individual Councils, resulting in the ability to reverse the impact of the additional c£853k of cumulative costs, as shown in the graph above. See Appendix 6.5.

6.3.1. Financial implications of West Devon waste services

Our base case analysis above has been on the basis that waste management of West Devon remains outsourced. The outsourced cost profile has been provided by Grant Thornton report – Options for Waste Services Delivery – January 2016. There is; however, potential for the Council to provide this service within the LACC ('LACC provided' or 'LACC provision' or 'in-house') , which we understand from Council management would only be considered if a LACC were formed, thereby generating savings in respect of the existing contractor's applied mark-up. There is also future scope to generate efficiencies from shared management, although this has not been factored in our analysis.

The different options are detailed in Appendix 6.5.1 and 6.5.1.1, however, the choice of LACC provided option does not impact on the decision over establishing a LACC. We have assumed a delay of 6 months to establish a LACC provided operation, which is considered to be the most likely option. There is also the possibility of adopting a managed service option, whereby the existing contractor manages the waste management assets purchased by West Devon Council. Asset acquisition profiles are shown in Appendix 6.5.1.2.

Table D <<This table has been removed due to commercial confidentiality>>

Table E

Difference in expenditure	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Cumulative Total
Outsourced annual cost									
Option 4 - managed service	Figures removed – commercial in confidence								
Difference in expenditure									
Aggregate difference	40	325	576	1,090	1,627	2,190	2,778	3,392	

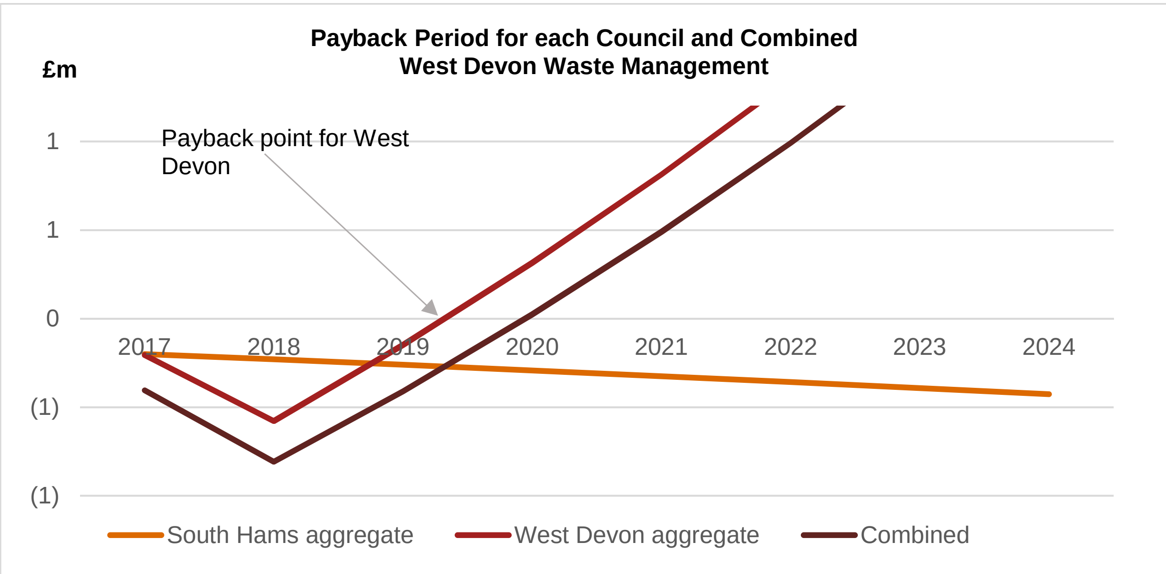
In 2016/17, both the outsourced option and the LACC provided service would require re-tender or set-up costs (assumed to be c£50k). In addition, the LACC provided option would require an extension cost to the current outsourced contract of an assumed £5k resulting in the difference shown in Table D.

Adoption of the LACC provided service halfway through 2017/18 would require the Councils to continue to pay the outsourced rate over the first 6 months of the year (annual cost of £<< figures removed – commercially confidential>> for 6 months), but with an additional £<<confidential>> per month (£<<figures removed – commercially confidential>> . The remaining 6 months of the year would be at the new LACC provided cost (inclusive of asset costs). We understand from Councils' management that the on-going annual LACC provided cost would be c£<<confidential>> before adjusting for inflation (£<<confidential>> of operating costs and c£<<confidential>> of assets finance costs). This would mean that the cost for the final 6 months of 2017/18 would be £<<confidential>>. Total costs for 2017/18 under the LACC provided 6 month delay option would be c£<<confidential>> as shown in Table D (£<<confidential>>).

<<Paragraph removed due to commercial sensitivity>>

In 2018/19, the annual outsourced cost is assumed to be £<<confidential>>. The cost of the LACC provided option is £<<confidential>>. This creates a reduction in the funding requirement from the adoption of the LACC provided option of c£<<confidential>> as shown in Table D above. From 2019 the annual difference between the cost of the two options increases. The increase is the result of the effects of 2.5% indexation on different cost bases and no indexation required on £<<confidential>> of asset repayments included in the LACC provided cost profile. By 2024 Table D shows aggregate benefits of adopting a LACC provided option of £<<confidential>>.

These savings are assumed by the Councils' managements to only be available to West Devon Council (see Appendix 6.5.1.5) and as a result the following shows the impact a LACC provided West Devon Waste Management service on the Payback of both Councils:



This shows that Payback period for West Devon is achieved by 2020, whereas South Hams would not achieve payback from this option alone (i.e. assumed payback to be achieved from the generation of private profits). The Combined Council achieves payback by 2020.

We have not assumed any additional efficiencies or cost saving opportunities due to the extensive transformation process already undertaken by the Councils. We understand, for example, that there is scope to improve the grounds and estate maintenance service as a result of forming the LACC, although we have not been provided with a quantum of these savings.

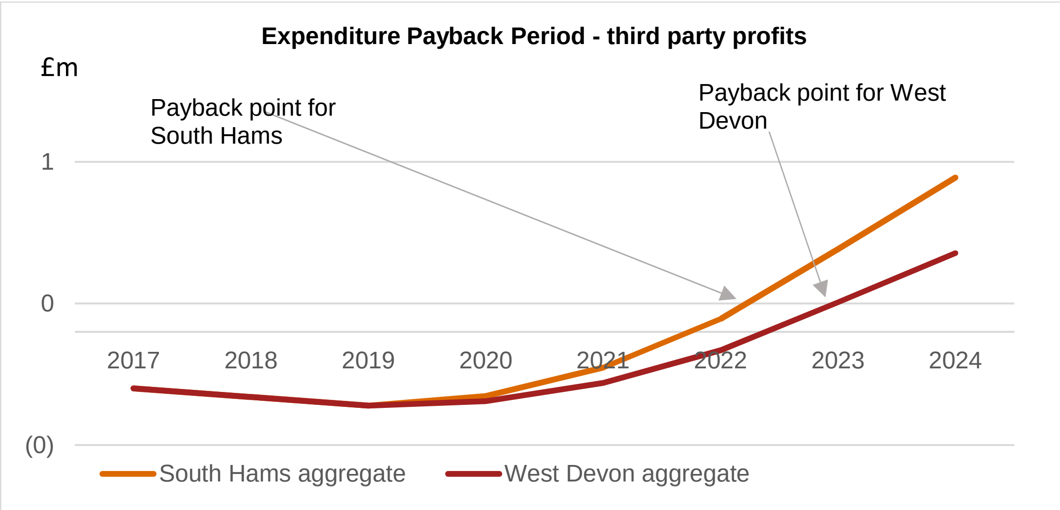
6.3.2. Third Party Income – Potential profits from a LACC

We have assumed that third party revenue could be generated by the Councils from April 2020, and as discussed above is required for South Hams to generate a Payback. As detailed in Appendix 6.5.2, we have assumed a scenario of revenue of 5% of current activity levels and a marginal cost of << figures removed – commercially confidential>>. We have assumed that there is surplus capacity within the Councils' capital assets and administrative functions to support revenue generation of 5% of current activity levels and that the additional cost requirement is << figures removed – commercially confidential>> of the third party revenue. There is the possibility to achieve revenue levels of up to 20% under Teckal Exemptions, although at this level there may be additional capital asset and overhead costs that would increase the marginal cost of this third party revenue.

Table F <<Table redacted due to commercial sensitivities>>

Table G <<Table redacted due to commercial sensitivities>>

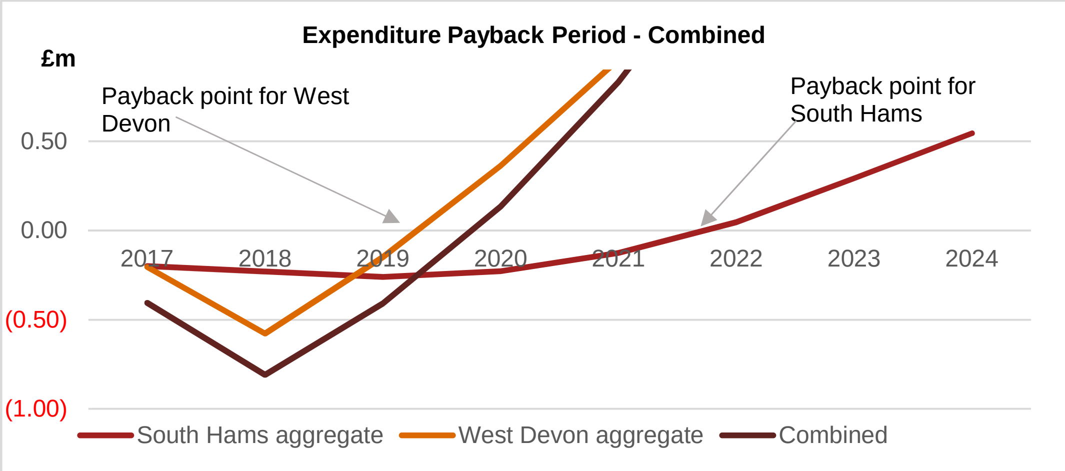
We have not assumed any profits from sale of 'know-how' to other Councils, however there is potential for significant returns in excess of those assumed here.



Payback from third party profits alone is achieved by 2022 for South Hams and 2023 for West Devon. Profits from third parties are assumed to be split between the Councils in the same proportion as calculated for the funding of the LACC, although the exact details of this would be determined between the Councils during the implementation phase, to ensure both are in agreement. See Appendix 6.1.

6.4. Payback Period

Accumulated payback (including a LACC provided West Devon Waste Management service) is shown below, with further detail in Appendix 6.5.3. Payback for West Devon is achieved by 2020 (using the data and assumptions provided), whereas South Hams District Council still achieves payback by 2022.


Expenditure Payback Period - Combined
£m
Payback point for West Devon
Payback point for South Hams
0.50
0.00
(0.50)
(1.00)
2017
2018
2019
2020
2021
2022
2023
2024
South Hams aggregate
West Devon aggregate
Combined

Maximum funding requirement

1. £400k set up costs (combined)
2. £60k ongoing cost (combined)
3. £<< figures removed – commercially confidential>> West Devon Waste Management cost relating to extension of contract (could be avoided by adopting a managed service option). Note that this funding requirement is only relevant to West Devon as the impact of the changes in cost profile of a LACC provided West Devon Waste Management service are not borne by South Hams under the assumptions

Table H <<Table removed due to commercial sensitivities>>

The exact timing may vary, however, as long as the anticipated on-going benefits exceed the on-going costs, then payback of the set up costs will be achieved, irrespective of quantum in the medium to long-term, with an increase in funding requirement only over the short-term.

Table I <<Table removed due to commercial sensitivities>>

6.5. Financial Case Summary

The financial case demonstrates that the LACC proposal is affordable:

- There will be set up costs of c£400k relating to the establishment of a LACC;
- There will be additional on-going costs of c£60k per annum relating to the running of a LACC;
- There are opportunities to generate ongoing third party profits (c<< figures removed – commercially confidential>>) from April 2020. Additionally, there are potential savings in the cost of West Devon waste management by providing the service within the LACC (c£<< figures removed – commercially confidential>> a year). This additional saving only applies to West Devon and accounts for the shorter payback period than South Hams (see Appendix 6.6); and
- The net result could be an unindexed c£<< figures removed – commercially confidential>> a year (c£<< figures removed – commercially confidential>> for South Hams District Council and c£<< figures removed – commercially confidential>> for West Devon Borough Council), contributing to a payback of the set up and ongoing costs by 2022 for South Hams District Council and 2020 for West Devon Borough Council (see section 6.4).

7. Management Case

7.1. Introduction

The Management Case seeks to demonstrate that the benefits of change are achievable with clearly identified transition and delivery requirements. The purpose of this section is to:

- Provide an overview of deliverability of the preferred option;
- Outline key elements of the Implementation Plan for the preferred option;
- Identify key stakeholders involvement;
- Summarise the risks and benefits.

7.2. Deliverability

The key features required to successfully deliver a LACC are likely to be:

- A strong commitment from the elected members and the leadership team;
- Clear objectives of the organisation against the expectations of members, community and staff;
- A governance structure that appropriately designates roles and responsibilities and conflict resolution procedures;
- Ensuring the LACC, its operations and decisions are fully transparent;
- A partnership approach to avoid the 'us and them' scenario, with the current Collaboration Agreement forming the foundations of this;
- Financial understanding of the costs of providing services and in particular any additional costs associated with revenue generating opportunities;
- Contract management will be key to managing the interfaces between elected members and potential changes in priorities resulting from available funding or political persuasion;
- Early consideration of 'what if' scenarios to ensure the strategies are in place to deal with eventualities, such as emergency situations or natural disasters.

7.2.1. Delivery Considerations

When considering the changes in the sector in the recent past it is hard to predict the future. In establishing a LACC the Councils have a number of considerations, including:

- The ability to develop internal commercial skills to expand reach into potential markets;
- The ability to source external skills if required to supplement internal capability with regard to tendering;
- Potential to adapt the commercial structure if revenues increase to levels that exceed Teckal exemptions;
- Opportunities to take on other owners (i.e. other Local Authorities) with restructured shareholdings to expand the overall value of the 20% to maintain Teckal exemptions.

There are a broad range of factors affecting the final delivery model; including the timing of West Devon waste services, market characteristics over the short to medium term, services offered and skills required. As there are a number of different permutations, we have not considered all of these in detail; however, the establishment of a LACC does not necessarily restrict expansion and is flexible enough to respond to the on-going market conditions and drivers of the Councils.

In a broader context, the Councils still retain the right to increase taxes or reduce services within the structure.

7.2.2. Transparency

The Councils have to ensure that any trading company they respectively establish is not used as a device for inhibiting legitimate public access to information about local government and local government services.

The overview and scrutiny committee of each Council must be able to exercise their powers in relation to the discharge of local authority functions under the relevant legislation. Under Schedule 12 of the 1972 Act, matters relating to the trading company may be exempt from disclosure to the public where a local authority (or a committee or an executive) meet to consider the affairs of the trading company.

Although Part 1 of Schedule 12A refers to information relating to the financial or business affairs of any particular person (including the authority holding that information) as being exempt, that is qualified by paragraph 8 of Part 2 of Schedule 12A, which states that information is not exempt information if it is required to be registered under, for example, the Companies Act 1985, the Friendly Societies Act 1974 and the Friendly Societies Act 1992 (as updated).

Even if the exemptions in Schedule 12A can be said to apply, a local authority may in the interests of transparency and accountability wish to consider whether it would be in the public interest for discussions to take place in an open meeting forum, or whether the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PwC view:

- ***The Councils have brought a commercial focus to service delivery through the T18 Programme and a LACC structure could enable the Councils to respond to future market opportunities to generate additional revenue to offset the projected funding gap.***

7.3. Transition and Implementation

The Business Case has identified a preferred option that includes establishment of a LACC to deliver services back to the Councils. This section summarises the key tasks, timing and considerations that will need to be addressed during the transition and implementation phase. The activities to be progressed as a priority include:

- Project management capability assessment and detailed transition and implementation planning;
- Application to HMRC for exemption from Corporation Tax for revenue generated from trading with the Councils;
- Company establishment including registration and relevant articles, shareholder agreements, lease and service contracts with the LACC;
- The TUPE process including calculations of pension liabilities;
- Skills assessment and development to enable commercial response to market opportunities, i.e. tendering.

A more detailed Implementation Plan is at Appendix 7.5.

7.4. Stakeholder Engagement

In progressing with the preferred option a strong focus on stakeholder engagement will be required. Key stakeholders include:

- Elected Members of each of the Councils;
- Internal Staff including administrative, operational (i.e. grounds, maintenance, South Hams Waste) and Frontline staff;
- Waste services across the Councils;
- Other Local Authorities across the South-West;
- Other stakeholders including the Department for Communities and Local Government and neighbouring Councils.

Different engagement strategies will be required for each of these groups and should be defined during the transition planning.

7.5. Risk Management

The Business Case has identified potential risks, pricing and cost impacts which can be mitigated. The Councils have demonstrated that through a shared approach they are able to treat and share risks. The Councils are focused on contingency planning and believe that the establishment of a LACC with shared ownership and consolidated governance and management is an efficient way of managing and mitigating potential risks throughout delivery and operations. There are tactical controls available to the Councils to mitigate risks and contingency, including:

- Long term contracts that transfer risk;
- Cost controls across multiple sites, including staffing;
- Pricing mechanisms that provide flexibility in responding to the market opportunities to generate revenues.

In addition to these mechanisms, there are specific treatments for both process and commercial risks presented by the transition to the preferred option.

7.5.1. Key Risks

A risk assessment of the options was undertaken which identified a number of key commercial risks including:

No	Risk	Treatment
1.	The risk of not being able to meet Member requirements, causing complexity/disputes in the contract	Consideration should be given to roles and responsibilities when transferring services into the LACC
2.	The risk of creating a dual workforce with different employment terms and conditions	The Councils have a legal obligation for transferring employees and mechanisms are available to manage over the longer term.
3.	The risk of complex financial arrangements between entities leading to confusion regarding cross subsidisation	Clear accounting principles to be developed but a consolidated set of accounts could be positive for the Councils.
4.	The risk of perceived differences between ownership, control, returns and rewards	Appropriate structures of share ownership (i.e. A and B shares) can be developed to accommodate and separate voting rights from financial returns.
5.	The risk that skills are not developed to enable successful tendering resulting in anticipated external revenues not being realised	The development of a staged development plan and targeting potential clients provides a realistic platform for expected revenue potential that underpins the costs.
6.	The risk that other Councils set up similar ventures creating more competition	Sales strategy developed at the appropriate time
7.	The risk that this sets a precedent for all LAs that Central Government does not agree with and adverse action is taken or policies implemented	Communications program and engagement with Central Government
8.	The risk services are not provided to the quality and within the budget anticipated	Contractual arrangements include performance measures to provide greater transparency and budget control. Owners still ultimately responsible.
9.	The risk of going over the Teckal thresholds	Options and thresholds considered into decision making framework Positive position to be in and have demonstrated successful ability to further transition to company without need for Teckal exemptions
10.	The risk of the Councils being able to successfully operate a LACC/commercial trading arm in an uncertain funding environment	Consideration of developing skills internally or recruiting externally for key roles will enable transition and long term development.

7.6. Performance Management and Benefits Realisation

Benefits management identifies the performance measures the key executive roles will have responsibility for within the LACC. The preferred option is likely to deliver a number of benefits and they will be measured by and the responsibility of key executives, including:

Benefit	Measures	Responsibility
Supports the Councils visions and objectives of service delivery and obtaining value for money	Comparative cost of service delivery, pre and post change.	Executive Director, Strategy and Commissioning
The ability to operate commercially with mechanisms to respond to change and include new partners	Expansion and additional of new partners	Executive Director, Strategy and Commissioning
Teckal procurement exemptions	Service transition and engagement with other public bodies	Executive Director, Commercial and Service Delivery
Improved staff mix for the long term that delivers services locally	Staff demographic changes	Director, Customer First
Opportunities to realise additional efficiencies through consolidated waste services across the Councils	Waste services cost per household	Executive Director, Strategy and Commissioning
Potential to generate additional revenues following transitional phase and skills development	Percentage of revenue generated externally (long term)	Executive Director, Commercial and Service Delivery

7.7. Exit Strategy

There are numerous examples of LACCs being established and operating successfully. There are also examples of LACCs being established and then reintegrated back into the Local Authority. An exit strategy is a planned approach to changing the model of service delivery in the event that it is no longer viable to continue to operate a LACC. This could occur for various reasons and, while it is not possible to plan for these individually, there should be sufficient planning in place to facilitate such changes without significantly impacting upon service delivery.

The Councils could consider thresholds of where either additional investment is required or when step in rights should be exercised. There may also be alternate structural options that could be considered, for example external contracting. This type of plan is a form of mitigating potential political risks associated with failure or difficulties of a LACC. There are a range of options available in the event that a LACC is not viable, these include:

- Re-scope the LACC contract: Throughout the contract there will be opportunity to determine the Councils funding against its service agreement with the LACC, and in the event that funding is not available for the service levels, agreement may be reached to reduce or cut services;
- Transition back to the Councils: In the event of failure of the LACC there may be services that could be transferred back to the Councils, although this will need to be considered in the context of the operating model at the time;
- Outsource: In the event of failure of the LACC there may be services that could be outsourced.

As outlined earlier, other Local Authorities have established LACCs for certain commercial services which have continued to work and expand. Outsourcing of services has proven successful in maintaining service delivery, such as waste services in West Devon. There have been examples where services have been outsourced and brought back in house after not realising the savings anticipated.

In the event of failure the Councils will be responsible for any transitional or retender costs associated with the changes. In the implementation phase an exit strategy will be developed that considers:

- Continued provision of statutory services;
- Assets, contracts and lease transfers or novation;
- Treatment of supplementary services;

- Loss making operations and timeframes for decision making.

7.8. Management Case Summary

The management case demonstrates that the LACC proposal and target date of 1 April 2017 is achievable (notwithstanding the decision to be made in respect of the West Devon waste service):

- The LACC provides:
  - a level of flexibility to respond to future market conditions;
  - is deliverable and appropriately allocates and shares risks across the Councils;
  - has greater risk from set up costs;
  - presents greater opportunities to generate revenue in the future to offset the project funding gap.
- An implementation plan includes:
  - Seeking legal advice on establishment;
  - Developing calculations for pensions;
  - Application to HMRC for Corporation Tax exemption.

PwC view:

- ***The LACC model is deliverable and an implementation plan has identified the key requirements to be progressed as a priority.***

8. Conclusions and Recommendations

8.1. Summary

The objectives of this Business Case were to assist in the creation of a detailed business case and implementation plan. In particular, the business plan should concentrate on a comparison between the two key options under consideration:

- **"As is"** – The continuation of the current arrangements of in-house service delivery with some outsourced services (e.g. Leisure Centres and the West Devon waste collection, grounds maintenance and street cleansing service); or
- **"Transferring all Council services to a LACC"** – where the LACC is jointly owned by South Hams District and West Devon Borough Councils.

This was to be done against a requirement to preserve service delivery standards, without imposing an additional Council Tax burden on the local population.

In undertaking this engagement we have sought to:

- Confirm the drivers and need for change as identified by the Councils;
- Clearly define the scope of services to be provided by the new entity;
- Provide an analysis of potential business growth, market share, income generation and trading opportunities;
- Identify and assess the technical options available, in particular, whether a Local Authority Controlled Company is flexible, sustainable and represents value for money;
- Identify the commercial implications of the preferred option;
- Identify and assess the cost and revenue implications of the preferred option;
- Identify the change management requirements and implementation plan for the preferred option;
- Recommend an option for the provision of Council services that is flexible, sustainable and represents value for money.

8.2. Conclusions

Our assessment concluded that:

- There are clear strategic imperatives that support the development of innovative solutions to the projected future funding gap;
- The remaining 'As Is' option is unlikely to be a sustainable long term solution with the additional risk of not taking action potentially constraining the Councils to increasing taxes or reducing services;
- The Councils have established an effective operating model, through T18, delivering all services end to end through Customer First, Commercial Services and Support Services with a clear steer and monitoring interface provided by Strategy and Commissioning and functional allocation of responsibilities for services delivery;
- This is an appropriate platform from which to continue the development of a LACC;
- There are potential market opportunities available to the Councils within their local regions, primarily with adjacent Local Authorities and other Public Sector entities, but also some private sector opportunities;
- The establishment of a LACC:
  - Enables the Councils to build upon the structural changes made as part of the T18 Programme;
  - Will incur setup costs of c£400k that should be paid back by April 2020; and
  - ;
  - Presents opportunity to generate additional revenues not available under the 'As Is' option if the identified risks are managed appropriately.

8.3. Recommendations

We recommend that the Councils:

- Seek confirmation / guidance from HMRC regarding an exemption from paying Corporation Tax on profits related to income derived from services provided to the Councils. This should be undertaken prior to incurring further significant cost as it is fundamental to the assumptions within this report;
- Seek confirmation / guidance from LGPS on how the current pension deficit should be treated;
- Obtain legal advice and support to deliver the proposed corporate and associated share structure of the LACC to ensure that it meets both the governance and spend requirements;
- Obtain legal advice in relation to the Councils' vires to trade the identified services, and ensure LACC constitution has the flexibility required for future change in scope if envisaged as part of the LACC strategy;
- Obtain legal advice to confirm that the business plan conforms with State Aid requirements and public procurement regulations;
- Obtain legal support and advice in relation to Pensions, TUPE and employment matters;
- Subject to confirmation of the above bullet points that the Councils proceed with establishing the LACC.

Business Case Appendices

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1.2. General assumptions

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7.6. Risk Matrix

7.7. Post Implementation Review

7.8. Future Considerations

1. General Appendix

1.1. Glossary of key terms

Glossary of key terms	
2016/17	Financial year 1 April 2016 to 31 March 2017
2017/18	Financial year 1 April 2017 to 31 March 2018
2018/19	Financial year 1 April 2018 to 31 March 2019
2019/20	Financial year 1 April 2019 to 31 March 2020
2020/21	Financial year 1 April 2020 to 31 March 2021
2021/22	Financial year 1 April 2021 to 31 March 2022
2022/23	Financial year 1 April 2022 to 31 March 2023
2023/24	Financial year 1 April 2023 to 31 March 2024
A or B Shares	Different class of ordinary or preference share
ALMO	Arm's length management organisations
Arm's length transaction	Transaction at fair market value
Business rates	Rates charged on business related properties
Capital allowances	Tax related deduction relating to the purchase of capital assets
Capital gains	Profit from the sale of an asset or investment
Cashflows	The payment of relevant expenditure
Commercial Services	Councils' operating model as part of T18 programme
Council 'As Is'	The position of the Council if the option to form a LACC is not chosen
Council under a LACC/services in a LACC	The position of the Council if the option to form a LACC is chosen
Customer First	Councils' operating model as part of T18 programme
Employers NI	The employers contributions on their employees earnings and benefits
Expenditure	The costs matched to the year incurred and reported in the P&L
FCC	FCC Environment (UK) Limited
FD	Finance Director
Field services	Councils' operating model as part of T18 programme
Finance Lease	Acquisition of assets under finance/borrowings. Assets recognised on Balance Sheet
Financial and accounting period	The period between which the financial statements are prepared. In the case of the Council they report 1 April to 31 March
FY20	Financial Year 1 April 2019 to 31 March 2020
Group/consortium relief	Tax reliefs available to groups or consortia of companies
HMRC	Her Majesty's Revenue & Customs
HR	Human Resources
ICT	Information and Communications Technology
Income	Councils' revenues

Glossary of key terms	
Indexed/indexation	Monetary amounts inflated using assumed compounded annual inflation of 2.5%
Joint Venture company	Company established by 2 or more parties to pool resources for the purpose of accomplishing a specific task
Know how	Knowledge and experience gained from the establishment of a LACC
LA	Local Authority
LGPS	Local Government Pension Scheme
Mark up	Amount added to the cost price of goods or services to cover overheads and profits
Multi-criteria analysis	Decision-making tool used to evaluate problems when one is faced with a number of different alternatives and expectations.
Net Expenditure	Councils' expenditure less income
Nominal prices	Prices or values are not adjusted for inflation
P&L	Profit and Loss account
Payback	Time lag before benefits of forming the LACC outweigh the costs
Payment on Accounts Scheme	Companies with a VAT liability of over £2.3m are required to make interim payments during a VAT quarter
PHI Insurance	Permanent health insurance
Preference Shares	A share which entitles the holder to a fixed dividend, whose payment takes priority over that of ordinary share dividends.
Profits	Earnings from the delivery of services
Real prices	Prices or values are adjusted for inflation
Reserved Matters	Shareholders of particular classes may be granted veto rights in respect of specific reserved matters
Revenue/turnover	Sale of goods and services
S151 role	Responsible Financial Officer
Schoolsnet	Web based Schools guide
South Hams	South Hams District Council
State Aid	Any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union (EU
Strategy and Commissioning	Councils' operating model as part of T18 programme
Sunk cost	A cost that has been incurred and cannot be recovered
Support Services	Councils' operating model as part of T18 programme
T18 programme	Transformation Programme 2018
Teckal exemption	Permission for a Public Authority, in specified circumstances, to procure direct from an external company in which it has control.
Third parties	Other entities or individuals other than the LACC or the Councils
Treasury 5 Case Modelling approach	Guidance from the Treasury Greenbook business guidance
Treasury Greenbook business guidance	HM Treasury guidance for public sector bodies on how to appraise proposals before committing funds to a policy, programme or project
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
Unindexed	Monetary amounts have not been inflated using the assumed compounded 2.5%

Glossary of key terms	
Use of brackets	This represents a subtraction or a funding requirement
VAT	Value Added Tax
West Devon	West Devon Borough Council

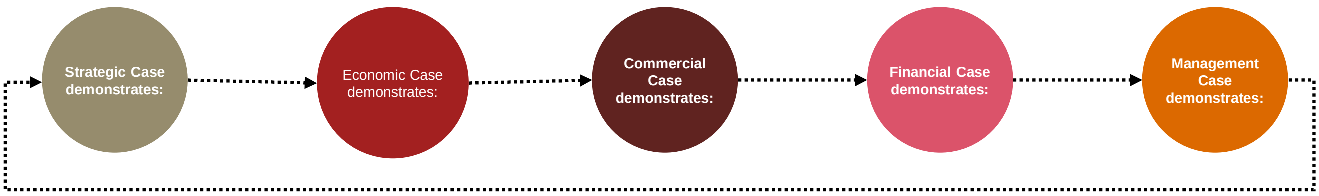
1.2. General assumptions

	'As Is' *Current operating model, assuming West Devon Waste retendered as outsourced*	*LACC* *LACC including delivery of waste services across SH&WD*
South Hams District Council		
Staff costs retained	346 combined	14
Staff costs transferred	n/a	332
Assets	Retained by the Council	Retained by the Council and leased to the LACC
Asset utilisation	Retained	Transferred
Current Leases - assets	Retained	Retained
Current Lease revenue	Retained	Retained
Pensions liability retained	Retained	Retained and guarantee provided to fund for current liability.
VAT claimable	All	All
Corporate Tax payable	n/a	Likely only payable on profits generated from activity outside of the Councils.
Payments to LACC	n/a	Payment based on current service levels offset by lease payable by the LACC
Waste services	Retained	Transferred to the LACC
Waste revenue	Retained	Transferred to the LACC
Current revenue- i.e. harbours, car parks, locational	Retained	Retained by the Council
Other revenue- i.e. BCP	To be agreed	To be agreed
Dividends from LACC	n/a	Payable to the Council
West Devon Borough Council		
Staff costs retained	<<this information has been removed due to commercial sensitivities>>	11
Staff costs transferred	n/a	<<this information has been removed due to commercial sensitivities>>
Assets	Retained	Retained by the Council and leased to the LACC
Asset utilisation	Retained	Transferred
Current Leases - assets	Retained	Retained

	'As Is' *Current operating model, assuming West Devon Waste retendered as outsourced*	*LACC* *LACC including delivery of waste services across SH&WD*
Current Lease revenue	Retained	Retained
Pensions liability retained	Retained	Retained and guarantee provided to fund for current liability.
VAT claimable	All	All
Corporate Tax payable	n/a	Likely only payable on profits generated from activity outside of the Councils.
Payments to LACC	n/a	Payment based on current service levels offset by lease payable by the LACC
Waste services	Outsourced	Transferred to the LACC
Waste revenue	Outsourced to FCC for recyclables and included in contract price.	Transferred to the LACC
Current revenue- i.e. car parks, commercial units, locational	Retained	Retained by the Council
Other revenue- i.e. BCP	To be agreed	To be agreed
Dividends from LACC	n/a	Payable to the Council

2. Introduction Appendix

2.1. Treasury Green Book 5 Case Modelling Approach



Strategic Case:
- Consider the strategic drivers of government impacting on Local Authorities ability to deliver services
- Review strategic context and identify if there is a need for change

Economic Case:
- Identify a number of options that suitably address the needs of the Councils
- Consider the risks and assess the options across a comprehensive range of criteria
- Identify a preferred option that meets the strategic drivers and need

Commercial Case:
- Identify the commercial issues relevant to the preferred option
- Consider if there are any show stoppers that would preclude the Council from taking action
- Consider if the Councils are capable of controlling the commercial issues and risks

Financial Case:
- Review the previous financial appraisals undertaken by the Councils and align key assumptions
- Identify the potential financial scenarios and their respective benefits
- Identify if the financial implications of the preferred option

Management Case:
- Identify the management requirements
- Identify the key risks and what is required to manage them appropriately
- Identify governance and responsibility for key management functions
- Outline an implementation plan that incorporates key transition requirements

2.2. West Devon Waste Options

Overview

FCC are currently contracted to West Devon Borough Council to provide waste collection, recycling collection and street cleansing services for a period of 7 years, with an expiry date of 31 March 2017. As part of this contract, FCC utilise depots currently owned or leased on a long term basis by West Devon.

We have been instructed to assess the viability of establishing a LACC and consider the implications of incorporating these waste services (including street cleansing) into the LACC after the expiry date. We were briefed to look at the timeframe for incorporating the West Devon Waste and Cleansing contract into the LACC in terms of feasibility and cost, as well as exploring the alternative options for the delivery of the service. We considered efficiencies which might be gained through delivery of joint services through the LACC, whilst recognising the current individual service configuration.

We were informed by West Devon Borough Council that without the establishment of a LACC, waste services in West Devon would continue to be outsourced and retendered. Although our engagement did not include any in depth analysis and/or service redesign, we have considered the previous work undertaken by Grant Thornton (GT), which identified a number of opportunities, and our assessment has focussed on maximising the benefits associated with incorporating these services into the LACC.

This section summarises the findings of our analysis and should be read in conjunction with the financial appendix, where the financial implications have been considered.

Background

The contract included three Lots i.e. Waste and Recycling; Street Cleansing; and the Cleansing and Maintenance of Public Conveniences. In 2009, FCC tendered for and were successful across the three Lots as their tender price included a discount for multiple award. Additionally, FCC were also successful in an option of managing (i.e. treatment including selling) of the dry recyclables collected.

We were **NOT** asked to look at providing a combined service delivery model for waste collection, this would be a completely separate piece of work to be undertaken by the Councils.

South Hams reviewed their service format in 2012/13 and West Devon are doing this currently through the work of their waste group.

Following reports to both Councils there was no appetite for a pan Devon waste solution but there was an agreement to continue to work together to align materials collected, procure jointly where appropriate and to look to work together in clusters in the future. The real block to achieving cluster working at present is the absence of a platform/or mechanism to deliver services in clusters.

Our approach

With regard to the outsourced waste and street cleansing services in West Devon we sought to keep the considerations separate from the concept of the Councils establishing a LACC. This proved to be complicated as a number of elements are intertwined. To make the distinction we:

- Considered the implications of the available options for inclusion within the LACC against the 5 cases in the business case;
- The financial implications of the options on the LACC;
- Considered the Devon wide assessment of waste services and the GT report into options for waste service delivery.

In conjunction with the Councils we identified a number of options that we have considered.

This has been informed by the Councils and other advisors including White Young Green who have worked with West Devon Borough Council on the waste contract and have a detailed understanding of the costs and implications of the current FCC contract and market conditions.

Options

In consultation with the Councils a number of options were identified and their relative impacts on each of the Council and the LACC considered. This section summarises the options and there relative impacts from a cost perspective and potential impacts on each entity.

Option 1: Included in LACC from commencement (April 2017)

Cost impact: Set up costs could be shared with the overall LACC establishment.

Impacts:

West Devon Borough Council	*South Hams District Council*	*LACC*
Impacts on timing of ordering assets required and resourcing to meet time requirements.	Opportunity to generate efficiencies through economies of scale through combined management.	• Opportunities to redesign service to timeframe i.e. garden-waste. Potential efficiencies to be realised from year 2/3. • Flexibility to introduce service changes i.e. chargeable garden waste at a point determined by the Members.

Option 2: Extend current contract with FCC for [6/12] months

<< Section removed – commercially confidential>>

Option 3: Continue to outsource current services and re-tender

<<Section removed – commercially confidential >>

Option 4: Managed service contract utilising new assets procured by West Devon Borough Council

<<Section removed in respect of possible contract negotiations>>

Considerations for establishment of a LACC

We considered the implications of including the services currently provided by FCC in the LACC in line with the 5 case business case adopted for consideration of a LACC as a whole. This section summarises the key findings for each of the five cases.

Strategic Case

The Business Case identified that recent Central Government policy decisions are significantly impacting the local authority funding model and that local authorities will need to be innovative if they are to be able to continue to provide services that meet their community's' needs.

There is a need for action to be taken as the current contract with FCC is due to expire on 31 March 2017. Previous work undertaken by GT identified that a range of options were available and that, even with retention of the different collection models across the Councils, there are likely to be efficiencies in management and a reduction in cost as a result of not having to pay the contractor's profit margin. These are further explained in the financial case.

PwC view:

- ***Strategically, the inclusion of waste and street cleansing services into a combined LACC aligns the service offerings across the Councils.***

Economic Case

The market analysis undertaken identified that a large portion of local authority budget spend across the South-West is on waste and street cleansing services and that a number of local authorities across the region already outsource these services.

The options appraisal assumed that the LACC would provide waste and street cleansing services across both Council areas for comparative purposes against the As Is model; however, consideration was also given to the timing of consolidating these services into the LACC.

Inclusion of these services within the LACC presents the Councils with a better opportunity to respond in a coordinated manner with larger scale and service offering to meet market and future tender requirements. A consolidated services presents the LACC with experience in different collection methods (differences between the Councils) and the ability to leverage items such as trade waste opportunities where South Hams District Council have experience.

Having an outsourced contract would likely increase the contract management complexity within the Councils as they would be managing the LACC, as well as another large scale contract. The recyclables market fluctuates and currently back to the levels incorporated into current FCC contract.

PwC view:

- ***Economically the inclusion of waste and street cleansing services appears to represent an opportunity to generate some additional efficiencies, primarily through management as waste collection would remain as is, in meeting the needs and expectations of the West Devon community.***
- ***Inclusion of waste and street cleansing services into the LACC presents an opportunity to maximise the revenue potential through a higher overall Teckal threshold for additional revenue.***

Commercial Case

The commercial case considered the organisational implications that the inclusion of waste and street cleansing within the LACC is likely to result in. This includes:

<<This information has been removed due to commercial sensitivities>>

Inclusion of these services within the LACC presents West Devon with an increased contractual footing as the overall value of the services purchased from the LACC would be greater. Keeping these services separate would significantly distort the value of services purchased from the LACC when compared to South Hams District Council.

PwC view:

- ***The inclusion of waste and street cleansing services in the LACC improves the balance of services provided to the Councils by the LACC.***
- ***Continuation of outsourced arrangements would significantly distort the value of services purchased by West Devon Borough Council from the LACC, i.e. could be in excess of 20%.***

Financial Case

The details are included in the financial appendix. The key findings include:

- Ultimately inclusion of these services within the LACC improves overall performance;
- Adoption of Option 2 – 6 month delay - could provide operational cost savings of c£<< figures removed – commercially confidential>> by 2024 and payback of the Combined costs of forming the LACC by 2021;Scope to generate future combined efficiencies and third party profits from the establishment of an in-house operation; and
- Establishment of a LACC is able to respond to either of the options considered.

PwC view:

- ***Financially the inclusion of waste and street cleansing services improves the payback period.***
- ***The assumption of no additional revenue for the LACC generated from third parties presents an opportunity to appropriately plan and not rush the process of incorporating within the LACC.***

Management Case

The management case presents an opportunity to leverage existing South Hams District Council experience in managing and operating waste collection, recyclables and trade waste services to provide greater benefits to the LACC.

The inclusion of these services in the LACC will increase the transfer requirements and management responsibility; however, over time the skills developed will provide the LACC with an improved position if tendering for external waste collection, trade waste or street cleansing contracts.

With the current FCC contract ending on 31 March 2017, it is likely that this option would create additional pressure on establishing the LACC. The other options that provide more time to consider management implications and efficiencies present the opportunity to better plan for the transition.

PwC view:

- ***The establishment of a LACC is not dependent on inclusion of waste and street cleansing services in West Devon.***
- ***The LACC is able to accommodate the option identified through provisions and transition timing.***

Summary

Our assessment of waste and street cleansing services in West Devon found:

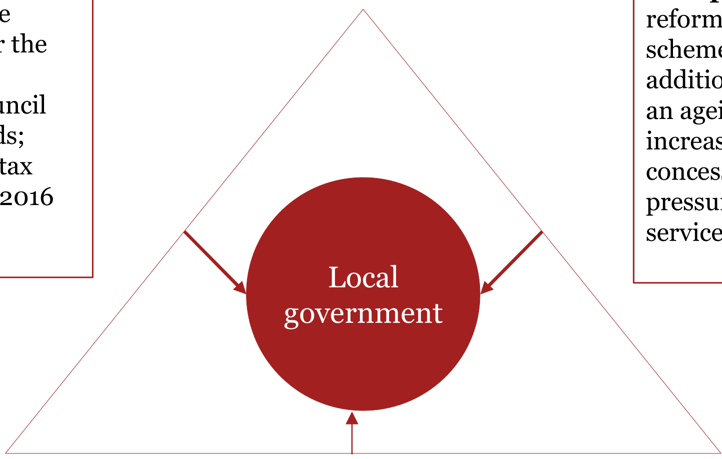
- That inclusion of these services into the LACC improves the overall offering of the LACC;
- That inclusion of these services better represents West Devon Borough Council interest in the LACC as a proportion of the potential service fee;
- The transition phase of the LACC does not need to be driven by these services as management mechanisms are available to respond to West Devon Borough Councils decision on its preferred option.

3. Strategic Case Appendices

3.1. Strategic Context

The 'English Devolution Local Solutions For A Successful Nation (2015)' paper identified that the Local Government Pressures include:

Funding pressures: A 40 per cent real terms cut to core government funding over the life of the parliament; consistently reducing council tax referendum thresholds; £1bn cut to local council tax support funding to April 2016



Cost pressures: Care service reforms (deferred payment schemes, social care cost cap); additional public health duties; an ageing population; increasing costs of concessionary fares schemes; pressures on social housing services; inflation

Other pressures: business rate appeals; welfare reform, including the benefit cap, social sector size criteria and Universal Credit; potential changes to interest rates

In order to avoid cuts to services, authorities are increasingly looking for ways to restructure service delivery to ensure that services remain fit for purpose in the context of smaller budgets.

A number of conclusions of the paper include:

- The Government must recognise that local government is fast approaching a state where, under the current circumstances, continued efficiency savings alone are not enough to tackle funding cuts for some councils
- Local authorities see a way ahead and many are already working closely together and with other local partners to reform and restructure local services by managing demand and agreeing joint objectives.

The Local Government Association responded to the Spending Review and identified:

- The refreshed Future Funding Outlook analysis suggests if things do not change, local government is set to face a funding gap of £9.5bnby 2020. With limited scope for further efficiencies, this can only put at risk valued public services
- Councils have been increasingly inventive in managing costs through collective purchasing, shared services and smarter contract management. Their appetite for innovation has been a major contributing factor to the success in tackling cuts. Working on their own and in partnership with other councils and organisations, they have repeatedly demonstrated their ability to do things differently, save money and improve the services on which their residents rely.

3.2. PwC Understanding of Local Government

PwC undertake an annual survey, 'Local State We're In'. In 2015 the survey asked over 100 Chief Executives and Leaders of local authorities around Great Britain about the challenges facing local government and their responses to them.

Five years on from our original 'Local State We're In' survey, councils have been successful in managing the significant cuts to date. But local authorities are now facing challenges on all fronts: financial pressures continue while demand and public expectations grow with the way ahead being challenging, but full of opportunity that the sector has the confidence to tackle and face.

Chief Executives and Leaders have recognised the need to do things differently, looking beyond their organisational boundaries and taking a place-based, whole systems approach to solving the challenges of growth and reform in their areas.

As the realisation grows that councils cannot operate in isolation, partnership working has also risen up the agenda.

Chris Buttress, PwC partner and local government leader comments:

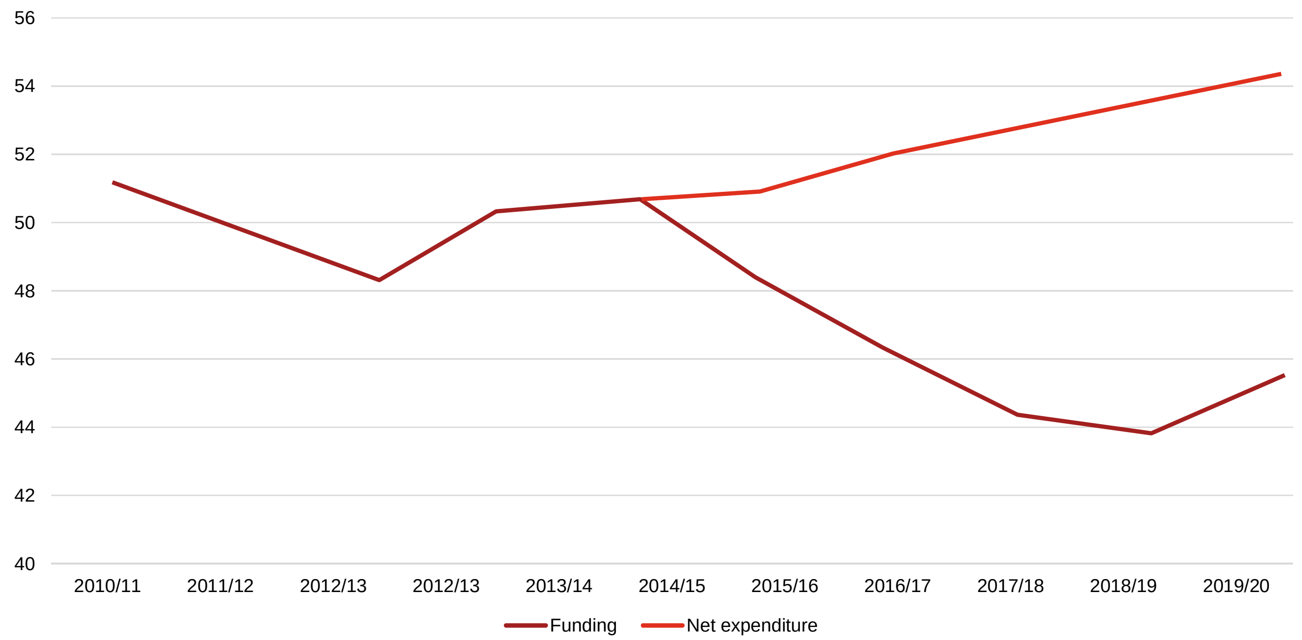
"It is clear, speaking with council leaders and their Chief Executives, that Councils are now considering more radical options – from rethinking relationships with customers and communities and better use of digital technologies, to deeper collaboration with partners. The business model of the public sector is changing rapidly as decision makers are considering what is the role of the public sector within a local area."
"Local authorities have largely responded well to the budget gap of the last four years. They are now anticipating having to do the same again, with less and less certainty of how to achieve this. We have no doubt that the future business model for public services will change significantly in the next four years - and those leading the sector in localities will be the ones who will deliver this new model – changes won't all necessarily be centrally driven."

3.3. Future funding for local authorities

The Future Funding outlook for councils 2019/2020 (Interim 2015 Update) identified:

- Councils are continuing to balance their budgets and fulfil their statutory obligations as well as delivering a range of services to promote growth and community cohesion. Each year they close the funding gap in the face of funding cuts and expenditure pressures;
- With social care and waste spending absorbing a rising proportion of the resources available to councils, funding for other council services drops by 35 per cent in cash terms by the end of the decade, from £26.6bn in 2010/11 to £17.2bn in 2019/20. To put this in context, this £9.3bn drop is greater than the £7.7bn total expenditure (in 2014/15) on central services, 'other' services and capital financing combined;
- The challenge cannot be solved by back-office efficiencies alone;
- There is also the introduction of the single state pension, which will increase employers' national insurance contributions for councils with no compensating new burdens payment. Different local areas will have their own local pressures and priorities, such as policies on the introduction of the Living Wage for council staff. These are dependent on local circumstances which present uncertainty and potential risks; and
- We can now bring together the analysis of projected income and expenditure trends to form a picture of Local Authority funding overall. This shows that the overall funding gap starts at just over £3bn in 2015/16 and reaches over £10bn by 2018/19, before shrinking to £9.5bn by 2019/20.

This identifies a potential reduction of approximately 20% in real terms. Income against expenditure 2010/11 to 2019/20 demonstrates:



3.4. Business Rates Uncertainty

Business rates are a property tax paid by occupants of non-domestic properties which Local authorities collect. In England, this function falls to district councils. Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by government to councils in the form of formula grant. The Local Government Finance Act (2012) gave local authorities power to keep half of the business rate in their area. The other half being used by Central Government to provide grant funding for Local Authorities.

The paper 'Business Rate Retention: the story continues (March 2015)', outlines that the primary challenges are the level of financial risk that councils face due to appeals and dependence on a small number of large businesses for a significant proportion of business rate income. It also identified that mechanisms which were to encourage local authorities to grow their economies are a counterproductive feature of the new system.

A Briefing Paper to the House of Commons on Business Rates (April 2016) outlines a number of reliefs and discounts including:

- Permanent reliefs include:
  - Premises occupied by small businesses in England
  - Properties occupies by charitable organisations
  - Rural rate relief for public houses or petrol stations in rural areas
  - Discretionary relief.
- Temporary reliefs include:
  - Flood relief, i.e. business affected by severe flooding in 2014 were entitled to three months relief
  - Retail relief is a discount of £1,500 on premises with a rateable value up to £50,000
  - Reoccupation relief is a 50% discount for new occupants in previously empty premises
  - Enterprise zones where relocating provides for 100% discount for 5 years.
- Local newspaper relief is a discount of £1,500 for office space
- Empty properties are exempt for three months and six months for industrial and storage premises.

The Briefing Paper also outlines there are a number of business rates supplements available to Local Authorities, including levying a supplement. However the only supplement scheme in use so far is a 2%

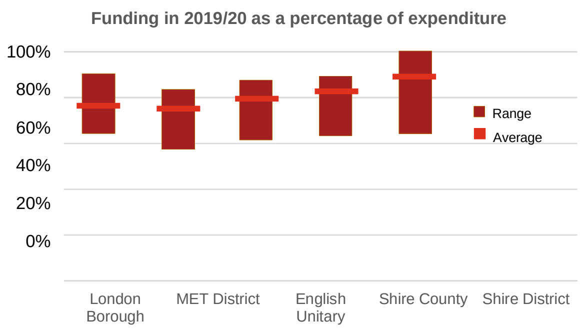
supplement for Crossrail in London. There may also be powers available through devolution deals to directly elected mayors in the future.

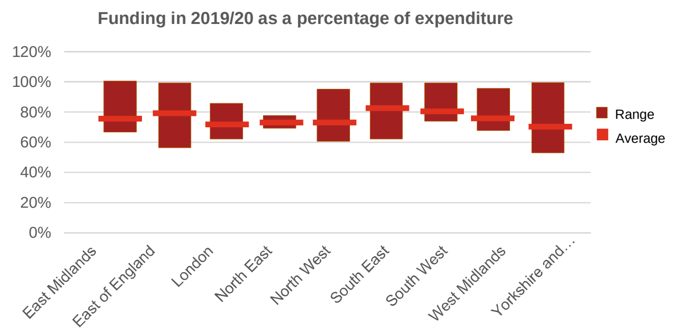
Business rates provides complexity for Local Authorities and a number of these risks are currently impacting the Councils, with business rate appeals potentially impact the funding available.

In summarising the national context, there are significant policy drivers of Central Government funding that will continue to influence the way local authorities deliver services and value for money.

3.5. Regional Context

In considering the national drivers of changes in local services, the Future funding outlook for councils from 2010/11 to 2019/20 Local Government Association (July 2013) identified impacts on authorities and regions. The charts below show the total funding level for the group (i.e. total income as a percentage of expenditure), as well as the maximum and minimum funding level for individual councils within that group and the region.





This demonstrate the variance between authorities and also within classes of authorities. All authorities are experiencing cuts in funding and are having to take difficult decisions to deliver savings over the forthcoming period. This demonstrates that County and District Councils in the South West have the highest percentage of funding requirement when compared to expenditure, representing they have a higher reliance on external funding than other authorities. Simply this shows that the Councils are comparatively more reliant on grant funding than other Local Authorities.

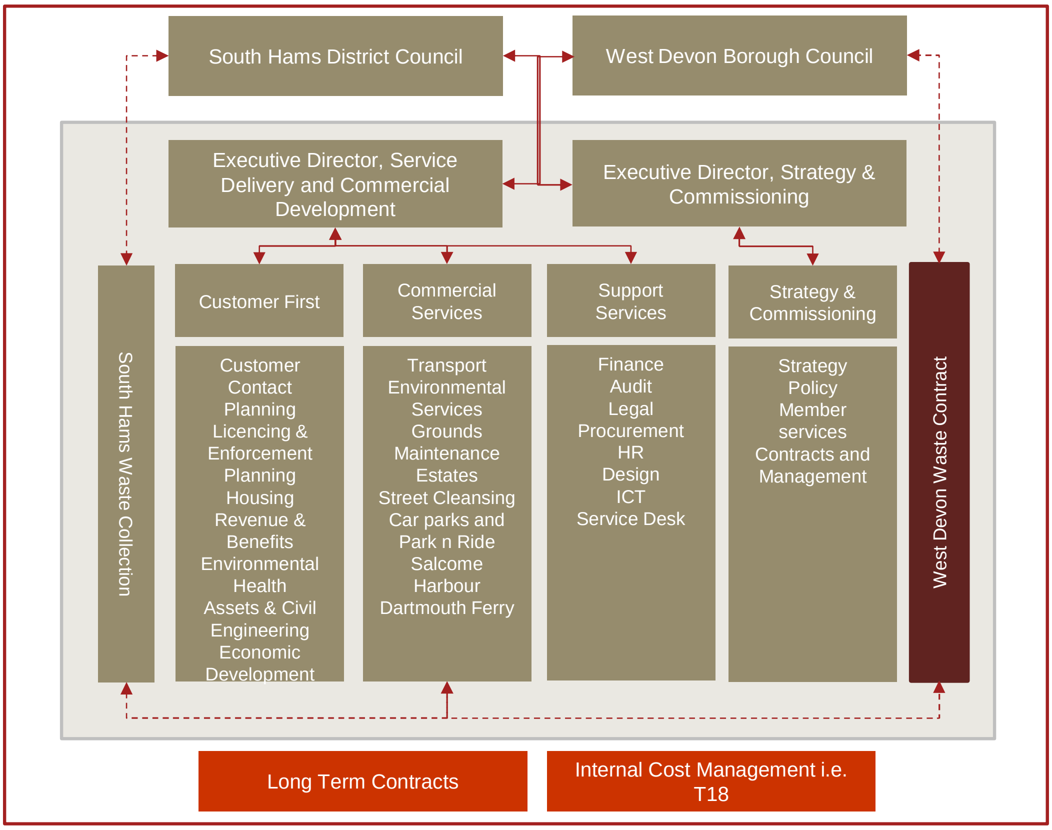
3.6. Current Operating Model

Section 3.3.1 provided an overview of the main functions of the Councils operating model and the following figure demonstrates our understanding of the current model. The key features of the operating model established through the T18 Programme are:

- The Councils share management and resources and deliver majority of services in-house;
- West Devon Waste is contracted whilst South Hams waste services are in-house;
- Leisure services management is currently being procured and likely to be a long term contract of 25 years;
- Current levers available to the Councils to drive change and realise efficiencies include, contracting for delivery of services (i.e. Leisure and West Devon Waste) or cost management for efficiencies and productivity improvements;
- No additional revenue is generated from providing existing services to other parties.

The Councils do generate some revenues through leasing out existing office space and charging for services within their existing structure with the majority of their revenue coming from Council Taxes, Business Rates and Government Grants.

Current Operating Model



It is evident that the current model is not able to respond to or maximise the opportunities presented by the market overview in assisting the Councils to offset the project funding gap. A broader options assessment was undertaken to consider how best to maximise these opportunities.

4. Economic Case Appendix

4.1. Market Size

Trying to identify the market size and penetration potential for the range of services provided by the Councils presented a number difficulties. The key difficulties were with regard to scope, timing and locational influences. We established a high level assessment to try and quantify the market size for services provided by the Councils. The approach adopted considered other local authorities and their budget spend on services. This was then broken down further to focus on key services that could potentially be provided by the Councils. To provide further support we have identified a range of contracts anticipated to be released to market within the near future.

Our research identified that the combined Local Authorities in the South West have a budget spend of approximately £4.6bn. (Source: Local authority revenue expenditure and financing England: 2015 to 2016 budget as released by the Department for Communities and Local Government.)

The market analysis did not consider in detail budgets of Parish Councils across the region due to the lack of information available. This presents further opportunity to leverage the Councils assets and service delivery model in addition to those identified for larger authorities across the South West region.

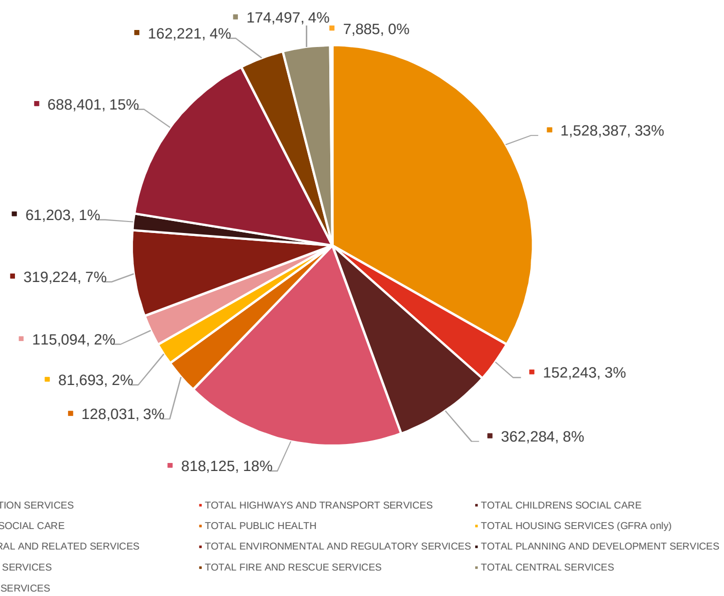
The Outsourcing Yearbook 2016 produced by the National Outsourcing Association outlines that research conducted by NelsonHall showed that UK public sector outsourcing deals rose by 168 percent in 2014. 75 percent of these were kept within the UK and over half were first time deals. IT was the most widely outsourced sector with business services, contact centre services, HR, pensions and payroll are now commonly outsourced.

The Briefing Paper Local government: alternative models of service delivery to the House of Commons (Number 05950, 20 May 2016) identified that there is no central repository of statistics showing the number of local authority companies, their revenue, capitalisation, or functions. Localis's March 2015 report Commercial Councils states:

- 94% of authorities share some services with another council;
- More than half of councils (58%) own a trading company, and at the rate it is increasing, full coverage by 2020 is a possibility;
- A majority of councils (57%) operate a joint venture with the private sector;
- Over a third of councils are using entrepreneurial methods in areas such as waste (46%), leisure and tourism (38%), IT/back office (38%) and housing (36%);
- Without these entrepreneurial activities, eight out of ten councils say they would have to cut services and raise taxes.

Localis's report provides the following table showing income, expenditure and profit of English local authority external trading services with a combined profit of approximately £300m:

(£m)	Income	Expenditure	Profit
2006-07	1093	799	294
2007-08	1104	792	312
2008-09	1139	828	311
2009-10	1158	886	272
2010-11	1130	838	292
2011-12	1131	815	316
2012-13	1092	791	301
Average	1121	821.3	299.7



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Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Total education services	Total highways and transport services	Total children's social care	Total adult social care	Total public health	Total housing services (GFRA only)	Total cultural and related services
North Somerset UA	112,947	9,783	21,225	57,229	9,229	9,406	5,271
Cornwall UA	252,088	24,028	65,773	140,571	25,644	15,770	19,742
Plymouth UA	133,315	16,325	45,646	71,965	14,925	5,976	8,031
Torbay UA	53,190	5,235	30,183	39,096	8,890	3,449	6,068
Devon	417,868	54,833	82,355	210,280	26,767	2,841	11,313
East Devon	0	-1,974	0	0	0	1,271	3,340
Exeter	0	-3,740	0	0	0	3,351	5,505
Mid Devon	0	-209	0	0	0	1,033	714
North Devon	0	-1,577	0	0	0	1,703	1,437
South Hams	0	-1,784	0	0	0	1,493	1,416
Teignbridge	0	-1,952	0	0	0	2,229	2,659
Torridge	0	-427	0	0	0	1,247	876
West Devon	0	-296	0	0	0	1,139	655
Poole UA	65,748	6,801	19,899	41,518	7,344	4,444	7,001
Dorset	248,577	26,602	39,658	120,558	15,156	139	8,895
East Dorset	0	-108	0	0	0	1,179	1,274
North Dorset	0	-294	0	0	0	410	244
Purbeck	0	-121	0	0	0	845	466
West Dorset	0	-1,299	3	0	0	1,736	1,769
Weymouth & Portland	0	-996	4	0	0	1,703	1,251
Forest of Dean	0	-26	0	0	0	925	933
Stroud	0	-200	0	0	0	1,453	2,076
Tewkesbury	0	-354	0	0	0	1,145	714
Somerset	244,654	29,095	57,538	136,908	20,076	6,015	10,338
Mendip	0	-1,090	0	0	0	4,033	1,103
Sedgemoor	0	-425	0	0	0	1,428	1,775
Taunton Deane	0	-2,486	0	0	0	2,075	2,361
South Somerset	0	-823	0	0	0	2,592	2,978
West Somerset	0	-238	0	0	0	663	324
Dartmoor National Park Authority	0	-3	0	0	0	0	2,405
Exmoor National Park Authority	0	-37	0	0	0	0	2,160
	1,528,387	**152,243**	**362,284**	**818,125**	**128,031**	**81,693**	**115,094**

Revenue Account Budget (RA): 2015-16 data
Net current expenditure (£ thousand)

Local authority	Total environmental and regulatory	Total planning and development services	Total police services	Total fire and rescue services	Total central services	Total other services	Total service expenditure
North Somerset UA	20,194	637	0	0	7,462	0	253,383
Cornwall UA	68,175	5,647	0	21,234	28,025	0	666,697
Plymouth UA	23,934	1,770	0	0	16,819	157	338,863
Torbay UA	12,842	4,074	0	0	8,305	692	172,024
Devon	37,360	6,784	0	0	20,185	0	870,586
East Devon	7,562	2,498	0	0	3,737	142	16,576
Exeter	4,954	1,641	0	0	4,597	-16	16,292
Mid Devon	2,921	1,241	0	0	2,688	0	8,388
North Devon	4,956	1,599	0	0	3,477	0	11,595
South Hams	4,163	224	0	0	3,522	0	9,034
Teignbridge	6,757	1,475	0	0	4,728	224	16,120
Torridge	3,078	938	0	0	2,557	0	8,269
West Devon	3,268	1,162	0	0	2,980	75	8,983
Poole UA	12,034	2,647	0	0	6,744	-439	173,741
Dorset	22,348	4,208	0	0	3,449	0	489,591
East Dorset	3,485	1,232	0	0	2,624	0	9,686
North Dorset	2,569	1,606	0	0	2,381	30	6,946
Purbeck	2,007	977	0	0	1,566	-183	5,557
West Dorset	5,411	1,859	0	0	3,070	0	12,549
Weymouth & Portland	3,987	1,157	0	0	2,717	0	9,823
Forest of Dean	4,109	941	0	0	3,837	0	10,719
Stroud	5,004	1,764	0	0	2,815	1,027	13,939
Tewkesbury	2,360	1,061	0	0	4,374	-108	9,192
Somerset	30,753	3,536	0	0	12,026	5,615	556,553
Mendip	4,729	1,317	0	0	2,676	732	13,501
Sedgemoor	6,096	2,381	0	0	3,530	-561	14,224
Taunton Deane	4,424	1,955	0	0	1,328	0	9,657
South Somerset	7,551	3,005	0	0	2,936	498	18,737
West Somerset	1,983	602	0	0	1,437	0	4,770
Avon Combined Fire and Rescue Authority	0	0	0	41,066	876	0	41,942
Dorset Combined Fire and Rescue Authority	0	0	0	28,778	2,036	0	30,814
Devon and Somerset Combined Fire and Rescue Authority	0	0	0	71,143	600	0	71,743
Dartmoor National Park Authority	103	758	0	0	338	0	3,601
Exmoor National Park Authority	107	507	0	0	283	0	3,020
Dorset Police and Crime Commissioner and Chief Constable	0	0	125,455	0	889	0	126,344
Avon & Somerset Police and Crime Commissioner and Chief Constable	0	0	281,950	0	1,315	0	283,265
Devon & Cornwall Police and Crime Commissioner and Chief Constable	0	0	280,996	0	1,568	0	282,564
	319,224	**61,203**	**688,401**	**162,221**	**174,497**	**7,885**	**4,599,288**

Breaking this down further identified a potential market within the South West Local Authority Area for those services currently provided by the Councils to be approximately £500m per annum.

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Transport planning, policy and strategy	Structural maintenance	Environmental, safety and routine maintenance	Winter service	Street lighting (including energy costs)	Traffic management and road safety: road safety education and safe routes (including school crossing patrols)	Traffic management and road safety: other	Parking services	Airports, harbours and toll facilities	Highways and transport services
North Somerset	1,289	2,175	1,712	356	1,639	9	32	-769	0	9,783
Cornwall	4,519	326	8,552	1,281	2,165	1,169	595	-9,312	2,670	24,028
Plymouth	2,541	1,019	2,616	0	2,204	559	1,608	-518	-357	16,325
Torbay	111	1,793	969	141	1,083	241	0	-3,480	-345	5,235
Devon	1,042	2,603	25,047	3,282	5,465	1,017	389	-528	0	54,833
East Devon	0	0	0	0	0	0	0	-1,988	0	-1,974
Exeter	44	0	118	0	59	0	0	-3,978	0	-3,740
Mid Devon	0	0	0	0	0	0	0	-199	0	-209
North Devon	0	0	0	0	0	0	48	-1,712	100	-1,577
South Hams	0	0	0	0	0	0	0	-1,626	-158	-1,784
Teignbridge	0	0	0	0	0	0	0	-1,952	0	-1,952
Torridge	0	0	0	0	0	0	0	-482	50	-427
West Devon	0	0	0	0	0	0	0	-317	0	-296
Poole UA	469	1,285	1,577	135	1,138	371	0	-2,522	0	6,801
Dorset	1,361	324	7,098	884	6,669	471	1,508	-511	0	26,602
East Dorset	0	0	0	0	0	0	25	-214	0	-108
North Dorset	0	0	0	0	0	0	12	-306	0	-294
Purbeck	0	0	8	0	0	0	0	-129	0	-121
West Dorset	0	0	15	0	0	0	0	-1,503	184	-1,299
Weymouth & Portland	-70	0	63	0	0	0	0	-1,568	579	-996
Forest of Dean	0	0	0	0	0	0	0	-26	0	-26
Stroud	-6	0	0	0	0	0	0	-195	0	-200
Tewkesbury	2	0	0	0	0	0	0	-356	0	-354
Somerset	2,682	1,642	6,130	1,266	4,254	1,502	0	74	0	29,095
Mendip	29	0	0	0	0	0	0	-1,119	0	-1,090

South Hams District Council and West Devon Borough Council

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Transport planning, policy and strategy	Structural maintenance	Environmental, safety and routine maintenance	Winter service	Street lighting (including energy costs)	Traffic management and road safety: road safety education and safe routes (including school crossing patrols)	Traffic management and road safety: other	Parking services	Airports, harbours and toll facilities	Highways and transport services
Sedgemoor	66	0	125	0	0	0	2	-627	0	-425
Taunton Deane	0	0	0	0	0	0	0	-2,588	0	-2,486
South Somerset	39	0	257	0	0	0	0	-1,181	0	-823
West Somerset	0	0	0	0	0	0	0	-267	29	-238
	14,118	**11,167**	**54,287**	**7,345**	**24,676**	**5,339**	**4,219**	**-39,939**	**2,752**	**152,243**

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Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Housing, advice, advances, enabling, renewals and licensing	Homelessness	Archives	Culture and heritage (excluding Archives)	Recreation and sport	Open spaces	Tourism	Library service	Cemetery, cremation and mortuary services	Regulatory services: Trading standards
North Somerset	1,289	2,175	1,712	356	1,639	9	32	-769	0	9,783
Cornwall	4,519	326	8,552	1,281	2,165	1,169	595	-9,312	2,670	24,028
Plymouth	2,541	1,019	2,616	0	2,204	559	1,608	-518	-357	16,325
Torbay	111	1,793	969	141	1,083	241	0	-3,480	-345	5,235
Devon	1,042	2,603	25,047	3,282	5,465	1,017	389	-528	0	54,833
East Devon	0	0	0	0	0	0	0	-1,988	0	-1,974
Exeter	44	0	118	0	59	0	0	-3,978	0	-3,740
Mid Devon	0	0	0	0	0	0	0	-199	0	-209
North Devon	0	0	0	0	0	0	48	-1,712	100	-1,577
South Hams	0	0	0	0	0	0	0	-1,626	-158	-1,784
Teignbridge	0	0	0	0	0	0	0	-1,952	0	-1,952
Torridge	0	0	0	0	0	0	0	-482	50	-427
West Devon	0	0	0	0	0	0	0	-317	0	-296
Poole UA	469	1,285	1,577	135	1,138	371	0	-2,522	0	6,801
Dorset	1,361	324	7,098	884	6,669	471	1,508	-511	0	26,602
East Dorset	0	0	0	0	0	0	25	-214	0	-108
North Dorset	0	0	0	0	0	0	12	-306	0	-294
Purbeck	0	0	8	0	0	0	0	-129	0	-121
West Dorset	0	0	15	0	0	0	0	-1,503	184	-1,299
Weymouth & Portland	-70	0	63	0	0	0	0	-1,568	579	-996
Forest of Dean	0	0	0	0	0	0	0	-26	0	-26
Stroud	-6	0	0	0	0	0	0	-195	0	-200
Tewkesbury	2	0	0	0	0	0	0	-356	0	-354
Somerset	2,682	1,642	6,130	1,266	4,254	1,502	0	74	0	29,095
Mendip	29	0	0	0	0	0	0	-1,119	0	-1,090
Sedgemoor	528	666	0	29	939	807	0	0	56	0
Taunton Deane	855	372	0	167	875	1,205	114	0	-517	0
South Somerset	249	1,053	0	517	1,098	1,193	170	0	-105	0

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Housing, advice, advances, enabling, renewals and licensing	Homelessness	Archives	Culture and heritage (excluding Archives)	Recreation and sport	Open spaces	Tourism	Library service	Cemetery, cremation and mortuary services	Regulatory services: Trading standards
West Somerset	323	111	0	0	0	271	53	0	48	0
Dartmoor National Park Authority	0	0	0	219	0	1,891	295	0	0	0
Exmoor National Park Authority	0	0	0	305	0	1,493	362	0	0	0
	15,042	**16,008**	**2,525**	**15,222**	**24,730**	**35,085**	**4,712**	**32,821**	**-3,662**	**6,796**

South Hams District Council and West Devon Borough Council

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Regulatory services: Food safety	Regulatory services: Environmental protection; noise and nuisance	Regulatory services: Housing standards	Regulatory services: Health and safety	Regulatory services: Pest control	Regulatory services: Public conveniences	Regulatory services: Animal and public health; infectious disease	Regulatory services: Licensing - Alcohol and entertainment licensing; taxi licensing	Community safety (Crime reduction)	Community safety (Safety services)
North Somerset	451	479	0	0	-11	128	194	-98	303	0
Cornwall	1,867	2,639	1,460	53	0	1,395	198	394	1,540	0
Plymouth	480	433	18	315	31	227	463	-191	1,060	306
Torbay	489	480	356	10	22	901	111	114	354	161
Devon	335	0	0	0	0	0	527	0	0	0
East Devon	240	378	282	197	14	619	69	-11	50	171
Exeter	-7	150	208	120	0	392	82	239	0	-29
Mid Devon	83	120	0	0	16	79	128	15	71	0
North Devon	275	229	72	60	11	434	142	30	243	7
South Hams	248	147	112	155	15	587	116	-42	0	113
Teignbridge	349	484	77	44	14	591	84	-27	83	41
Torridge	175	244	82	56	19	219	93	38	60	118
West Devon	91	0	0	0	14	188	594	94	44	0
Poole UA	313	559	0	187	44	313	124	50	0	590
Dorset	0	0	0	0	0	0	0	0	0	1
East Dorset	196	222	0	218	64	157	206	106	38	0
North Dorset	0	0	0	0	8	0	476	35	0	80
Purbeck	122	118	0	31	6	91	121	31	32	35
West Dorset	352	270	335	80	74	514	119	36	0	0
Weymouth & Portland	302	230	148	0	0	375	100	-64	0	102
Forest of Dean	99	148	0	0	85	158	0	103	439	0
Stroud	206	289	0	124	118	220	208	-36	147	341
Tewkesbury	136	104	19	133	14	0	73	-4	0	79
Somerset	3	406	0	0	0	0	559	-128	591	99
Mendip	-1	-7	135	358	6	90	38	268	0	63
Sedgemoor	169	111	2	87	26	124	209	71	114	18
Taunton Deane	328	212	0	9	30	297	120	-24	0	0

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Regulatory services: Food safety	Regulatory services: Environmental protection; noise and nuisance	Regulatory services: Housing standards	Regulatory services: Health and safety	Regulatory services: Pest control	Regulatory services: Public conveniences	Regulatory services: Animal and public health; infectious disease	Regulatory services: Licensing - Alcohol and entertainment licensing; taxi licensing	Community safety (Crime reduction)	Community safety (Safety services)
South Somerset	384	93	216	330	102	171	159	36	0	60
West Somerset	57	0	0	8	0	138	20	-17	0	0
Dartmoor National Park Authority	0	0	0	0	0	103	0	0	0	0
Exmoor National Park Authority	0	0	0	0	0	107	0	0	0	0
	7,742	**8,538**	**3,522**	**2,575**	**722**	**8,618**	**5,333**	**1,018**	**5,169**	**2,356**

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Community safety (CCTV)	Defences against flooding	Land drainage and related work (excluding levy / Special levies)	Land drainage and related work - Levy / Special levies	Coast protection	Agriculture and fisheries services	Street cleansing (not chargeable to Highways)	Waste collection	Waste disposal	Trade waste
North Somerset	452	368	168	503	0	53	1,437	6,499	8,995	0
Cornwall	125	0	104	0	714	-933	5,769	8,371	37,751	-7
Plymouth	168	64	0	0	0	39	3,719	741	15,626	-363
Torbay	152	71	0	0	165	-598	2,030	3,538	4,860	0
Devon	0	1,158	0	0	28	-284	0	0	24,482	20
East Devon	29	163	0	0	103	31	1,289	1,991	2	0
Exeter	565	0	125	0	0	0	1,483	1,604	0	-236
Mid Devon	17	0	82	0	0	0	386	1,391	0	-103
North Devon	181	16	0	0	7	-25	667	1,954	0	37
South Hams	0	49	0	0	27	0	819	1,647	0	-81
Teignbridge	2	220	6	0	116	0	1,252	1,225	0	0
Torridge	154	1	3	0	2	0	580	694	0	0
West Devon	0	99	0	0	0	0	509	1,635	0	0
Poole UA	307	0	231	0	116	48	1,838	2,217	7,533	-32
Dorset	0	0	0	0	0	0	0	0	12,551	0
East Dorset	0	0	44	0	0	0	27	2,207	0	0
North Dorset	0	14	0	0	0	0	37	1,908	0	0
Purbeck	0	26	0	0	18	0	372	554	0	0
West Dorset	146	0	255	0	279	0	5	2,943	0	0
Weymouth & Portland	174	0	22	0	297	0	1,146	1,746	0	0
Forest of Dean	0	55	0	0	0	0	544	1,575	0	0
Stroud	43	0	74	103	0	0	706	1,647	5	0
Tewkesbury	0	0	116	5	0	0	478	894	0	16
Somerset	0	684	0	0	3	-136	0	0	21,601	0
Mendip	136	1	1	113	0	0	702	3,170	0	0
Sedgemoor	168	126	2	1,234	7	0	653	2,910	0	0
Taunton Deane	252	128	0	20	0	0	733	1,550	0	0

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

South Somerset	51	138	55	0	0	0	1,294	2,487	132	0
West Somerset	46	23	0	0	25	0	479	1,161	0	0
	3,168	**3,404**	**1,288**	**1,978**	**1,907**	**-1,805**	**28,954**	**58,259**	**133,538**	**-749**

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Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Local authority	Recycling	Waste minimisation	Climate change costs	Building control	Development control	Planning policy	Environmental initiatives	Economic development	Community development	Economic research	Business Support	Emergency planning	Central services to the public: other
North Somerset	0	115	0	-42	403	728	0	103	0	0	-555	68	712
Cornwall	4,244	0	0	-70	2,098	1,920	-1,693	2,922	1,748	0	-1,278	398	1,404
Plymouth	1,792	0	0	5	482	798	368	-1,712	1,813	16	0	200	914
Torbay	119	12	0	65	278	879	39	1,920	537	0	356	136	855
Devon	8,945	294	272	0	1,090	421	2,448	621	1,550	129	525	184	1,268
East Devon	1,795	0	0	155	1,079	564	0	-3	416	0	287	54	680
Exeter	94	0	0	42	723	56	0	684	136	0	0	17	540
Mid Devon	433	0	0	80	422	334	6	68	331	0	0	0	313
North Devon	624	0	0	-1	605	184	6	454	100	0	251	47	369
South Hams	197	0	0	52	366	206	27	-590	133	2	28	28	215
Teignbridge	1,645	348	49	0	734	701	0	-133	143	0	30	38	808
Torridge	552	0	0	90	236	418	72	67	55	0	0	27	404
West Devon	0	0	0	32	595	198	0	0	125	0	212	2	224
Poole UA	-1,817	0	0	98	953	491	90	59	502	454	0	153	589
Dorset	8,474	0	0	0	428	1,026	1,708	375	711	0	-39	191	130
East Dorset	0	0	0	108	658	251	7	198	10	0	0	41	239
North Dorset	0	0	0	72	560	548	29	180	217	0	0	48	342
Purbeck	442	0	0	52	419	421	22	41	22	0	0	39	276
West Dorset	0	0	0	189	598	567	0	161	344	0	0	144	107
Weymouth & Portland	0	0	0	121	393	335	0	134	174	0	0	85	-418
Forest of Dean	877	0	0	-15	466	173	23	122	172	0	0	107	293
Stroud	657	28	0	88	590	349	217	432	88	0	0	85	694
Tewkesbury	250	0	0	29	205	401	37	54	309	0	26	33	509
Somerset	6,476	0	0	0	398	709	1	907	968	207	346	260	636
Mendip	-381	0	28	108	101	318	608	0	-139	0	322	25	269
Sedgemoor	0	0	0	67	703	364	48	731	440	28	0	50	395

Revenue Account Budget (RA): 2015-16 data

Net current expenditure (£ thousand)

Taunton Deane	1,284	0	2	74	75	620	0	1,070	116	0	0	96	484
South Somerset	1,948	0	0	116	452	682	39	858	767	107	-16	170	202
West Somerset	0	0	0	114	13	257	0	124	42	0	53	0	195
Avon Combined Fire and Rescue Authority	0	0	0	0	0	0	0	0	0	0	0	66	0
Dartmoor National Park Authority	0	0	0	0	515	243	0	0	0	0	0	0	0
Exmoor National Park Authority	0	0	0	0	238	0	200	69	0	0	0	0	0
	38,650	**797**	**351**	**1,629**	**16,876**	**15,162**	**4,302**	**9,916**	**11,830**	**943**	**548**	**2,792**	**15,160**

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4.2. Potential Contracts

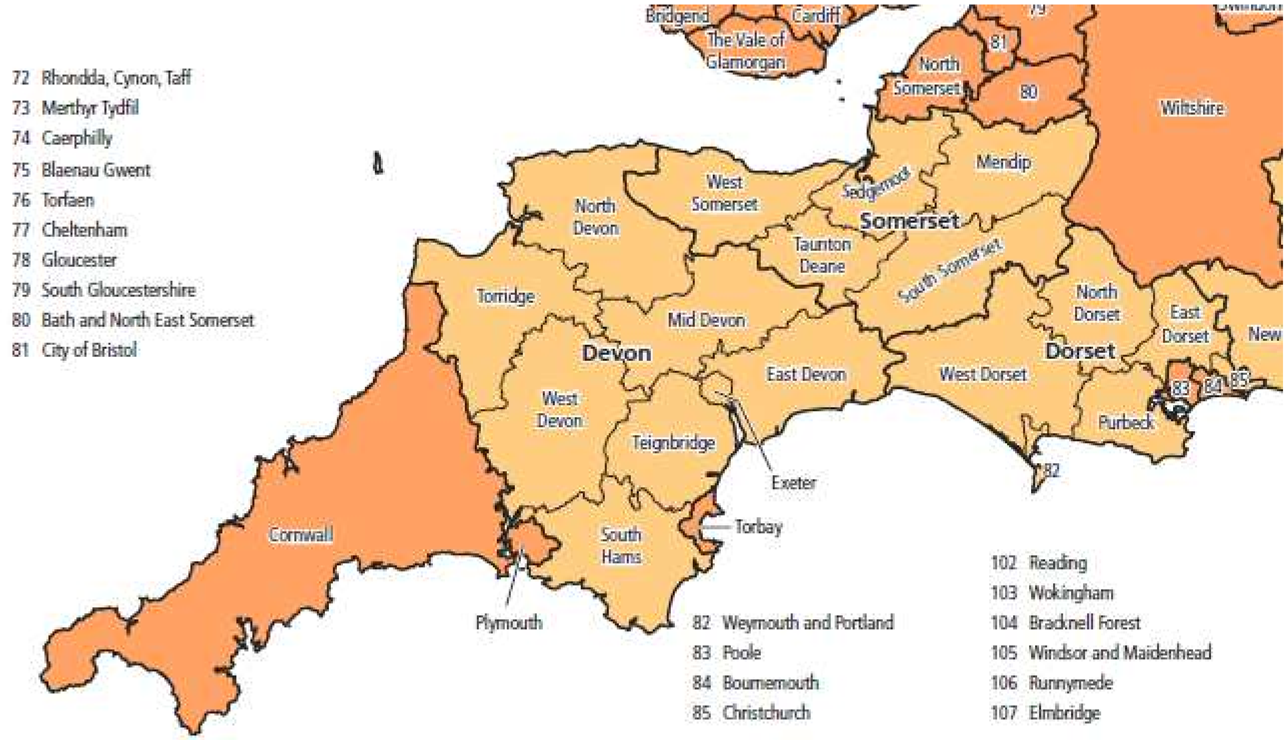
We have identified in excess of 70 potential contracts coming to market in the next 4 years in the South West. These are of varying value and term and we have included a selection of these contracts below:

Contract	Contract Value (£)	Contract End Date
Grounds & Facilities- Services in South West (Plymouth & Exeter)	£80k pa	2019
Environmental Health Services - Plymouth University	£180k pa	2018
Stock Management Tool for Somerset County Council	£133k pa	2019
Project Management Support- Development of Single IT Service for Tri-Council Partnership	£70k	2016
Cornwall Transformation Challenge Award (TCA) Service Design and Support	£25kpa	2017
Building Cleaning- South Devon College	£800k pa	2018
Cornwall Housing Maintenance Framework (Lot 1: Planned Mechanical and Electrical Maintenance)	£2.5m pa	2017
Cornwall Housing Maintenance Framework (Lot 2: Planned Ground Work Maintenance)	£2.5m pa	2017
Cornwall Housing Maintenance Framework (Lot 5: Planned General Building Maintenance (Under £150k East))	£2.5m pa	2017
Cornwall Housing Maintenance Framework (Lot 6: Planned General Building Maintenance (Under £150k West))	£2.5m pa	2017
Cornwall Housing Maintenance Framework (Lot 7: Planned General Building Maintenance (£150k to £500k))	£2.5m pa	2017
Waste and recycling collections and beach and street cleaning services - Cornwall Council	£15.6m pa	2020
Refuse and Recycling Products (including wheeled bins) - ESPO Framework 860 Iss 11 - Cornwall Council	£500k pa	2018
Schools Maintenance, Access and Minor Works Programme 2015 - Cornwall Council	-	2017
Framework Agreement for the Manufacture, Delivery and Assembly on site of Beach Huts, on behalf of Cornwall Council and other nominated organisations - Cornwall Council	£500k pa	2019
Academy Support - Cornwall Council	£99k pa	2017
Payment Collection Services - Cornwall Council - Cornwall Council	£125k pa	2020
Collection and processing of domestic refuse and recycling - Tandrige District Council	£2.4m pa	2019
CP1123-15 Committee Management System - Devon County Council	-	2018
CP1172-15 The Devon Maintenance Panel Agreement - Devon County Council	-	2020
Dorset Public Sector Network (DPSN) FRAMEWORK - Dorset County Council	£20m pa	2018
Growth Hub Service for the Heart of the South West LEP - North Somerset Council	£500k pa	2019
Vehicle Parts Managed Service Contract - Dorset County Council	£1m pa	2019
Waste Treatment and Disposal Contract - Dorset County Council	£1.3m pa	2020

4.3. Responding to the Market

Regional considerations

In considering the market we next considered the regional opportunities for other Local Authorities. We understand that previous discussions between the Councils and Torridge District Councils identified that they did not wish to participate in establishing a LACC at this time. We also understand that an existing relationship exists with Teignbridge District Council who provide specialised procurement services to the Councils on a part time basis.



(Extract: http://www.cpag.org.uk/sites/default/files/ONS%20Map%20UK%20local%20authorities%202009.pdf)

The proximity of Cornwall, Plymouth and others in Devon including Torridge, Mid Devon, Teignbridge, Exeter and North Devon present opportunities for provision of services to other local authorities. These also present opportunities to either enter partnerships or joint ventures with to leverage local operations. In the short term it is likely that operations will be focused locally but longer term opportunities may be presented further afield in Somerset or other areas to the north. For example Norse Group who have established joint operations nationally.

The table below summarises the key features across the southwest:

Council	Summary
Cornwall Council	Has a demonstrated history of outsourcing including major contracts with BT for IT and back office support services, as well as establishing arm's length trading organisations for the airport, housing, leisure, social care and environmental services. Established Cormac as a LACC for provision of highway and maintenance services.
Torbay Council	Has a demonstrated history of outsourcing a range of functions including waste, grounds maintenance and cleansing services. Also uses Virgin Care for children's health and social care.
Dorset Council	Traditionally hasn't outsourced a lot of functions.
Devon County Council	Involved in the Building Control Partnership as well as with Virgin Care for children's health and social care.
Plymouth City Council	Have outsourced IT and social care, as well as with Virgin Care for children's health and social care.

Somerset County Council	Have outsourced IT functions and established Southwest ONE with IBM and Avon to provide shared services including, Customer Contact Centre, Corporate Services, Design & Print, Enquiry Office, Finance Services, Human Resources, Property Services, Strategic Procurement Service and Technology Services.
Hampshire County Council	Have an integrated business centre with shared services arrangements for back office and support functions.
Gloucestershire City Council	Have outsourced IT functions as well as adult social care.
Bath and North Easter Somerset Council	Primarily outsourced health and social care with the remainder of services in-house.
Bristol City Council	Traditionally haven't outsourced a lot of administrative functions. Recently established a power supply company and outsource waste collection.

The majority of Local Authorities appear to outsource waste services.

Other Public Sector Entities

In addition to Local Authorities, we considered potential for other public sector entities and their requirements for services that the LACC could potentially provide.

There are a number of health facilities in the region. With an ageing population forecast to increase in the future provision of health services has the potential to expand in the South West region. There is also a large number of privately owned and operated hospitals and health facilities across Cornwall and Devon. Nuffield Health and Ramsay are two major providers active in the region. Consideration would need to be given to the service offering available to these entities following an establishment and proving period with public facilities. There may also be opportunity to leverage waste and cleaning services in expanding into clinical waste treatment, as an example.

The Government is also pursuing a drive to increase autonomy in the education sector through increasing the number of academy schools. There are a large number of schools across the region and Schoolsnet outlines that across Cornwall and Devon there are approximately 730 preparatory, primary and secondary schools.

In addition to health and education other government bodies including:

- Communities and local government;
- Business, innovation and skills;
- Environment, food and rural affairs;
- Food standards agency;
- National parks;
- National trust, heritage or charitable organisations.

These organisations have varying degrees of operation within the region and could present opportunity to provide a range of services.

Private Sector

In considering the external opportunities in the region, it was identified that these are likely to be limited in the near term. There could be medium term opportunities but market penetration will be dependent on skills development with regard to pricing and tendering. This will be significant in the Councils' ability to generate additional revenues.

A desktop review identified that there are existing suppliers of a range of the services to be provided by the LACC. The Councils would need to consider their unique selling proposition when engaging with the private sector to enhance their brand to improve their ability to compete established private sector suppliers.

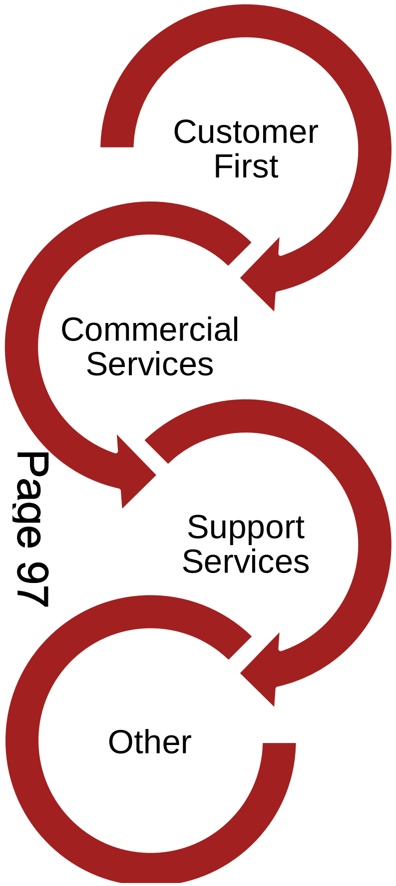
In the short term the Councils should focus on functions and areas that are more familiar, for example, other local authorities and/or other public sector entities within the Councils' geographic area.

4.4. Business Needs and Service Requirements

The T18 Programme involved the redesign of all services. The figure below summarises the scale of the service provision within the partnership across:

- Customer First
- Commercial Services
- Support Services
- Other functions

The Councils advised significant work has been undertaken on establishing the current operating model and consideration should not be given to any further amendments or restructure of the model as part of this engagement.



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Services			Staff	Locations	Other
Field based customer contact teams Customer contact centre/reception Planning Licencing and Enforcement Strategic Planning / Development management Building Inspections Food Inspections/Hygiene Coastal Management Taxi's	Housing Advice Revenue & Benefits Environmental Health Assets and Civil Engineering Economic Development Building Control Asylum Seekers Crime and Antisocial behaviour Emergency Management Street collections and trading	Markets, events and exhibitions Flood Management Funerals Gambling Grants Traveller sites Health and Safety Homelessness Licensing, permits and policies Pests, noise and pollution	155 FTE's	Kilworthy Follaton Okehampton	Council Owned assets and locations Services jointly provided between Councils Building Control provided in in partnership with Teignbridge District Council, which is currently hosted in Teignbridge District Council.
West Devon Waste Contract Management Waste Management Services (South Hams, including trade waste) Transport Grounds Maintenance Winter Services Waste Education Recycling and education	Estates Maintenance Street Cleansing Car Parks and Park & Ride Litter cleaning and education Salcombe Harbour Management Dartmouth Lower Ferry Management Roadside removal (i.e. deceased animals) Facilities management		170 FTE's	Waste & cleansing: SH has 2 main depots plus a headquarters, WD has 2 depot sites Transport: SH only depot Estates: Totnes depot Maintenance: SH only Salcombe Dartmouth	Primarily Council owned assets and locations Material recycling plant at WD on a long term lease WD contact for Waste services is with FCC Environment and expires March 2017
Finance Audit Accounts Payable Management Accounting Financial Analysis Treasury Management Legal Procurement Human Resources	Support Services Desk ICT Design Employment services Insurances Technology Project Management		66 FTE's	Primarily Follaton House, South Hams	Procurement services contracted from Teignbridge Council at 2 days per week Audit services in partnership with Devon Audit Partnership who provide the professional management of the team
West Devon Waste Leisure Centre Strategy and Commissioning					Leisure Centre contract in procurement and likely to be for 20-25 years.

4.5. Options Assessment

The Councils have already undertaken significant work in considering options available for service delivery through internal and external channels. Our approach in assessing options included:

- Identifying the objectives in conjunction with the Councils;
- Reviewing the previous work undertaken provided by the Councils, including:
  - Operating company options;
  - Options for West Devon Waste and cleansing services.
- Undertaking a high level options assessment;
- Identifying and agreeing the assessment criteria with the Councils, including weightings;
- Assessing the options against a broad base of criteria;
- Identifying shortlisted options to be considered further for quantitative impacts.

Another consideration in assessing the options was a comparative risk assessment.

A Multi-Criteria Assessment (MCA) was utilised to qualitatively assess the options. The options assessment included scoring and ranking the options on both a weighted and unweighted basis to determine the relative impacts of each option.

With regard to the options assessment:

- The options did not include assessing opportunities to increase revenues through current sources (i.e. taxes, rates, grants etc) or identification of reduced services. These were outside the scope of our engagement;
- The Local Government Act (2003) grants councils the power to trade in function related activities but this must be as a company and not as a Limited Partnership or a Limited Liability Partnership.

The key considerations that underpinned the options assessment covered 6 broad categories including:

1. Strategic Fit: How best does the option fit with the strategic intent, drivers and goals of the Councils;
2. Social Benefits and Impacts: What benefits are provided to society by the option;
3. Governance: Is appropriate governance able to be implemented;
4. Commercial: Is the option able to be structured appropriately to clearly articulate roles, responsibilities and also to provide flexibility in being able to respond to change;
5. Financial: What are the likely tax implications and opportunities to generate additional revenues;
6. Implementation and Delivery: What are the transition impacts and opportunities for example, Teckal procurement exemptions.

The MCA of the options identified that the combined model, Option 6 scored the highest on both unweighted score and weighted score.

Option 5 scored equal second with Option 1 on unweighted scores but higher on weighted. As there are a number of similarities between Option 5 and 6 it was agreed that Option 6 would be further assessed against ‘As Is’ model, Option 1 for commercial and financial implications. These are covered in subsequent chapters.

The table below summarises the outcomes of the qualitative options assessment including unweighted and weighted scoring.

	1	6
Ranking	Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure	A Combined model (a combination of insource for Strategy and Commissioning, outsource for leisure, and LACC for Customer First, Commercial Services, Support Services)
Unweighted Score	52	59
Unweighted Rank	2	1
Weighted Score	58.125	76.250
Weighted Rank	4	1
Assessment Summary	This option scored well on the raw unweighted score but a lot lower when weighed. This demonstrates that there were key criteria that this option did not support, in particular the ability to generate additional revenue to offset the projected funding gap.	This option scored highest on both weighted and unweighted. This demonstrates that it was clearly the preferred option to be further considered in this Business Case.

Multi Criteria Analysis (MCA) — **South Hams and West Devon Options Appraisal**

Options

Note: where items are not applicable to an option, that option has been scored the maximum score of 4

					1 Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure		**2** Council provide (In-house) all services including waste across the Councils (potential exceptions where skills not available)		**3** Contract or outsource all services including administrative functions (either holistically or separately)		**4** Establish a Joint Trading Arm between the Councils for commercial services within current Authority structure/ agreements		**5** Establish a LACC as a Company limited by Shares for CF, CS and SS, also including members services, communications, strategy and commissioning		**6** A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)		**Comments**
Strategic Category	**Category Weighting**	**Sub Criteria No.**	**Measure**	**Sub-criteria Weighting**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	
	5.0%	1.1	Improves Councils identity and culture and has the ability to meet policy requirements	2.5%	3	1.88	2	1.25	1	0.63	2	1.25	2	1.25	3	1.88	Options 1 and 6 scored the highest as it was deemed they utilise skills and enabled them to retain identity, culture and local presence and meet policy requirements. Option 3 scored the lowest as it was be seen as outsourcing Councils services.
		1.2	Does it support the Councils vision and objectives	2.5%	3	1.88	1	0.63	1	0.63	2	1.25	2	1.25	3	1.88	Options 1 and 6 scored the highest as they reflect the Councils vision of service provision and commercial focus. Options 2 and 3 do not support Councils vision as the extremes.
Social benefits and impacts	10.0%	2.1	Impact on community and employees	2.5%	3	1.88	3	1.88	2	1.25	3	1.88	2	1.25	2	1.25	Options 1, 2 and 4 scored the same as would have equal impact on employees. Option 2 also considers impacts of bringing outsourced services in-house. Option 5 and 6 scored lowest as they would potentially have the greatest impact.
		2.2	Community perception	2.5%	4	2.50	4	2.50	1	0.63	2	1.25	2	1.25	3	1.88	Option 1 and 2 scored highest as deemed meeting community expectations of local Councils. Option 3 scored slightly less as it presents a better mix to meet community perceptions.
		2.3	Impacts on service quality	5.0%	1	1.25	1	1.25	2	2.50	2	2.50	3	3.75	3	3.75	Options 5 and 6 scored highest as they could have the greatest impact on maintaining services. Options 1 and 2 scored lowest as it was deemed to present the least opportunity to improve community outcomes. This also considers bringing currently outsourced services.
Governance	10.0%	3.1	Ability to implement appropriate governance	10.0%	3	7.50	3	7.50	2	5.00	3	7.50	2	5.00	3	7.50	Options 1, 2, 4 and 6 scored highest as they utilise existing governance arrangements. Options 3 and 5 scored slightly lower as they require new arrangements, all of which were deemed manageable.
Commercial	25.0%	4.1	Ability to operate commercially	10.0%	2	5.00	1	2.50	2	5.00	3	7.50	3	7.50	3	7.50	Options 4, 5 and 6 scored highest as they are deemed to be commercial operations. Option 1 scored lowest as in-house services deemed hardest to operate commercially.

Strategic Alignment Criteria

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Options

Note: where items are not applicable to an option, that option has been scored the maximum score of 4					1 Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure		2 Council provide (In-house) all services including waste across the Councils (potential exceptions where skills not available)		3 Contract or outsource all services including administrative functions (either holistically or separately)		4 Establish a Joint Trading Arm between the Councils for commercial services within current Authority structure/ agreements		5 Establish a LACC as a Company limited by Shares for CF, CS and SS, also including members services, communications, strategy and commissioning		6 A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)		Comments
Strategic Category	**Category Weighting**	**Sub Criteria No.**	**Measure**	**Sub-criteria Weighting**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	
		4.2	Ability to respond to changes (i.e. political/budget)	2.5%	4	2.50	4	2.50	1	0.63	3	1.88	2	1.25	3	1.88	Options 1 and 2 scored highest as with greater control changes would be able to be made easier. Options 4 and 6 were next and provided a different mix of structures to flex control. Option 5 was seen as being a more rigid structure, even though Councils retain ownership, their ability to respond is constrained. Option 3 has the least control with a range of external contracts.
		4.3	Flexibility to expand and take on new partners	5.0%	1	1.25	0	0.00	1	1.25	3	3.75	4	5.00	3	3.75	Option 2 scored lowest as it doesn't present a lot of opportunity to expand or take on new work or partners (i.e. .other agencies or private sector). Option 5 scored the highest as it presented clear avenues for additional work or partners. Options 4 and 6 present opportunity to engagement with external partners but not to the extent of Option 5. Option 1 and 3 generates third party engagement through various contracts or partnerships.
		4.4	Council skills & experience- Contract Management and tendering	7.5%	2	3.75	3	5.63	1	1.88	3	5.63	2	3.75	3	5.63	Options 2, 4 and 6 scored the same as Councils retain a greater influence on policy development and delivery. Option 3 scored the lowest as it would be harder to delivery policy across contracted services. Options 1 and 5 may require additional skills not currently catered for within the Council.
Financial	25.0%	5.1	Ability to generate revenues	10.0%	1	2.50	1	2.50	1	2.50	2	5.00	4	10.00	3	7.50	Option 5 scored highest as it presents the best structure for generating revenues. Option 6 presented opportunity to generate external revenues. Options 1, 2 and 3 don't present major opportunity to generate additional revenues over current levels, therefore scored the lowest.
		5.2	Tax impacts including Corporation Tax, VAT, SDLT	5.0%	4	5.00	4	5.00	4	5.00	3	3.75	2	2.50	3	3.75	Options 1, 2 and 3 scored highest as under these there would be no changes or need for Tax. Options 3 and 6 scored next best although they were deemed to attract Tax liability. Option 5 scored lowest as it would potentially have a greater tax impact.

Multi Criteria Analysis (MCA) **South Hams and West Devon Options Appraisal**

Options

Note: where items are not applicable to an option, that option has been scored the maximum score of 4

					1		2		3		4		5		6		
					Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure		**Council provide (In-house) all services including waste across the Councils (potential exceptions where skills not available)**		**Contract or outsource all services including administrative functions (either holistically or separately)**		**Establish a Joint Trading Arm between the Councils for commercial services within current Authority structure/ agreements**		**Establish a LACC as a Company limited by Shares for CF, CS and SS, also including members services, communications, strategy and commissioning**		**A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)**		**Comments**
Strategic Category	**Category Weighting**	**Sub Criteria No.**	**Measure**	**Sub-criteria Weighting**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	
		5.3	Flexibility of staff terms and conditions	5.0%	4	5.00	4	5.00	4	5.00	3	3.75	3	3.75	3	3.75	Options 1, 2 and 3 scored highest as there would be minimal changes for Employee Taxes or pension liabilities. Options 4, 5 and 6 scored lowest as they were deemed to incur Employee Tax changes or pension liabilities.
		5.4	State Aid impacts	2.5%	4	2.50	4	2.50	4	2.50	3	1.88	2	1.25	3	1.88	Options 1, 2 and 3 scored highest as they were deemed to not present any State Aid implications over the current model. Options 4 and 6 were next as they presented different structures into the mix. Option 5 scored lowest as different legal structure could potentially create some State Aid risks. For options 4, 5 and 6 structures were deemed to be manageable.
		5.5	Ability to raise external funding (i.e. borrowings)	2.5%	0	0.00	0	0.00	0	0.00	0	0.00	3	1.88	2	1.25	Options 1, 2, 3 and 4 scored lowest as they do not present any opportunity to raise external funding. Options 4 and 5 scores reflect that they could potentially borrow once operations established and credit worthiness established.
Implementation and Delivery	25.0%	6.1	Transition Impacts, including staffing and service delivery - Teckal exemptions (procurement)	10.0%	1	2.50	2	5.00	2	5.00	2	5.00	4	10.00	4	10.00	Options 2, 3 and 4 scored the same as they create transitional risks. Risks were deemed manageable. This considers transition of outsourced items back in-house. Options 5 and 6 scored highest as they also take advantage of Teckal exemptions for procurement and revenue generation. Option 1 scored lowest as it doesn't take advantage of Teckal exemptions.
		6.2	Ability to manage Interfaces / Interdependencies, both now and ongoing	2.5%	2	1.25	2	1.25	1	0.63	3	1.88	2	1.25	3	1.88	Options 4 and 6 scored highest as they present opportunity to manage interfaces and interdependencies across the businesses. Options 1, 2 and 5 were next best as they present different risk profiles which may not be able to be managed as well as the other options. Option 3 scored lowest as it would involve a range of outsourced contracts creating risks for interfaces and interdependencies.

Multi Criteria Analysis (MCA) **South Hams and West Devon Options Appraisal**

Options

Note: where items are not applicable to an option, that option has been scored the maximum score of 4					1		2		3		4		5		6		
					Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure		**Council provide (In-house) all services including waste across the Councils (potential exceptions where skills not available)**		**Contract or outsource all services including administrative functions (either holistically or separately)**		**Establish a Joint Trading Arm between the Councils for commercial services within current Authority structure/ agreements**		**Establish a LACC as a Company limited by Shares for CF, CS and SS, also including members services, communications, strategy and commissioning**		**A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)**		**Comments**
Strategic Category	**Category Weighting**	**Sub Criteria No.**	**Measure**	**Sub-criteria Weighting**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	
		6.3	Operating Risks, including asset management	5.0%	2	2.50	2	2.50	1	1.25	2	2.50	3	3.75	3	3.75	Options 5 and 6 scored highest as structures that transfer operational risks. Option 3 presents complexities across a number of contracts and scored lowest. Options 1, 2 and 4 scored in the middle with comparative operating risk profiles.
		6.4	Exit Strategy / Requirements (i.e. TUPE)	2.5%	4	2.50	4	2.50	2	1.25	3	1.88	3	1.88	3	1.88	Options 1 and 2 scored highest as the exit strategies are manageable and understood. Although potential outsourcing or partnering could be deemed exit strategies in this context. Option 3 scored lowest as it presented the greatest risk of exit strategy if contracts are not performing or managed appropriately. Options 4, 5 and 6 scored in the middle as each requires an element of exit strategy consideration.
		6.5	Deliverability and ease of implementation	5.0%	4	5.00	1	1.25	1	1.25	3	3.75	2	2.50	3	3.75	Option 1 scored highest as they best reflect as it is the current delivery model. Options 4 and 6 present slightly higher risk of deliverability. Options 2 and 3 reflect the ability to manage bringing services in-house or contracting out respectively. Option 5 presents potential issues with contract and scope of services delivered.
	100.0%		**Total Weighting**	**100.0%**	**52**	**58.125**	**46**	**53.13**	**34**	**43.75**	**50**	**63.75**	**52**	**70.00**	**59**	**76.25**	
			Total Available Score		**80**		**80**		**80**		**80**		**80**		**80**		
			MCA Unweighted Score		52		46		34		50		52		59		
			MCA Weighted Score			58.125		53.125		43.75		63.75		70		76.25	
			MCA Unweighted Score		2		5		6		3		2		***1***		
			MCA Weighted Score			4		5		6		3		2		***1***	

Options:

Number	**Overview**	**Definition**	**Overall Comment**

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Multi Criteria Analysis (MCA) **South Hams and West Devon Options Appraisal**

Options

	1	2	3	4	5	6	
Note: where items are not applicable to an option, that option has been scored the maximum score of 4	**Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure**	**Council provide (In-house) all services including waste across the Councils (potential exceptions where skills not available)**	**Contract or outsource all services including administrative functions (either holistically or separately)**	**Establish a Joint Trading Arm between the Councils for commercial services within current Authority structure/ agreements**	**Establish a LACC as a Company limited by Shares for CF, CS and SS, also including members services, communications, strategy and commissioning**	**A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)**	**Comments**

Strategic Category	Category Weighting	Sub Criteria No.	Measure	Sub-criteria Weighting	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	Comments
1	Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure			In-house- Customer First, Commercial Services, Support Services. Contracted- Leisure centre management contracted, West Devon Waste contracted													This option scored well on the raw unweighted score but a lot lower when weighed. This demonstrates that there were key criteria that this option did not support, in particular the ability to generate additional revenue to offset the projected funding gap.
2	Council provide (in-house) all services including waste across the Councils (potential exceptions where skills not available)			In-house- Customer First, Commercial Services, Support Services, including transition of WDW back in-house. Contracted- Leisure centre management contracted													This option scored relatively low on both counts as it does not support Councils objectives nor was it anticipated to improve services outcomes. This option did not demonstrate that it would provide greater value for money.
3	Contract or outsource all services including administrative functions (either holistically or separately)			Contracted/outsourced- Customer First, Commercial Services, Support Services (including Leisure Centre management), Harbours, Member Services, Communications in-house- Contract management													This option scored lowest on both weighted and unweighted scores. Contracting out would create greater complexity and result in less control over service provision.
4	Establish a Joint Trading Arm between the Councils for commercial services within current Authority structure/ agreements			in-house- Contract Management, Harbours, Customer First, Support Services Contracted- Leisure centre management contracted Trading Arm- Commercial Services (and other services able to be sold, i.e. call centre)													This option scored comparatively well on both weighted an unweighted scores as it provided some scope for generating additional revenues but did not necessarily demonstrate benefits to the extent of other options.
5	Establish a LACC as a Company limited by Shares for CF, CS and SS, also including members services, communications, strategy and commissioning			in-house (i.e. 5% of combined budgets)- Contract management LACC by Shares (i.e. 95% of combined budgets)- Customer First, Commercial Services (including waste), Support Services, Harbours, Member Services, Communications, ICT, management of Leisure centre contract													This option scored the same as Option 1 on unweighted scores. When weighted this option ranked higher than Option 1.
6	A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)			in-house (i.e. 10% of combined budgets)- Contract management, Harbours, Member services, election support, Communications, ICT LACC by Shares (i.e. 75% of combined budgets)- Customer First, Commercial Services (including consolidated waste services across Councils), Support Services Contracted (i.e. 15% of combined budgets)- Leisure centre management contracted													This option scored highest on both weighted and unweighted. This demonstrates that it was clearly the preferred option to be further considered in this Business Case.

Rating	Qualitative rating
0	Represents no scope to contribute to criteria
1	Represents negligible scope to contribute to criteria
2	Represents some scope to contribute to criteria
3	Represents reasonable scope to contribute to criteria
4	Represents excellent scope to contribute to criteria

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Multi Criteria Analysis (MCA)					South Hams and West Devon Options Appraisal												
									Options								
					1		2		3		4		5		6		
Note: where items are not applicable to an option, that option has been scored the maximum score of 4					**Base Case- 'As Is' with Customer First, Commercial Services, Support Service, contracted services for Waste in West Devon, Leisure**		**Council provide (In-house) all services including waste across the Councils (potential exceptions where skills not available)**		**Contract or outsource all services including administrative functions (either holistically or separately)**		**Establish a Joint Trading Arm between the Councils for commercial services within current Authority structure/ agreements**		**Establish a LACC as a Company limited by Shares for CF, CS and SS, also including members services, communications, strategy and commissioning**		**A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)**		**Comments**
Strategic Category	Category Weighting	Sub Criteria No.	Measure	Sub-criteria Weighting	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score	

5. Commercial Case Appendix

5.1. Operational Requirements

Commercial considerations in this case are quite different to either establishing a new company or expanding services of a Local Authority. The key considerations for the commercial requirements include:

- The different levels of participation of the Councils:
  - Service use;
  - Asset use;
  - Financial return.
- Voting rights;
- The flexibility to change and include new partners;
- The level of control;
- Teckal requirements;
- Pensions and TUPE;
- Tax implications.

5.2. Commercial Structure

Considering the operational requirements outlined above this section explores the likely commercial arrangements to be developed in establishing an alternate structure, such as a LACC. The current model is unlikely to have any adverse commercial implications, as such this section focusses on the commercial requirements of a LACC.

The Councils are considering establishing a LACC which it controls and contracts with to provide and receive services. The LACC would be owned and controlled by the Councils and would comply with the two tests in the Teckal case making it possible to trade with external parties and provide flexibility for procurement.

Conceptually a LACC presents:

- Greater risks, new opportunities and potentially greater reward compared to the current model;
- Potential to offset costs through generating additional revenue that respond to a changing market;
- Builds on the culture developed as part of the T18 Programme to develop a more commercial operating model.

The Teckal case (2006) set out an exemption for contracts awarded by Contracting Authorities (CAs) to legal persons under their control that took these outside the application of the procurement rules. It is often known as the in-house exemption. Similarly, the Hamburg case set out an exemption for contracts involving co-operation between public sector bodies.

The LACC must comply with the two Teckal tests (a) the company should behave and be controlled as a department of the local authority and (b) the major part of the Company's business must be with the local authority owner, so that public procurement exemptions can be accessed.

The Teckal procurement exemption applies where a contracting authority contracts with a legally distinct entity, the LACC, either on its own or with others, to provide services to the Councils. The conditions for the exemption are that:

- The service provider carries out the principal part of its activities with the authority;
- The authority exercises the same kind of control over the service provider as it does over its own departments;
- There is no private sector ownership of the service provider nor any intention that there should be any.

Further tests and expansion of this has provided clarity with regard to subsidiaries etc. which will enable expansion in the future. The Teckal trading exemption applies where in excess of 80% of the LACCs income comes from those who exercise control over the LACC Board. Teckal exemption presents the Councils with the opportunity to streamline procurement and delivery of services through the element of control over the LACC.

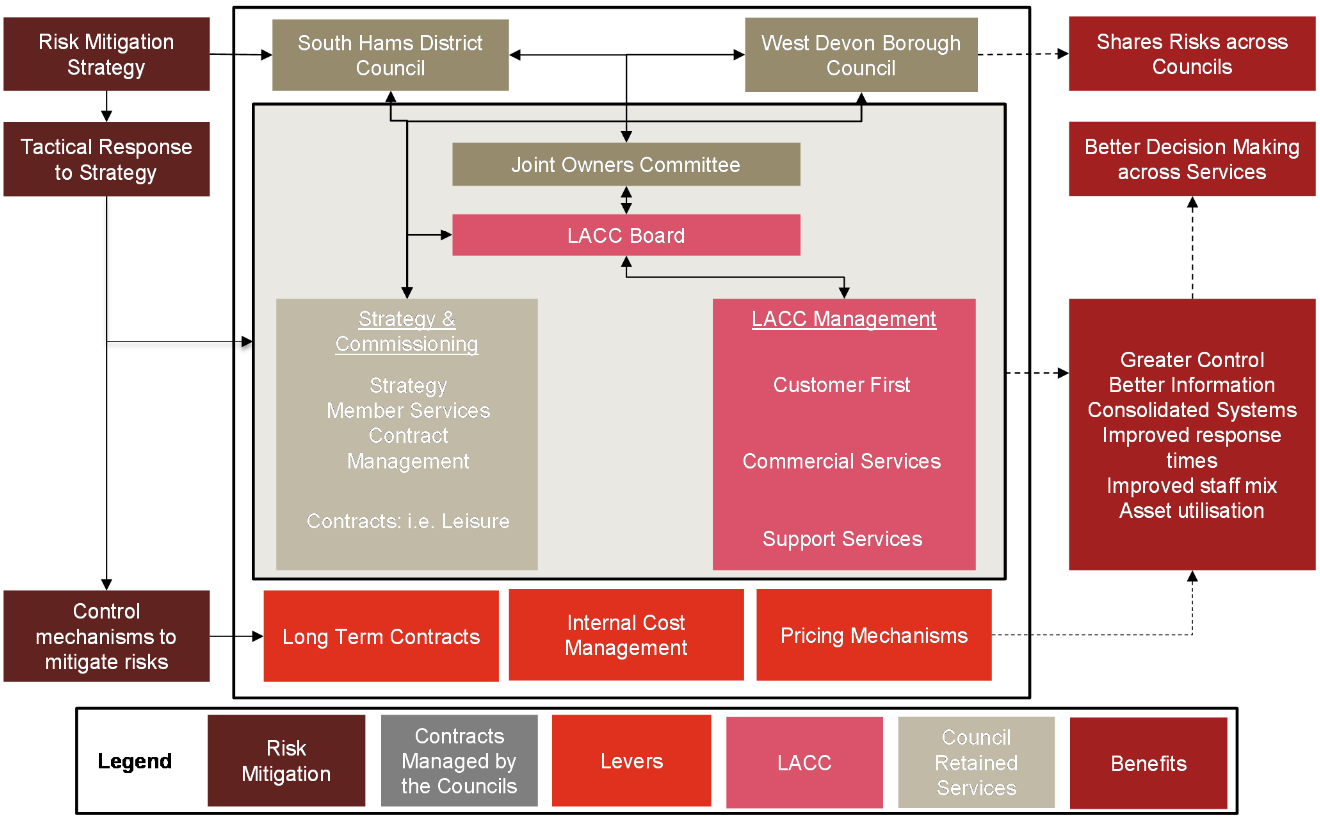
5.3. Governance

Establishing a LACC requires development of a new commercial operating model. The figure below demonstrates the proposed operating model. The key differences to the current operating model include:

- Shareholder agreements, including the preservation of essential services that could potentially be loss making over the longer term, going against commercial priorities of a LACC;
- Management agreements between the LACC and the Councils and other interfacing contracts;
- Senior leadership is likely to be split between the Councils (i.e. Executive Director, Strategy and Commissioning) and with the LACC (i.e. Executive Director, Commercial);
- Strategy and Commissioning will be responsible for strategy and policy direction, member services, harbours and contract management (including LACC and others such as leisure);
- LACC will be responsible for providing services currently provided within Commercial Services, Customer First and Support Services back to the Councils;
- Change mechanisms and levers including pricing and cost controls will be jointly managed within the contract management team;
- LACC management will be responsible for external opportunities, pricing and business development;
- Strategy and Commissioning will be responsible for setting lease, ICT and asset management strategies in line with LACC and Councils requirements; and
- Benefits realisation processes should be incorporated into the governance structure to maintain a focus on achieving the outcomes.

These items are further explained in this section.

Proposed Operating Model



5.4. Corporation Tax

5.4.1. Mutual trading and ALMOs

CTM40955 - Particular Trades: mutual concerns: surplus from mutual trading not liable

The case of Ayrshire Employers' Mutual Insurance Association Ltd v CIR (1946) 27TC331, confirmed that no tax had to be paid on surpluses from mutual trading. This is as a result of the principle that 'a man cannot trade with himself'. If a group of people join together for a common purpose their transactions with the umbrella body can be seen as mutual if:

- the body's legal framework passes the tests for mutuality, and
- its transactions are with customers who are also members and accord with its legal framework.

If a body is incorporated, its legal framework will be set out in its constitutional documents (articles). If not incorporated, in rules or whatever instrument sets out its constitution. There may also be agreements, contracts for services for example, which deal with transactions between the body and its members.

The bodies are only free from tax on their trading activities. They remain taxable on all other income and gains, including income from property or bank interest, without relief for management expenses.

There is no relief for losses made on mutual trading, and no capital allowances available on capital expenditure.

BIM 58210 - Grant aided bodies: arm's length management organisations (ALMOs)

Background

The typical ALMO is set up by a local council as a company limited by guarantee without share capital and the council is its sole member. ALMOs manage, repair, improve and maintain the council's housing stock. The ownership of the housing stock remains with the council which is also the legal landlord, and tenants remain secure tenants of the council. ALMOs also undertake a range of other services for their council that help deliver broader local authority functions, for example advice to council tenants, dealing with arrears, debt counselling, tenancy enforcement, allocations and lettings, administering the homeless and private sector housing functions such as grant administration, collecting rents from the tenants as agent for the council, grounds maintenance and community safety initiatives.

Funding

The council funds the ALMO for carrying out these services on its behalf by way of a 'management/contract fee'. The funding comes from the council's housing revenue account (HRA) and in the event of the ALMO being wound up or otherwise dissolved the memorandum and articles of association will normally state that any surplus remaining must be paid or transferred back to the council's HRA. Any monies held by an ALMO must be applied solely towards the promotion of its objects as set out in its memorandum of association. Therefore the funding received from the council must be applied by the ALMO in meeting its council member's objectives.

Taxation status

An ALMO is a separate legal entity from the controlling local authority/council and therefore it does not benefit from the exemption from Corporation Tax granted to local authorities. As an incorporated entity it comes within the tax definition of 'company' and is therefore within the charge to Corporation Tax.

We have reviewed in detail a typical ALMO, and have had discussions with the National Federation of ALMOs. The arrangements that we have seen, between an ALMO and its council member, lack the necessary element of commerciality to amount to trading.

When dealing with an ALMO, provided its memorandum and articles of association and arrangements are in line with that described in the preceding paragraphs, you may accept that the transactions between the ALMO and its council member do not amount to trading.

However, where the ALMO offers its services to third parties for reward, those transactions will be trading transactions.

Because transactions between an ALMO and its council are not trading at all, there can be no question of them being mutual trading transactions.

Any case of doubt or difficulty not covered by this guidance, and any cases where the trading status of ALMOs is in question, should be referred to CTISA (Technical) prior to the commencement of enquiries.

5.4.2. Transfer pricing and diverted profits tax

The UK's current transfer pricing rules (TIOPA 2010, Part 4) were enacted in February 2010 and took effect for all accounting periods ending on or after 1 April 2010.

The rules are widely drafted and intended to cover almost every kind of transaction including those between UK resident enterprises.

UK tax legislation requires large enterprises/groups to recognise all transactions between group companies on an arm's length basis or to adjust the results of such activities for UK taxation purposes.

The arms' length principle is that transactions between connected parties should be treated for tax purposes by reference to the amount of profit that would have arisen if the same transactions had been executed by unconnected parties. Any transactions not at arm's length should be accounted for in the company's self-assessment tax return.

The UK to UK transfer pricing potentially has an impact where there is tax at stake, either because of particular tax planning arrangements or where some more routine aspect of the tax system (such as losses in one company in the group which cannot be offset) means that there is tax to be collected.

One particular area where the rules have an effect is where no charge is made, for example, for services or for the use of assets (including intellectual property).

It would appear that HMRC has no great desire to tie up resources investigating UK to UK transactions where the tax risk is low and our experience of the level of such enquiries by HMRC since the UK to UK rules were introduced generally supports this.

Small and medium enterprises are exempted from the transfer pricing legislation completely.

The financial limits for the exemptions are:

	Maximum number of staff	And less than one of the following limits: Annual turnover	Balance sheet asset total
Small Enterprise	50	€10m/£7.6m	€10m/£7.6m
Medium Enterprise	250	€50m/£38.1m	€43m/£32.8m

**assuming exchange rate of £1/€1.31

"Enterprise" for transfer pricing purposes is defined as "the carrying on of any business".

Where an entity is a member of a group or has an associated entity the limits apply to the whole of the group in aggregate.

Based on the information we have, transactions between South Hams Borough Council, West Devon District Council and their LACC will be subject to transfer pricing as the group in aggregate exceeds the limits for exemption.

Whilst the LAs are statutorily exempt from tax on the whole of their profits and capital gains, the transfer pricing policy adopted between them and their LACC could impact the tax liabilities of the LACC. This might take many forms but the main ones are by applying a higher sales price to the LACC or a reduction in the price charged for services provided by the LACC to the LA.

The LAs, as administrative functions, are unlikely to be considered on their own as enterprises, however, as the transfer pricing limits apply to groups in aggregate it is almost certain that the LAs and their LACC will breach the employee or turnover exemption limits and the transfer pricing legislation will apply.

There is no guidance on how the rules will apply in the context of Local Authorities but HMRC has published commentary on how it will expect Charities and their subsidiaries to transact.

HMRC manuals state that Charities may find themselves within the transfer pricing regulations if they have entered into arrangements with their subsidiary companies that are not in accordance with the Charity Commission guidelines, or in instances of tax avoidance.

Applying this guidance to the LAs we recommend that all transactions between the LAs and their LACC are at market value to avoid any potential transfer pricing issues arising.

Diverted Profits Tax (DPT) is a tax, charged at 25% on profits that are considered to be artificially diverted from a UK tax charge. The legislation is complex and unlikely to be targeted at LAs/LACCs where there is no avoidance motive. Nonetheless it is mentioned here for completeness.

There are two sets of conditions where DPT would be applicable, and often both will apply to the same fact pattern.

DPT might apply to:

- a company which has UK sales being made by a related non UK company or Permanent Establishment ("PE"); and/or
- a UK company/PE which has a significant transaction with a related company – as might be the case here

and, in either case, any related income ends up in a related company with a low tax rate/concessionary tax treatment.

Please note:

- There is no exemption from the legislation for Local Authorities;
- In principle any tax exempt body making charges to or receiving services from its subsidiary could be caught by DPT, if it removes profit from UK taxation (the LA has a statutory exemption on all profits and gains).

A detailed commentary of DPT is outside the scope of this document. We would be happy to carry out further analysis if requested.

5.5. VAT

In this section, we have considered the potential VAT impact of transferring activities to the new Local Authority Controlled Company (LACC). We have undertaken our analysis based upon our understanding of the activities undertaken by the two authorities. In some instances, it has not been possible to provide a definitive position at this stage as further information will be required regarding the nature of the activities. However, to the extent it is possible, we have sought to provide an indication as to the VAT position that could be achieved to inform your decision making process.

Overview

Local Authorities (LA) benefit from a special legal regime provided for by s.33 of the VAT Act 1994. The effect of this is that LAs are able to recover VAT incurred on their non-business activities. In addition to this, LAs enjoy a favourable treatment in respect of costs incurred in relation to their exempt supplies, in that they can recover all of the VAT incurred in relation to these (i.e. the exempt input tax), provided that its total value does not exceed 5% of total input tax.

Normal businesses that do not fall to be treated as s.33 bodies are generally not able to recover VAT incurred in relation to non-business or exempt activities. The LACC will fall into this second category and as such, care will need to be taken in respect of the transfer of activities to the LACC to offset the risk of creating an irrecoverable VAT cost where one did not exist previously. For the LACC, the irrecoverable VAT costs will include any related to assets that are transferred to the LACC and operated by that entity but which are not income generating as this could be a non-business activity in the hands of the LACC.

The LAs will be able to recover any VAT charged to them by the LACC in line with their current position. However, the outsourcing of activities will lead to an increase in VAT being incurred by the LAs. Whilst there will be an increase in exempt input tax, there should be a proportionally larger increase in the 5% ceiling.

Analysis of Activities and Comments

It appears from our analysis that most of the activities that will fall to be undertaken will be taxable activities for VAT purposes and as such, entitle the LACC to VAT recovery.

Of the activities that will be transferred by the LAs to the LACC, the ones that potentially qualify for exemption and could lead to an irrecoverable VAT cost for the LACC are as follows:

- Interests over land (residential accommodation/commercial lets (where no option to tax in place);
- Provision of sporting/leisure facilities (subject to certain conditions);
- Burial and cremation services;
- Vocational Training (where centrally funded).

Exemption is available in other areas however they would not appear to be relevant here.

Assets retained by the LA

In terms of the above, with the exception of vocational training, if the LAs do not transfer the assets in question (i.e. properties/community parks/cemeteries etc.) and retain the right to derive any income, which is our understanding of the intention at this point, then it is likely that the supply by the LACC to the LA will be a taxable supply of management services only. As such, there will be no restriction to VAT recovery in the LACC and the LAs VAT position will remain broadly unchanged apart from the increase in VAT incurred as outlined above.

Assets transferred to LACC

The first point to note is that if the assets were physically transferred to the LACC, the specific nature of that transfer (sale/lease etc.) and the associated VAT treatment would need to be considered along with its effect on VAT recovery for the LA.

Should the physical assets be transferred to the LACC along with the right to collect and retain any income from their operation, the position will be different and the parties would need to factor in the potential for an irrecoverable VAT cost.

We have calculated that this cost would amount to c£1.3m pa based on the current level of expenditure. Please note that in reality this amount is likely to be overstated as it makes the following assumptions:

- All property rental income to be exempt. In reality, it is likely that the LACC will opt to tax any commercial properties, meaning that VAT incurred will be fully recoverable;
- Leaving aside whether or not leisure centre activities have already been outsourced, if these facilities were to be outsourced to the LACC (which owned and operated the assets), further consideration would need to be given to whether the LACC could qualify to be an eligible body for the purposes of the sporting exemption. If not, the significant proportion of expenditure would relate to taxable activities and be recoverable.

There would also be a restriction on residual VAT recovery, which is more difficult to quantify at this stage but is not likely to be significant given the preponderance of taxable activity.

Other Considerations

As noted above, if the assets are retained by the LAs, the VAT impact should be minimal, with the LACC able to recover most if not all of the VAT it incurs (the only exception possibly being VAT incurred in relation to exempt vocational training) and the LAs' VAT position remaining broadly unchanged apart from the increase in input tax relating to all of its business (taxable and exempt) and non-business activities. The LA's entitlement to recover that input tax will be in line with the current position.

In our experience LAs are usually on monthly VAT returns (albeit this has not been confirmed for South Hams and West Devon). It is likely that the LACC's output tax will exceed its input tax and as such, it would be recommended that the LACC requests quarterly VAT. It is of course possible that the level of net VAT due to HMRC will mean that the LACC will be subject to the Payment on Accounts Scheme.

Subject to any other commercial issues, consideration should be given to the timing of payments/invoicing. For example the LACC might consider raising invoices for its services at the start of its VAT period so that it is able to receive payment from the LAs before the end of the period, thus ensuring it has sufficient funds to make payment to HMRC. If this invoice is raised near the end of the monthly VAT period for the LA's it might be possible for them to receive the input tax from HMRC before making payment to the LACC thus mitigating the impact on their cash-flow position.

6. Financial Case Appendix

6.1. Funding Split

The funding of the existing Council services, if transferred through to the LACC, is assumed to be based on the level of activity of the Council. In simple terms, if one Council has spend of £60k and the other has spend of £40k then the transfer of this spend to the LACC will be funded in a 60:40 split.

If West Devon waste management is included within the LACC then this will adjust the original funding ratio, so that West Devon Council fund this spend. For instance, South Hams waste management spend is c£2.5m, which without the inclusion of West Devon waste management would be fully funded by South Hams. Including a c£2m West Devon waste management spend into the LACC, would lower the percentage of waste management that South Hams should fund (100% to 55%). The total cost of £4.5m would then be split upon these percentages, £2.5m (55%) to South Hams and £2.0m to West Devon (45%), which results in both Councils still funding their share of the level of activity.

This is the principle used in our work, although the exact details of this can be determined during the implementation phase. If activity levels are considered to have changed then we would assume that the funding ratio should be revisited.

Assets are assumed to be leased by the LACC from the individual Council to support the services of that specific Council within the LACC. The lease cost from each Council is thus funded in full by each Council in a circular mechanism. If West Devon waste management is not transferred to the LACC then it is assumed that the South Hams waste management lease cost would be funded by South Hams.

We have assumed that private profits are split on this ratio. The exact details of this split can be determined during the implementation phase upon negotiation between the Councils; however, it is our view that profits should not be split based on geographical source of these profits. The reasons for this is due to the principles of shared management. The management team should be motivated to maximise combined profitability and not be deviated in their strategy by conflicts of interest. It is also true that the current partnership agreement adopts the same principles.

We have assumed that set-up and on-going LACC costs, such as audit expense, are split equally.

We present below the funding split used for the scenario that West Devon waste management is LACC provided after 6 months of delay. The movement relates to the slight difference in level of activity per Council held within the LACC.

Table A

Illustrative funding split	Year before West Devon Waste Management	Year after West Devon Waste Management
South Hams	60%	58%
West Devon	40%	42%
	100%	100%

6.2. Current Net Expenditure

6.2.1. South Hams and West Devon Council Budgets

The following net expenditure profile is for South Hams and West Devon. This reflects the base case net expenditure (expenditure less income) of council delivered services (i.e. no LACC), using the council budget for 15/16 and annualised cost inflation of 2.5%. The Councils budgets for 2015/16 have been adjusted to exclude transfers to and from earmarked reserves and adjustments for IAS 19 Pension Accounting, to present a normalised net expenditure profile.

South Hams and West Devon Councils – Base Case Net Expenditure Profile

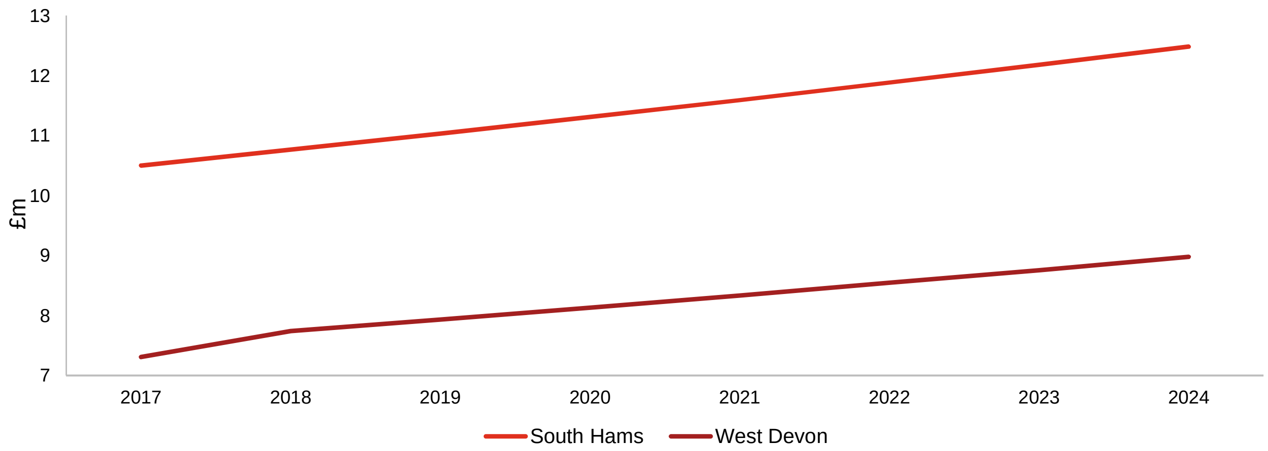


Table B

Net Expenditure Profile (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	10,503	10,766	11,035	11,311	11,593	11,883	12,180	12,485
West Devon	7,310	7,811	8,006	8,206	8,411	8,621	8,837	9,058
Combined	17,813	18,576	19,040	19,516	20,004	20,505	21,017	21,543
South Hams % of total	59.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%
West Devon % of total	41.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%

If the services remain delivered by the Councils (i.e. 'As Is'), then there is an assumed re-tender cost of c£50k in 2016/17 in relation to the West Devon waste management service. The re-tendered outsourced cost has also been incorporated into the West Devon base case net expenditure profile, resulting in slight movements in the mix of annual net expenditure between the Councils. On average we can see that South Hams net expenditure profile is c58% (West Devon is c42%) of the Combined net expenditure as it currently stands.

6.2.2. West Devon Waste Management re-tendered cost profile

Table C

Current outsourced (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Re-tender costs									
Outsourced annual cost	<<Figures removed- commercially confidential pending possible procurement>>								
Total expenditure									

Table C shows the cost profile of delivering waste management on a re-tendered costs. Councils' management has provided us with the assumption that the 2016/17 outsourced cost is increased under the re-tendered by £<commercially confidential>> in 2017/18 to £<commercially confidential>> . This cost is then increased annually by the assumed 2.5% inflation. This is the base position used upon the formation of the LACC as West Devon Waste Management is not transferred.

6.3. Cashflow implications of establishing a LACC

6.3.1. Cashflow implications

We have presented the expenditure profile in our report. There are, however, cashflow considerations resulting from the transfer of services to the LACC.

Creditors

Currently the Councils make payments on 30 day terms to their non-employee related suppliers. We have assumed that the LACC would be provided with similar payment terms.

The initial proposal is that the Councils fund the LACC in advance for the provision of services. This would impose a short term cash flow burden of a month upon the Councils, which is currently not the case due to the 30 day terms to its non-employee related suppliers.

It should be possible for an arrangement to be put in place between the Councils and the LACC to delay the actual payment until the point that the LACC needs to make payment. This system could be fully integrated.

VAT on creditors

The transfer of service provision to the LACC results in the Councils receiving supplies from the LACC via service agreements. In circumstances where, to do this, the LACC subcontracts the work to another party there could be an additional short term VAT cash flow burden. This is because the Councils would pay the VAT inclusive amount to the LACC, so that the LACC can pay the subcontractor the VAT inclusive cost in 30 days time.

As discussed above, this could be avoided if the cashflows between the parties are managed so that actual payment is only made to the LACC when required.

In practice, the cost of paying staff wages will also be a cost component of the supplies by the LACC to the Councils. If the Council did not transfer its services to the LACC, the Councils would only be required to pay its own employee costs in the relevant month, which would not include VAT. However, reflecting the value of these staff costs in the supply from the LACC to the Councils imposes an additional 20% short term cashflow burden, as the Council would be required to fund the VAT inclusive employee costs in advance and not be able to reclaim from HMRC until the following month (assuming the Councils have monthly VAT return periods).

It should also be possible to put in place an arrangement to remove the cashflow impact of VAT on employee cost component of the supplies by the LACC. If the Councils were to fund the employee cost portion of the recharge in advance, so that the LACC could pay its employees, then the Councils could pay the remaining cash when the LACC is required to make payment to HMRC (payable on a quarterly basis). By this point the Council should have recovered VAT from HMRC and would not be in a worse cashflow position.

Assumption for report

We have assumed that arrangements can be put in place to ensure that cashflow impacts are removed. As a result, our analysis presents the expenditure profile and thus differences arising from non-cashflow elements.

6.4. Costs and other implications of establishing a LACC

6.4.1. Expenditure considerations for setting up a LACC – 'most likely'/base scenario

Forming a LACC and transferring the current service delivery of the Councils to the LACC should not change the fundamental costs of delivering these services; however, the LACC will incur both one off set up and annual on-going costs in addition to the service delivery costs.

We have assumed that the costs of delivering the services, now delivered within the LACC, would be invoiced to the individual Council based on the ratio of the expenditure transferred. This is explored further in Appendix 6.1.

Some of the services are not assumed to be transferred to the LACC. This includes strategy and commissioning costs (e.g. election costs) and leisure services. We have been provided by the Councils' finance team with the assumed normalised budget of the costs not transferred to the LACC. The delivery of West Devon waste management is currently contracted to FCC. We have assumed that in the base case scenario this contract is re-tendered and not transferred to the LACC.

We have assumed that all existing income (including trade waste, car parking, ferry and grant income) as well as payments relating to such things as benefits are retained by the Councils. We have assumed that separate sub-contracts are set up between the Councils and the LACC to manage this income generation to the value of the existing expenditure.

Assets owned by the Councils are assumed to be retained by the Councils and a lease cost charged to the LACC for the use of these assets. The Councils' finance team have provided us with an assumed market rate for these lease costs. We have assumed that the assets are used as part of the service to the Council providing the asset and thus forms part of the invoice to that Council.

As per the assumptions included in the Corporation Tax section there would most likely be no tax to pay on profits generated on transactions between the LACC and the Councils. As a result, an arm's length margin is not required on the transactions, as it would not in these circumstances be required within the company's self-assessment tax return. The application of this assumption results in the Council having the same net expenditure with a LACC as without a LACC.

In order for the LACC to be able to generate future reserves of its own, then this can be achieved from one or more of the following; charging a margin to the Councils, retaining any efficiencies generated and/or retaining third party profits. This is to be considered during the implementation phase and is not considered further in this paper.

We have assumed that there is no change in VAT recoverability due to the transfer of service delivery to a LACC. All costs remain recoverable. We have assumed that VAT is charged on the invoices to the Councils, and that this is fully recoverable.

6.4.2. LACC set up cost expenditure

We have assumed that set up costs required for the formation of the LACC are split equally between the Councils and are paid during financial year 2016/17.

Table D

Net expenditure Profile with set up costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	10,703	10,766	11,035	11,311	11,593	11,883	12,180	12,485
West Devon	7,510	7,742	7,935	8,134	8,337	8,546	8,759	8,978

Table E

Change in net expenditure due to set up costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	200	-	-	-	-	-	-	-
West Devon	200	-	-	-	-	-	-	-

6.4.3. LACC on going cost expenditure

The assumed on-going cost expenditure following the formation of the LACC has the following impact on the net expenditure profile shown in the base case position included in Appendix 6.2.1. Assumed indexation of 2.5% has been applied from 2019 onwards.

Table F

Net expenditure profile with on-going costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	10,503	10,796	11,065	11,342	11,626	11,916	12,214	12,520
West Devon	7,310	7,772	7,966	8,165	8,369	8,579	8,793	9,013

Table G

Change in net expenditure due to on-going costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	-	30	31	32	32	33	34	35
West Devon	-	30	31	32	32	33	34	35

Table H shows the cumulative change in net expenditure as a result of establishing the LACC.

Table H

Cumulative change in net expenditure due to on-going costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	-	30	61	92	125	158	192	226
West Devon	-	30	61	92	125	158	192	226

6.4.4. LACC all additional costs

The impact on the net expenditure profile of all the assumed additional costs in relation to the formation of a LACC is as follows :

Table I

Net expenditure profile with all additional costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	10,703	10,796	11,065	11,342	11,626	11,916	12,214	12,520
West Devon	7,510	7,772	7,966	8,165	8,369	8,579	8,793	9,013

Table J

Change in net expenditure due to additional costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	200	30	31	32	32	33	34	35
West Devon	200	30	31	32	32	33	34	35

Table K shows the cumulative impact of the additional costs that forms the basis of the graph in the Financial Case

Table K

Cumulative Change in net expenditure due to additional costs (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
South Hams	200	200	200	200	200	200	200	200
West Devon	200	200	200	200	200	200	200	200
LACC	-	60	122	185	249	315	383	453
Combined	400	460	522	585	649	715	783	853

6.5. Opportunities as a result of establishing a LACC

6.5.1. Opportunities as a result of establishing a LACC

We have assumed that the majority of efficiencies for service delivery have already been realised by Councils management and that these do not specifically relate to the formation of a LACC.

For the purposes of the Financial Case, we have assumed that the only cost saving opportunities are in relation to West Devon waste management and the potential to cease the outsourced provision of waste services and deliver these within the LACC (“LACC provision” or “LACC provided” or “in-house”).

6.5.1.1. West Devon Waste Management options

There are 4 alternative options available to the re-tendering of the waste management contract:

Option 1 - Immediate establishment of a LACC provided operation from April 2017;

Option 2 - 6 month delay in the establishment of a LACC provided operation from October 2017;

Option 3 - 1 year delay in the establishment of a LACC provided operation from April 2018;

Option 4 - Managed service provision – <<Information redacted due to commercial sensitivity>>

6.5.1.2. Acquisition of assets – Purchase of waste fleet vehicles

We have been advised by the Councils’ management team that the assets to be acquired in order to establish a LACC provided operation would be acquired under finance lease. This policy would be consistent for the 4 options with the only exception being delays in acquiring the assets for option 2 and 3.

Grant Thornton’s (GT) report “Options for Waste Services Delivery – January 2016” stated that the cost of acquiring the fleet would be £<<commercially confidential>>in 2015/16 prices, although we have been provided with an estimate from the Councils’ management team that this cost would be £<<commercially confidential>> which we have used in our report. We have assumed that there would then be a 2.5% increase (reflecting inflation) if the assets were acquired next year (options 1,2 and 4) and then further inflation of 2.5% a year later (option 3).

We have assumed that the term of the finance lease would be 7 years and that there is a borrowing rate of 3% (as advised by Council management).

The tables below show the estimated repayment and interest profiles for the different options under finance lease arrangements.

Profile for Option 1 and 4

Table L

Option 1 and 4 (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Addition	<<Information removed as commercially confidential>>							
Interest								
Capital repayment								
Total Liability								

The addition in 2017/18 is the estimated cost of £<<commercially confidential>>inflated by 2.5%.

Profile for Option 2

Table M

Option 2 (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total								
Interest								
Capital repayment	<<Information removed as commercially confidential>>							
Total Liability								

As a result of the 6 month delay in acquiring the assets under option 2, the total capital repayments in 2017/18 are half those of option 1 and 4. The total liability of £<<commercially confidential>> at the end of 2023/24 reflects that there are still 6 months of the lease term remaining to be settled.

Profile for Option 3

Table N

Option 3 (£000)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total	<<Information removed as commercially confidential>>							
Interest								
Capital repayment								
Total Liability								

The addition in 2018/19 is the estimated cost of £<<commercially confidential>>inflated by a compounded 2.5%. As a result of the 1 year delay in acquiring the assets under option 3, there are no capital repayments in 2017/18. The annual capital repayment is slightly higher than the other options (£<<commercially confidential>>) due to the higher cost of the additions. The total liability of £<<commercially confidential>> at the end of 2023/24 reflects that there is still one year of the lease term remaining to be settled.

6.5.1.3. Other cost implications

The option of LACC provided West Devon waste management has different assumed one-off cost implications for the different options:

<<This section redacted due to commercial sensitivity>>

6.5.2. Third Party Revenue – potential profits from a LACC

<<This section redacted due to commercial sensitivity>>

6.5.3. Combined opportunities

<<This section redacted due to commercial sensitivity>>

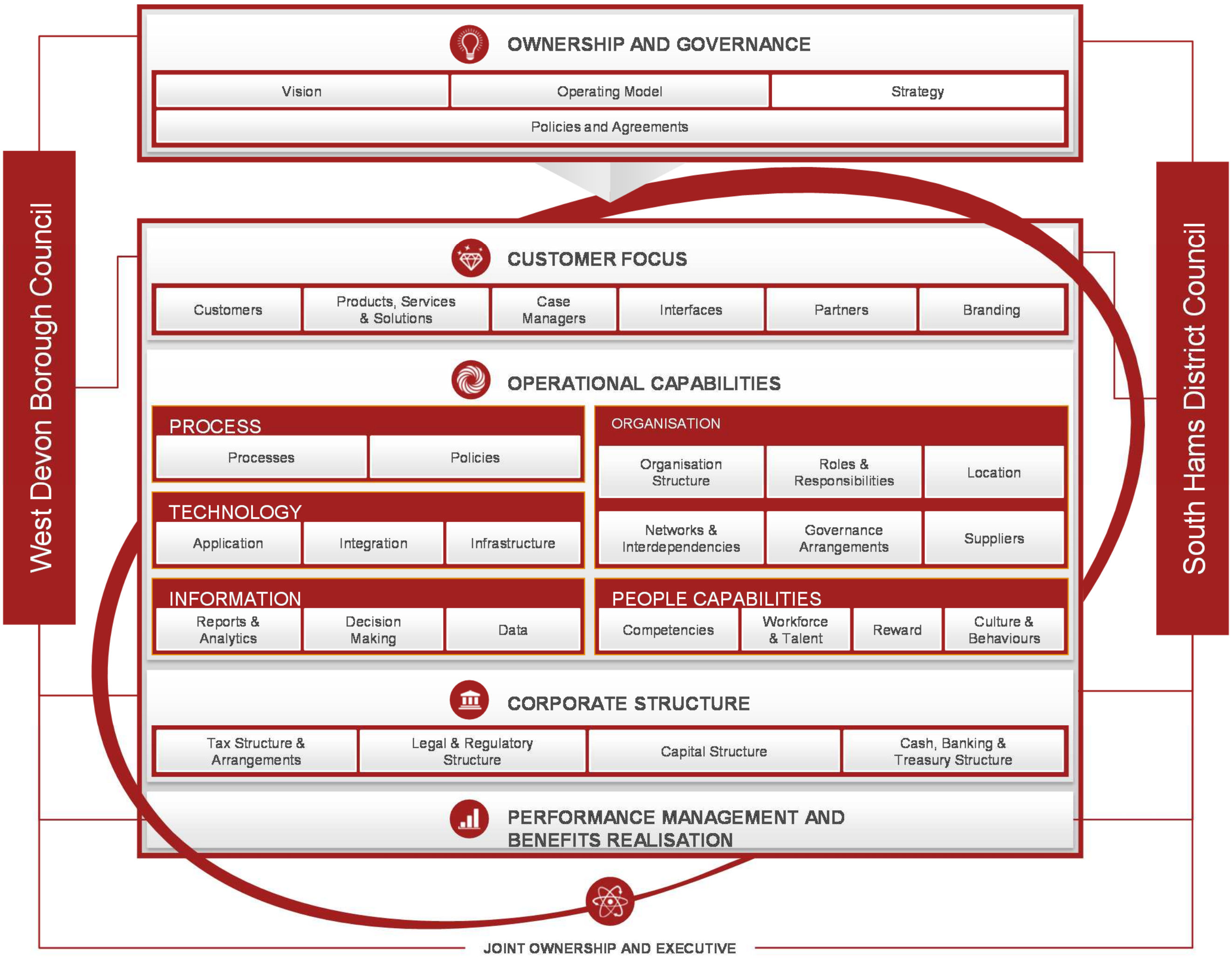
6.6. Table of assumptions used in Financial Case

<<This section redacted due to commercial sensitivity>>

7. Management Case Appendix

7.1. Transition

The figure below represents the key items to be considered in transitioning to a new operating model and each element should be incorporated into an implementation plan.



7.2. Key Considerations

This Business Case has been developed in a constrained timeframe and considered the previous assessment undertaken. We have identified a number of items that the Councils need to consider before progressing to delivery, including:

- Timing: A key driver is the termination date of the contract for the provision of waste services in West Devon and the Councils will need to consider the potential impacts of rushing the transition to a consolidated waste service across both regions. Whilst the additional cost of an extension to the current contract may appear unpalatable upon first inspection; this could be potentially offset over the longer

term, with additional value being derived from the opportunity to undertake further waste service design and asset planning across the Councils. The outcome of this additional period may also indicate that re-tendering of the West Devon waste contract presents value for money.
- Skills: We have not undertaken an assessment of the current skills and capacity of the proposed management team, or their ability to deliver a successful LACC. Accordingly, there may be additional skills required that are not available currently and we would recommend a skills and capacity analysis is conducted as part of any subsequent mobilisation period, so that any additional requirements can be identified and addressed in a timely fashion.

7.3. Change Management

Market analysis identified that change management is a critical issue in the establishment of any successful LACC where traditionally one of the prime drivers for the establishment of a LACC is to develop a more commercial delivery model. Both Councils have already demonstrated through the T18 Programme that they possess both the desire and the capability to make significant changes in culture and transition to a more commercial operation.

As a result of the T18 Programme, the transition to a LACC model may not be such a significant challenge to that experienced by other councils. Change management will still need to be considered; however, throughout the life of the LACC, particularly in regard to the Councils legislative obligations to maintain employment terms and conditions of existing employees.

Further change may be required in the future to enable additional partners to join and also to develop tendering skills to capitalise on additional revenue opportunities available under the Teckal exemptions.

7.4. Stakeholder Engagement

In progressing with the preferred option a strong focus on stakeholder engagement will be required. Key stakeholders are likely to include:

- Elected members
- Internal Staff
- Administrative
- Operational (i.e. grounds, maintenance, South Hams waste); and
- Frontline
- Waste services
- South Hams
- West Devon
- Other

Different engagement strategies will be required for each of these groups. This section provides an overview of the stakeholders and key engagement to be progressed post approval of the Business Case.

Elected members

We understand that a number of briefings have already been undertaken with members regarding the strategic directions of the Councils which has included the potential for a LACC.

Internal

A number of briefings have already been had with staff regarding the strategic directions of the Councils which has included the potential of a LACC. The Councils have an established dialogue with internal stakeholders through the T18 Programme and further engagement will be required to ensure that staff understand the implications of the change to the preferred option.

Waste Services

With the transition to a new operating model, the major opportunity is the consolidation of waste services and the key items include:

- Engagement with the current provider of waste services in West Devon to agree and extension to the current contract to October 2017 to enable transition;
- Engagement with employees of the contractor in West Devon regarding opportunities in the consolidated function;

- South Hams waste services regarding assets and operational impacts or changes in transition to a consolidated service across the Councils.

Other

Further to this engagement with surrounding local authorities regarding opportunities should be established.

7.5. Implementation Plan

	Delivery Tasks	Description	Timing	Jul-Sep 2016	Oct-Dec 2016	Jan-Mar 2017	Apr-Jun 2017	Beyond July 2017
1	Approval of Business Case	Each of the Councils will consider the merits of establishing a LACC and determine whether to proceed to establish the LACC.	July 2016					
2	Transition Plan Development	Transition planning for a LACC is likely to continue in parallel with the approvals process so as to not lose time in planning the transition requirements of establishing a LACC. Transition planning will be used to define operational requirements for services provided by the LACC to the Councils and its own specific requirements. This should also include consideration of interim skills requirements, i.e. for market development.	July 2016					
3	Engage specialist advisors (Legal / Financial)	The Councils will need to seek legal and financial/commercial advice in establishing a LACC and the documentation required to support its implementation. Engagement of advisors can occur in parallel to the approvals process.	July 2016					
4	Apply to HMRC regarding exemptions	HMRC may grant an exemption to the LACC from Corporation Tax relating to income generated through trading solely with the Councils. Engagement should be undertaken early with finalised if the Councils proceed to establish a LACC.	July 2016					
5	Shareholder/ Joint Agreement development	Building on the current Collaboration agreement between the Councils formal shareholder agreements will need to be developed and negotiated between the Councils. Each Council should seek independent legal advice throughout this process.	July-August 2016					
6	Company structure agreed	Informed by the Shareholder agreement the final company structure will be determined with key articles outlined.	August 2016					
7	Governance, management structure and decision making framework developed	Informed by the Shareholder agreement the governance and decision making framework can be developed, agreed and finalised.	August 2016					

	Delivery Tasks	Description	Timing	Jul-Sep 2016	Oct-Dec 2016	Jan-Mar 2017	Apr-Jun 2017	Beyond July 2017
8	Combined waste fleet strategy	To facilitate management of waste services across the Councils from within the LACC a combined waste fleet strategy should be developed to identify opportunities to leverage existing assets. Waste collection will remain separate as each of the Councils has distinct needs which the current collection processes address. This will also identify timing.	August 2016					
9	Building Control Partnership engagement	Engagement with partners to determine involvement of the Building Control Partnerships role within a LACC structure, i.e. a subsidiary or identify what is required to consolidate into the LACC if deemed appropriate.	August-September 2016					
10	TUPE process commence, pensions calculations and registration	Following approval by the Councils the TUPE process should commence and include calculations and specific pension requirements. This is likely to require agreements between the LACC and the Councils and also with the Fund(s).	August-September 2016					
11	LACC scope of services defined	The T18 Programme has developed an operating model and this model should be confirmed and the services to be provided to the Councils combined and to each of the Councils individually.	October 2016					
12	LACC Interfaces identified	With a confirmed understanding of the services to be provided to each of the Councils by the LACC key interfaces will need to be identified, i.e. financial reporting and controls across each of the parties.	November 2016					
13	Lease agreements (assets and vehicles)	With the Councils retaining their respective assets appropriate lease agreements between each of the Councils and the LACC will need to be developed.	December 2016					
14	Contractual arrangements	Consolidation of all contractual arrangements agreed and executed enabling establishment of the entity.	December 2016					
15	Financial Positions	Detailed financial positions agreed for services to be provided, payroll figures, cashflows, budgets, reporting and audit requirements identified.	December 2016					
16	Company registration	Registration of the LACC as a Company prior to trading.	February 2017					

	Delivery Tasks	*Description*	*Timing*	*Jul-Sep 2016*	*Oct-Dec 2016*	*Jan-Mar 2017*	*Apr-Jun 2017*	*Beyond July 2017*
17	Payroll establishment	Establishment of new payroll.	April 2017					
18	VAT registration	Registration of the LACC for VAT.	April 2017					
19	LACC commence	LACC commence operational transition (timing of waste services in West Devon to be determined). This may include interim performance measures to allow for issues to be resolved without penalties.	April 2017					
20	LACC fully operational	The LACC is operational with appropriate performance measures in place for services to be provided to the Councils. Ability to	October 2017					
21	Skills development for tendering	Following initial establishment and transition phase further analysis of skills required to generate additional revenue from outside of the Councils.	2018					
22	Market development (public sector)	Market development for public sector services currently provided by the LACC to the Councils.	2018					
23	Market development (private sector)	Market development for private sector parties for services provided by the LACC.	2019-2020					

7.6. Risk Matrix

	#		Option		Potential Impacts (quantitative)	Treatment/Mitigation
			6			
		Note: Comparative risk assessment considered against current operating model.	A Combined model (a combination of insource for member services, outsource leisure, and LACC for Customer First, Commercial Services, Support Services)			
			Unmitigated	**Mitigated**		
	1	The risk of not being able to meet Member requirements, causing complexity/disputes in the contract	Med	Low	Minimal impact as current service level should remain	Clear articulation of service provision to Members in agreements/contracts
	2	The risk of community backlash from the model cause restructure	Med	Low	Costs relevant to restructure the responsibility of the Councils	Communication program
Political	3	The risk that governance is not implemented appropriately causing confusion between ownership and management	High	Med	Minimal impact in £ but could cause delays which has an opportunity cost	Establishment of appropriate governance and management functions in the shareholder agreements
	4	The risk that local authority services are not able to successfully transition to commercial structure resulting in additional costs	Med	Low	Costs of additional transition costs responsibility of the Councils	Demonstrated success of T18 Programme and primary structural change is not service related
	5	The risk of creating a dual workforce with different employment terms and conditions	High	Med	The assumed efficiencies are likely to be minimal as significant progress (~30%) have already been made	Communication program for existing and new starters

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			Option		*Potential Impacts (quantitative)*	*Treatment/Mitigation*
			6			
	6	The risk of contract terms resulting in delays to mobilisation in emergency situations	Med	Low	Potential additional mobilisation costs in emergency situations	Provisions in contracts with regard to emergency situations
	7	The risk of increasing complexity of pension schemes resulting in increased administration costs	Med	Low	Existing liability remains responsibility of each Council Impact is if efficiencies are not realised	TUPE planning and resource management
	8	The risk of a new model failing, resulting in political backlash	Med	Low	Any costs incurred as a result backlash	Communications program
	9	The risk of Government policy impacting Local Authority structures (i.e. Devolution)	Med	Med	Costs are not able to be estimated	Communications program Stakeholder engagement in DCLG
	10	The risk of legal challenge regarding staff transfer, resulting in delays and increased costs	Med	Low	Legal costs to be funded by the Councils	Communications program considering larger impacts such as service cuts
	11	The risk of challenge to services being transferred which are unable to be sold elsewhere	Med	Low	Any costs resulting from decisions made	Communications program outlining links between matrix model and reduced duplication across the Councils and the LACC
	12	The risk of not meeting budget constraints resulting in services being cut	Med	Med	Potential cashflow implications if additional short term cost impacts	Further efficiency planning and LACC retaining some cash reserves in scenarios where Council budgets are further constrained
Budget	13	The risk of complex financial arrangements between entities leading to confusion regarding cross subsidisation	High	Med	Additional cost control or financial assurance costs	Management and reporting structure developed from the outset

		Option		*Potential Impacts (quantitative)*	*Treatment/Mitigation*
		6			
14	The risk of perceived differences between ownership, control, returns and rewards	Med	Low	n/a	Shareholder agreements and contract with LACC or articles to cover key issues from establishment
15	The risk of financial failure resulting in step in (i.e. from Councils or DCLG)	Med	Med	Costs of step in if external specialist resources required	Thresholds included in shareholder agreements and contract for step in rights or rectification measures Exit strategy also included
16	The risk that skills are not developed to enable successful tendering resulting in anticipated external revenues not being realised	Med	Low	Any additional costs associated with training or skills development Potential additional cost of sales force if internal skills not developed	Change management strategy development
17	The risk that anticipated capacity or skills is not able to be met resulting in revenues/savings not being realised	High	Med	Additional costs of tendering	Change management strategy development
18	The risk that locational influences do not enable additional partners or expansion, resulting in anticipated efficiencies not being realised	Med	Low	Additional costs associated with engagement of potential partners in other areas	Communications program
19	The risk that Council assets are not able to appropriately accommodate commercial requirements, increasing costs if additional assets required	Med	Med	Any additional asset related costs Not anticipated to be significant as capacity available from T18 Programme	Asset management plan for each Council coordinated with LACC operational requirements

Capacity

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			Option		*Potential Impacts (quantitative)*	*Treatment/Mitigation*
			6			
	20	The risk that other Councils set up similar ventures creating more competition	High	Med	Costs associated with tendering, lesser margins if price competition	Sales strategy developed at the appropriate time
	21	The risk of ownership disputes between current or new partners	Med	Med	Any costs associated (i.e. legal) or resultant delays	Shareholder agreements and contract with LACC or articles to cover key issues from establishment with regard to dispute resolution procedures
	22	The risk HMRC exemption not realised resulting in tax uncertainty	High	Med	Potential for corporate tax payable Assumption being limited profitability in the immediate future, therefore not likely to be a major cost factor	Early engagement with HMRC
	23	The risk that specific efficiencies of consolidated waste services are not realised	High	Med	Likely that WDW services contract is going to be more than current, therefore extension impacts are the additional delta between the two costs	LACC operational planning
	24	The risk that this sets a precedent for all LAs that Central Government does not agree with and adverse action is taken or policies implemented	High	Med	Transition costs if arise would be responsibility of the Councils	Communications program and engagement with Central Government
Other	25	The risk of further unforeseen funding cuts impact the Councils ability to fund the LACC	Med	Med	Implications of the LACC operating at a loss are yet to be considered	Budget planning by each Council and the LACC retain cashflow as preventative measure

		Option		Potential Impacts (quantitative)	Treatment/Mitigation
		6			
26	The risk that service quality is reduced (real or perceived)	Med	Med	Any costs associated with rectifying service quality	Service quality standards in relevant contracts
27	The risk the LACC doesn't meet compliance obligations	Med	Med	Any additional costs relating to compliance incurred within the LACC	Establish reporting and management structure that meets compliance obligations
28	The risk the Councils don't meet their statutory obligations	Med	Low	Any additional costs relate to each Councils obligations	Establish reporting and management structure that meets compliance obligations
29	The risk that the financial assumptions change (i.e. tax)	Med	Med	Any additional changes would be within the LACC	Scenario modelling regarding potential downside and upside
30	The risk of going over the Teckal thresholds	Med	Med	Costs associated within the LACC to meet i.e. up to 20% additional capacity	Options and thresholds considered into decision making framework Positive position to be in and have demonstrated successful ability to further transition to company without need for Teckal exemptions
31	The risk that insurances impact ability to deliver services to external parties	Med	Med	Any additional costs over and above current insurance costs	Insurance strategy to be developed as part of Phase 2
32	The risk that legal advice changes assumptions in the business case	High	Med	n/a	Legal advice to be obtained early in Phase 2
	Overall	Med	Med		
	Comments				
	<u>Scale:</u>				

	Option	Potential Impacts (quantitative)	Treatment/Mitigation
	6		

High - High Risk

Medium - Moderate risks

Low - Low Risks

7.7. Post Implementation Review

Post implementation reviews will be incorporated into the benefits realisation plan to ascertain whether the anticipated benefits have been delivered. Reviews will take place six monthly for the year after transition and then incorporated into annual budget and funding cycles. The objectives of the reviews will be:

- Identify delivery against planned activities;
- Identify what was done well, and why it was done well;
- Identify what could have been improved and how;
- Confirm if the project achieved its main objectives and that the cost reductions are being realised.

Thereafter there will be on-going monthly monitoring, reporting and quarterly reviews.

7.8. Future Considerations

When considering the changes in the sector in the recent past it is hard to predict the future. In establishing a LACC the Council have a number of options, including:

- The ability to develop internal commercial skills to expand reach into potential markets;
- The ability to source external skills if required to supplement internal capability with regard to tendering;
- Potential to adapt the commercial structure if revenues increase to levels that exceed Teckal exemption;
- Opportunities to take on other owners (i.e. other Local Authorities) with restructured shareholdings to expand the overall value of the 20% to maintain Teckal exemptions.

A broad range of factors including timing, skills, market characteristics, services offered externally etc. As there are a number of permutations, we have not considered these in detail. Establishment of a LACC does not necessarily restrict expansion and is flexible enough to respond to market conditions and drivers of the Councils.

In a broader context, the Councils still retain the right to increase taxes or reduce services within the structure.

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This report contains exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (information relating to the financial or business affairs of any particular persons including the authority holding that information). **This exemption applies to the Appendices only.**

Report to:	**Council**
Date:	**28 July 2016**
Title:	**HEALTH AND WELLBEING PROCUREMENT OUTCOME**
Portfolio Area:	**Customer First**
Wards Affected:	**all**

Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision: **Y** Approval and clearance obtained: **Y**

Date next steps can be taken: Immediately

Author: **Chris Brook** Role: **CoP Lead - Assets**

Contact: **01803 861170 Chris.brook@swdevon.gov.uk**

RECOMMENDATIONS

That Council be RECOMMENDED to:-

1. **approve the award of the Leisure Design, Build, Operate and Maintain contract, to the preferred bidder, Fusion Lifestyle.**
2. **undertake prudential borrowing of £6.337 million as set out in Appendix 2.**
3. **approve an asset transfer of the Totnes Pavilion to Tadpool, byway of a 25 year, full repairing and insuring lease.**
4. **approve a loan facility to Tadpool of up to £1.5 million, to be subject to a business case, to be approved by the CoP Lead for Assets and CoP Lead for Finance (S151 Officer), in consultation with the Monitoring Officer, to be paid back over the lease period.**

1 Executive summary

1.1 South Hams District Council (SHDC) and West Devon Borough Council (WDBC) have been working towards the renewal of the contract for the operation of leisure services, including maintenance of the building facilities. The existing contract terminates at the end of November 2016 and the new contract start date would be 1st December 2016.

1.2 The procurement approach used to achieve this has been a competitive dialogue process, taking three bidders to the final round, ahead of selecting a preferred bidder to take forward.

1.3 The preferred bidder identified through this process is Fusion Lifestyle, following officer's assessment of the bids against the agreed cost and quality criteria.

1.4 Their solution meets and exceeds the affordability criteria required, offering a significant saving to both Councils over the 25 year contract term. Refer to Appendix 1 for full financial details.

1.5 The bid also includes capital investment in all centres, notably, a new 6 lane 25 metre indoor pool facility at Ivybridge and extensive new dryside facilities in Tavistock. See section 4 - 8 for further details.

1.6 The leisure facility in Totnes is to be excluded from the contract, as it is the subject of an asset transfer to Tadpool, on a 25 year lease.

1.7 The proposed contract will include the operation of Dartmouth Indoor Pool, which will come at no cost to the Council

1.8 Officers seek Council approval to appoint the preferred bidder, under contract for the next 25 years.

2 Background

2.1 West Devon Borough Council (WDBC) and South Hams District Council (SHDC) have recently completed a leisure procurement exercise for a new leisure contract for the next 25 years. The contract is a DBOM, or Design, Build, Maintain and Operate contract such that the day to day responsibilities of running the leisure service will fall to the successful bidder.

2.2 A team of officers have assessed the bids submitted through the procurement process of competitive dialogue, and made a recommendation based on the agreed evaluation criteria. This recommendation needs approval from Full Council in both WDBC and SHDC for the contract to be awarded.

2.3 The timing of this report and Member decision, is driven by the procurement timetable, working back from the end of the existing leisure contract termination date of the end of November 2016.

2.4 The Council has been working on this strategic leisure review for the past 3 years. Members considered and agreed, the leisure procurement process at SHDC Executive on 29 January 2015

(Minute E60/14) and WDBC Council on 12 February 2015 (Minute CM 79). This set the overall parameters of the procurement and agreed to delegate details to officers in consultation with the Joint Leisure Member Board and relevant Members.

2.5 Both WDBC and SHDC consider leisure provision as an important public service with tangible community and health outcomes and as such there is public benefit in seeking a cost effective manner of continuing this discretionary offer.

2.6 Leisure activities align with our strategic corporate priorities of healthy communities and are a cornerstone of emerging *Our Plan* priorities around the delivery of Health and Wellbeing. This is specifically:

a) To deliver positive health and wellbeing outcomes for communities;

b) To reduce health inequalities and social isolation;

c) To ensure local people have access to housing, employment, services, facilities; and

d) Activities that improve health outcomes and promote healthy lifestyles.

2.7 This procurement exercise has tested the market based on the following objectives:

- Deliver a sustainable service with controlled costs and clear community benefit outcomes
- Allow for local participation in future delivery
- Achieve reductions in revenue costs
- Draw in capital investment
- Look for long term arrangements with responsibility for centres passing to the operator
- Pursue joint procurement and contract between West Devon Borough Council and South Hams District Council
- Seek opportunities for future efficiencies, flexibility and service improvements

3 Outcomes/outputs

3.1.1 The procurement evaluation resulted in a winning score of 84.2 out of a possible 100, being awarded to Fusion Lifestyle.

3.1.2 Following a joint leisure board meeting Tuesday 12th July, the evaluation outcome was ratified and Fusion Lifestyle were notified that they are now the preferred bidder.

3.2 Subject to Council approval to enter into contract with the preferred bidder, the following are the key benefits derived from the preferred bidder's offer:

3.3 The financial offer is very strong. A financial summary is included in Appendix 1.

3.3.1 Details of the prudential borrowing costs are shown in Appendix 2.

3.4 Our preferred bidder has sports and community development at the core of its charitable objectives, to increase participation and levels of physical activity and health and wellbeing for the local communities it serves.

3.5 To achieve this increase in participation and health and wellbeing various programmes and resources will be developed, such as;

- Dedicated staffing team for sports and activity development across both Council areas
- Pro-active outreach work with schools and communities including free sessions and 'pop up' activities
- Target approach in working with hard to reach groups and areas
- Creating new programmes, such as the 'Great Outdoors' with a focus to get people active outside in their local environment.
- Innovative marketing and brand campaigns on a local and national basis
- Inclusive and accessible pricing using a single approach across all sites
- Significant investment in all the facilities in particular in revenue generating activities

3.6 **How will success be measured?**

3.6.1 The Contractor must ensure that its programming, pricing, policies, development plans, marketing and training are focussed to support the Authority in achieving the desired outcomes and targets as set out in the Authority's Outcomes Documents (procurement specification).

3.6.2 The Contractor shall submit proposals to the Authority for approval detailing how it will measure the delivery of the plans and targets set out in the Authority's Outcomes Documents that have been based on the Authority's strategic objectives as below;

- A more active district – through increased leisure centre usage and overall levels of physical activity.
- Promoting community cohesion/ benefiting target groups – increase in use by target groups and sports volunteering.
- Improving health and wellbeing by increased use of exercise referral schemes, targeted health programmes.
- Partner engagement – through improved contacts and work with local partners and stakeholders

- Quality of Services – through improving Quest scores, increased User satisfaction levels and increased Member users.
- Providing local economic benefit – through better workforce development opportunities and increase in use of local suppliers.
- Sustainability/ Environmental improvements – through reduced CO2 emissions, reduced energy use and decrease in waste

4 **Development Proposals (see Appendices 4 – 7 for plans)**

4.1 A key part of this procurement was to attract capital investment into the leisure facilities across both Councils. The following section summarises these investment proposals centre by centre.

4.2 **Ivybridge**

4.2.1 Provision of a new 6 lane, 25m community swimming pool, located on the site of the existing outdoor pool and linked to new and improved changing facilities. The existing leisure pool is retained with new fun features provided.

4.2.2 Refurbishment and reconfiguration of the lobby, reception and foyer areas, with the creation of a new island reception, creating an improved first impression and providing additional flexibility for access control.

4.2.3 Conversion of the existing squash courts with a moveable wall so they can deliver squash provision as well as being additional multi purpose studio space.

4.2.4 Increased fitness studio space and capacity to offer a wider range of fitness classes.

4.2.5 Refurbishment and upgrade of gym facilities.

4.3 **Meadowlands**

4.3.1 Extension of the facility to enable a mixed dry and wetside offer.

4.3.2 Introduction of a new 35 station gym facility.

4.3.3 Construction of a new multi-purpose group studio space to enable a wider range of fitness provision.

4.3.4 Extension, refurbishment and reconfiguration of the existing changing areas to enable wet and dry change.

4.3.5 Creation of a new entrance, lobby and reception area, serviced by new office/admin area, café and/or high quality vending and offering viewing opportunities through into the pool area.

4.4 **Dartmouth Pool**

4.4.1 Construction of new link corridor between dry side and wetside.

4.4.2 Operation of the new pool and existing dryside facility as one centre.

4.5 **Kingsbridge**

4.5.1 Ground floor – refurbishment to the existing studio and the creation of a new studio of a similar size to existing.

4.5.2 Significant refurbishment of the dryside changing facilities.

4.5.3 1st floor - Introduction of a soft play space, extended gym facilities and the introduction of a new spin room.

4.5.4 These proposals result in the loss of squash provision.

4.6 **Okehampton**

4.6.1 Complete redecoration and re-branding. This centre is in the best condition of all of the sites, and as such has the least capital investment proposals.

4.6.2 Conversion of the first floor areas to create a new small spin class studio.

4.7 **Programme**

4.7.1 The key headlines of this programme are as follows:

4.7.2 Ivybridge Leisure Centre - works are projected to commence on site in November 2017 and be completed by February 2019;

4.7.3 Meadowlands Leisure Centre - works are projected to commence on site in November 2017 and be completed by March 2018;

4.7.4 Quayside Leisure Centre - works are projected to commence on site in November 2017 and be completed by May 2018;

4.7.5 Parklands Leisure Centre - works are projected to commence on site in June 2017 and be completed by September 2017;

4.7.6 Appendix 9 shows the development programme in full.

5 Totnes Pavilion/ Tadpool Asset Transfer

5.1 A thorough consultation and negotiation with Tadpool has been undertaken over the future options for Totnes Pavilion. The current situation where the wetside is leased to Tadpool and the dryside leased to a different operator is not deemed satisfactory or practical going forward.

5.2 The board of trustees for Tadpool, have accepted in principle the option of an asset transfer. The basis of this asset transfer is as follows:

5.2.1 A grant of £150,000 to address the maintenance backlog.

5.2.2 A loan of up to £1,500,000 subject to a business case, to be approved by the CoP Lead for Assets and CoP Lead for Finance, to be paid back over the lease period.

5.2.3 A lease for 25 years, on a full repairing and insuring basis.

6 Options available and consideration of risk

6.1 What alternative approaches could we take?

6.1.1 There are two options available to Members. Appointing the preferred bidder so that a new leisure contract can be entered into, or not.

6.1.2 So as to ensure the continued delivery of leisure, appointing the preferred bidder is the only option. However, there is no statutory requirement to operate leisure facilities, so in theory, it would be possible not to appoint the preferred bidder, but it would result in the closure of the leisure facilities in SH and WD.

6.1.3 Through the leisure services review, Members have already considered the following alternative leisure delivery options:

- Outsource leisure services to the private sector;
- Outsource the service to a trust or related organisational arrangement to take advantage of business rate relief and VAT reductions to achieve savings.
- Provide leisure services in-house;
- Transfer leisure services to another Local Authority e.g. a Town Council
- Explore other forms of community based delivery in the context of the Localism agenda and current and emerging local investment plans in leisure facilities;
- Stop the service in its current form and develop new partnerships to achieve alternative provision and new leisure uses for existing or redeveloped buildings, or on alternative sites.

6.1.4 These options have been analysed and tested through stakeholder liaison, soft market test and associated work. The outcome of this work resulted in the decision to maintain the leisure service based around the current centres, leading to this procurement process.

6.1.5 If the recommendation to appoint the preferred bidder is not approved, the options to provide leisure in one of the alternative ways as above, are limited such that the leisure centres would need to close in the short term.

6.2 Assessment of potential impacts and risks of these options

6.2.1 The procurement process has been very successful and appointing the preferred bidder represents the lowest risk option to the Councils.

6.2.2 To reduce procurement risks associated with the new contract, the Council has used a competitive dialogue procedure under the Public Contracts Regulations 2015. Furthermore, it has used and shall use Sport England procurement information for guidance and its toolkit information. This provides industry consulted contract documentation and advice.

6.2.3 This has enabled us to promote best practice and reduce costs and time for both the Council and contractor in the procurement of the leisure contracts; achieve fair contractual positions; and encourage partnerships which aim to deliver increases in participation and financially sustainable leisure provision.

6.2.4 The risks associated with the ongoing operation of the contract, have been minimised through the use of Sport England Standard contracts and outcomes. These are familiar to those in the industry, avoiding any unnecessary administrative burden to those involved.

6.2.5 The contract includes the lease of the facilities to the operator on a full repairing basis, so the historical complexities of shared maintenance responsibility shall cease going forward.

6.2.6 The contract also places responsibility for the financial delivery of the revenue projections with the operator. The management fee paid by the operator are therefore guaranteed whether they deliver the revenue projections.

6.2.7 This guarantee is based on the robustness of the operator who is a significant operator with a turnover of £84 million and reserves of £14 million in 2015. There is a risk that if the operator cannot deliver the projections and the company fails then the Councils would be responsible for any shortfall in financial performance.

6.2.8 If this situation were to occur then the Councils do have the ability to seek another operator who will benefit from facilities that have been invested in.

6.3 How have we evaluated the options and who was involved?

6.3.1 The procurement process has been undertaken by a full team of officers, including representatives of assets, finance, leisure, procurement and legal. The project team have evaluated the procurement process that forms this officer's recommendation.

6.3.2 Member Working Groups at both Councils since 2012 have been working on strategic reviews and stakeholder consultations with support from our appointed leisure consultant to consider all options. Both Councils approved in early 2015 to establish a Joint Leisure Board to follow a joint procurement protocol and support the process with designated officers.

6.3.3 The award criteria applied during the evaluation of the bids were approved by Members at SH Executive (Minute E.12/15) and WD Hub in July 2015 (Minute Ref HC 7).

6.4 What consultation has taken place

6.4.1 Prior to the procurement process and during the leisure services review period, a core requirement was to consult with key stakeholders so that their views were sought and where, appropriate, incorporated.

6.4.2 This consultation took place at a local and regional level involving town Councils, community colleges / schools, community sports bodies such as Tadpool, Dartmouth Pool Trust, Okehampton Community Sports Association, Active Devon and Sport England.

6.4.3 Potential bidders were also alerted to the proposed procurement of the Council's leisure centres through a soft market test exercise which generated a positive response and enabled further discussion with our local stakeholders.

6.4.4 During the procurement process, strict procurement regulations had to be observed. However, the leisure board acted to ensure Member scrutiny of this process. Furthermore, O&S have also had briefings as required.

7 Proposed Way Forward

7.1 Proposals

7.1.1 Subject to the outcome of this report, the next steps are to enter in to contract with the preferred bidder, for contract start on 1st December 2016.

7.2 Positive and negative impacts and plans to mitigate any negative risks or impacts. Can the risks and impacts be contained?

7.2.1 Reference Appendix 3 – Risk Allocation Matrix

8 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		There is no statutory obligation on the Council to provide leisure services as these are discretionary.

		The procurement has been undertaken in accordance with Public Contracts Regulations 2015 and the Contract Procedure Rules of West Devon Borough Council as the Lead Council. The procurement process involved due diligence and governance throughout the tender period. There are no known State Aid risks associated with the financing of the leisure project as the Council will be borrowing for the purposes of financing capital projects. However, officers will keep these under review and ensure that the contract is awarded in accordance with existing laws. TUPE and Pensions issues will be matters for the incumbent provider and the new operator. The Councils role will be limited to facilitating the transfer in accordance with Transfer of Undertakings (Protection of Employment) Regulations 1981 (SI 1981/1794) (TUPE 1981) as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014 (SI 2014/16). An Asset Transfer to TADPOOL is likely to be deemed as a relevant transfer pursuant to Transfer of Undertakings (Protection of Employment) Regulations 1981 (SI 1981/1794) (TUPE 1981) as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014 (SI 2014/16). The Council will be required to facilitate the transfer in so far as TUPE and Pensions are concerned. There are no risks of liabilities to the Council as there are no Council employees who will be affected by the transfer. The transfer of employees will be between the current operator and TADPOOL. The Council role in these circumstances will be limited to facilitating the transfer thereby acting as a conduit between the current operator and TADPOOL. The Loan facility to TADPOOL may be subject to State Aid rules. The Council will need to be satisfied that the loan agreement does not fall foul of State Aid Rules. These will need to be addressed in the business to be approved by officers. The Council and TADPOOL will need to contact the Department of Business Innovation and Skills and establish whether this arrangement will fall within an

		approved scheme for subsidised interest loans. Subject to these compliance, there are no legal risks to the Council in granting such a loan facility to TADPOOL. This report contains exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (information relating to the financial or business affairs of any particular persons including the authority holding that information). **This exemption applies to the appendices only.**
Financial		The savings from the procurement are shown in Appendix 1. The details of the prudential borrowing costs are shown in Appendix 2.
Risk		The Procurement Evaluation Process will identify areas of risk and exposure and how these can be assessed and managed.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	None – all leisure facilities are intended to remain open. At this stage no reduction or loss of service is anticipated.
Safeguarding	N	None - future operators will be required to have comprehensive Safeguarding policies You need to set out what the Safeguarding implications are.
Community Safety, Crime and Disorder	N	Access to local affordable leisure facilities to continue.
Health, Safety and Wellbeing	Y	Access to local affordable leisure facilities to continue.
Other implications		

Supporting Information

Appendix 1 – Financial Details
Appendix 2 – Summary of Prudential Borrowing
Appendix 3 – Risk Allocation Matrix
Appendix 4 – Parklands
Appendix 5 – Meadowlands
Appendix 6 – Kingsbridge
Appendix 7 – Ivybridge
Appendix 8 – Development Programme

9 Background Papers:

Leisure Report - SHDC Executive on 29 January 2015 (Minute E60/14)
Leisure Report - WDBC Council on 12 February 2015 (Minute CM 79)

Leisure Service Procurement - SH Executive 23.07.15 (Minute E.12/15)
Leisure Service Procurement - WD Hub 14.07.15 (Minute Ref HC 7)

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Report to: **Council**

Date: **28 July 2016**

Title: **Heart of the South West Formal Devolution Bid – Combined Authority Principle**

Portfolio Area: **Strategy and Commissioning**

Wards Affected: **All**

Relevant Scrutiny Committee: **Overview & Scrutiny Panel**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **Immediately**
(*e.g. referral on of recommendation or implementation of substantive decision*)

Author: Steve Jorden Role: Executive Director (Strategy and Commissioning), Head of Paid Service

Contact: steve.jorden.swdevon.gov.uk

RECOMMENDATIONS

That Council RESOLVES to:

1. **Endorse the Leader's current approach to devolution and agree to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area; and**

2. **Note that giving this endorsement does not commit the Council to entering into a Devolution Deal or becoming a member of a Heart of the South West Combined Authority. This would be subject to future debate and agreement by the Council and subject to negotiations with Government.**

1. Executive summary

1.1 This report seeks approval to sign up 'in principle' to the pursuit of a Devolution Deal and the creation of a Combined Authority for the Heart of the South West sub-region to administer the powers and funding devolved through the Deal. An 'in principle' agreement from all of the local authorities, partners and MPs involved in the Heart of the South West devolution process will open up negotiations with HM Treasury to work towards a Deal.

1.2 Any final Devolution Deal with Government will be subject to further approval / ratification by all partners individually.

1.3 It should be noted that there is no intention for a new Combined Authority to take existing powers or funding from local authorities, or existing City Deal governance structures, without the explicit agreement of those constituent local authorities.

2. Background

2.1 Devolution for the Heart of the South West (HotSW) is being led by the Leaders of Somerset and Devon County Councils, all Somerset and Devon Districts, Torbay Council, Plymouth City Council, Dartmoor and Exmoor National Parks, the Local Enterprise Partnership and the three Clinical Commissioning Groups. The group has become an informal partnership working towards a Devolution Deal with Government to secure greater powers, and control and to have a stronger voice with Government.

Our shared Devolution Statement of Intent was submitted to Government on 4 September 2015, in response to announcements in the July Budget and the deadline set by the Chancellor of the Exchequer.

2.2 Since September 2015, the partnership has strengthened and evolved, and jointly developed the HotSW Prospectus for Prosperity (Appendix 1). The Prospectus builds on the three basic ambitions: - to raise productivity levels; improve health, care and wellbeing; and improve connectivity and resilience. A number of thematic groups were established to develop the detail for the proposition.

- Health, social care and wellbeing
- Skills and employment
- Business support
- Infrastructure, resilience and connectivity
- Housing and planning
- Governance

2.3 Our Prospectus for Prosperity was submitted to Government at the end of February 2016. Since then the Partnership has pressed the Secretary of State to enter into discussion with its negotiation team to secure a Devolution Deal for the Heart of the South West area. Following an invitation from the Secretary of State, on the 25th May 2016, leaders from the upper tier authorities met with the Greg Clarke, Secretary of State for the Department of Communities and Local Government to seek his views on our next steps forward.

Following that meeting, he invited us to come forward with a proposal and the following points were clarified:

- **Geography** – the Devon and Somerset area is agreed as the appropriate scale. Our proposal will need clearly demonstrate <u>why</u> this is the right geography for the Devolution agreement and all councils and MPs must support the proposal.
- **Combined Authority** – the Partnership will move forward into the negotiation process based on a Combined Authority model. The Mayoral issue may be considered at a later stage, within the timeline agreed by our Partnership. A Mayor will <u>not</u> be imposed or be a pre-condition of any initial deal.
- **Extent of the Deal** – areas that have agreed to have a Mayor will get more powers than a non-Mayoral Combined Authority. However, the negotiation process will be an opportunity to push the limits of this initial Deal, and the process should be viewed as being incremental
- **Timeline** – we will still work towards an Autumn Statement timeline for the announcement of an initial Deal
- **Growth Deal 3** – the LEP will <u>not</u> be penalised in Growth Deal 3 negotiations just because the area has decided to pursue a Devolution Deal based on a Combined Authority without a Mayor. The decision for allocation will be based purely on the quality of the Growth Deal bid.

The Secretary of State went on to advise that if the Partnership, backed by each Council and MPs, would sign up to the principle of creating a Combined Authority by the end of July 2016, he would arrange for HM Treasury to open up negotiations towards a Devolution Deal.

2.4 This report seeks approval to sign up *'in principle'* to the pursuit of a Devolution Deal and the creation of a Combined Authority for the Heart of the South West sub-region to administer the powers and funding devolved through the Deal. An *'in principle'* agreement from all of the local authorities, partners and MPs involved in the Heart of the South West devolution process will open up negotiations with HM Treasury to work towards a Deal.

2.5 Any final Devolution Deal with Government will be subject to further approval / ratification by all partners individually. A Heads of Terms document will be used as a negotiating tool to draw down additional powers and funding to provide a significant boost to the Heart of the

South West economy by creating new jobs, accelerating the delivery of new homes, and raising skills levels.

2.6 It should be noted that there is no intention for a new Combined Authority to take existing powers or funding from local authorities, or existing City Deal governance structures, without the explicit agreement of those constituent local authorities. Further detailed work will be undertaken to identify the decision making powers and the constitution of the Combined Authority, and all partners will be fully involved and consulted on these arrangements as they develop over the coming months.

3. Outcomes/outputs

3.1 These recommendations seek to gain authority to pursue solutions that help the Council maximise the opportunities of devolution. They do not commit the Council to a formal Devolution Deal, only to the principle of a Combined Authority to open up negotiations with Government.

3.2 At this stage of the process the Council is not required to take decisions on the detail of future service provision but rather to be actively aware and involved in discussions.

3.3 If HM Treasury agree to open up negotiations towards a Devolution Deal for the Heart of the South West, further work will be required as detailed below. The timescales to deliver this work will be extremely tight if the Partnership is to achieve its target of establishing a Combined Authority in May 2018. The Programme Management Office oversees the delivery of the work plan and maintains communications between each partner. Consideration will need to be given to whether the capacity of the PMO will need to be increased to meet these potentially tight timescales.

4. Options available and consideration of risk

4.1 To decline the Secretary of State's offer and continue at our own pace.

Reason for rejection: As far as we are aware we may be the first two tier area to be given the opportunity to enter into negotiation with Government for a Devolution Deal without committing to a directly elected Mayor (except for Cornwall which has a different arrangement). This is a prime opportunity to test Government and push as far as we can for powers to be devolved to the HotSW. The offer is likely to be time-limited due to Government schedules and announcements.

4.2 To make separate approaches to Government, rather than as a Heart of the South West partnership.

Reason for rejection: Since the submission of the Statement of Intent in September 2015, the 17 local authorities, 2 National Parks, the HotSW Local Enterprise Partnership and the 3 Clinical Commissioning Groups have worked very effectively together to create a strong and credible Prospectus that has been acknowledged by the Secretary of State. We should remain united moving forward into negotiations to have a stronger voice, and secure a better Deal.

4.3 It is possible that one or more partners may choose not to proceed with a formal bid. This would be unfortunate as there is strength in all partners coming on board; however it is possible for a Devolution Deal to go ahead even if one or more local authorities choose to opt out. There is significant discussion underway between partners to produce proposals that are acceptable to all, and this will be fully explored as the bid develops.

5. Proposed Way Forward

5.1 Productivity Plan

The HotSW partnership has already committed to develop a Productivity Plan which will guide the powers and resources received in our devolution agreement, together with local contributions. This plan represents a refresh of the LEP's current Strategic Economic Plan (SEP).

Regardless of whether the Government agrees to open up negotiations for a Deal, the development of a Productivity Plan for the Heart of the South West sub-region will be an imperative to describe the long term future growth of the area, in order to provide a better quality of life for our residents. Therefore, work will continue on the development of a sub-regional Productivity Plan irrespective of whether there is an announcement in the Chancellor's Autumn Statement.

The Productivity Plan will focus on each of the six 'golden opportunities' that have been identified in the prospectus - Marine, Nuclear, Aerospace and Advanced Engineering, Data Analytics, Rural Productivity and Health. Sitting beneath each of the 'golden opportunities' will be detailed plans setting out our ambitions for the region and what plans we need to have in place to achieve those ambitions.

5.2 Governance Review

A Governance Review is already underway. This is examining existing structures and developing options for the best governance structure for the Heart of the South West sub-region. As part of this review, the following key issues will be considered and all partners will be involved in this process:

- The extent of the decision making powers to be vested in the Combined Authority
- What decision making structures or advisory committees (including place-based arrangements) will be required under the Combined Authority– including any joint committee arrangements
- Proposed voting arrangements

5.3 Engagement with Members

Council Members will be kept informed as work continues, including through:

- Newsletters from the Heart of the South West devolution partnership
- A Member Development Programme to be run across the whole area and
- Regular updates and discussions via usual channels such as Members Bulletin, Member Briefings, Informal Council and Executive Director 'drop in sessions'.

6. Implications

Implications	Relevant to proposals	Details and proposed measures to address
Legal/Governance	N	The Councils' legal Officers will be involved in the development of the draft Deal and the structure of a Combined Authority for the Heart of the South West. This will allow the Council and the Partnership as a whole to understand the legal implications of any Devolution Deal and new Combined Authority body. Governance planning sessions are under way involving Legal representatives and Democratic Services Leads across all organisations which is looking at existing structures and developing options for the governance of the Combined Authority
Financial	N	The councils S151 officers will be involved in the development of the draft Deal and the investment framework that would support a Combined Authority. This will allow the Council and the Partnership as a whole to understand the financial implications of a Combined Authority and any Devolution Deal.
Risk	N	The involvement of technical specialists such as S151 officers and legal advisers in the development of any draft deal and combined authority model will help to understand the risk implications for the Council and the wider partnership. A risk register

		will be developed to sit alongside the development of the draft deal and the combined authority.
Equality and Diversity	N	None at this stage however the whole population of our authority could be affected by a devolution deal. Any final devolution deal with government will be subject to further approval / ratification by all partners, and will require other implications and impacts to be considered at that stage.
Safeguarding	N	None at this stage however the whole population of our authority could be affected by a devolution deal. Any final devolution deal with government will be subject to further approval / ratification by all partners, and will require other implications and impacts to be considered at that stage.
Community Safety, Crime and Disorder	N	None at this stage.
Health, Safety and Wellbeing	N	None at this stage.
Other implications	Y	Devolution potentially covers a wide range of services and plans. The detail of these will develop as formal proposals are developed locally and through negotiation with Government, and when the final Devolution Deal is put into place.

<u>Supporting Information</u>

Appendices:
Appendix 1: Prospectus for Prosperity
Appendix 2: 'What Devolution will mean for my local authority area'
Appendix 3: Briefing Note - What is a Combined Authority?

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Devolution

for the Heart of the South West

A Prospectus for Productivity

NHS Northern, Eastern and Western Devon Clinical Commissioning Group

NHS South Devon and Torbay Clinical Commissioning Group

NHS Somerset Clinical Commissioning Group

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The Heart of the South West
CARDIFF
To Bristol
M5
Frome
Wells
Bridgwater
Exmoor
Barnstaple
Bideford
A361
Tiverton
TAUNTON
A303
To London
Yeovil
M5
EXETER
A30
Weymouth
Newton Abbot
Dartmoor
TORBAY
29
30
To Truro
St Austell
PLYMOUTH
A38
- Key Road Route
- Key Rail Route
- Planned Infrastructure Improvements
- Proposed Infrastructure Improvements
- Principal Growth Areas
- Secondary Growth Areas
- Renewable energy potential
- Enterprise Zones
- Universities
- Science Parks
- Innovation Centres
- Marine Technology
- Hinkley Point Nuclear Site
- Yeovil Aerospace

Executive Summary

In September 2015 the Heart of the South West (HotSW) submitted its devolution Statement of Intent to Government. After considerable further work during autumn 2015, the partners - 17 local authorities, two National Parks, the Local Enterprise Partnership (LEP) and the three Clinical Commissioning Groups - are now in a position to commence detailed negotiations with Government on a devolution deal.

Government has challenged local leadership teams to treat productivity as 'the challenge of our time'. They have asked us to do that by 'fixing the foundations' of infrastructure, skills, and science through a devolution revolution delivering long-term public and private investment.

Heart of the South West productivity continues to lag behind national productivity and is currently under 80% of the UK average. To redress this we need more, better jobs, a healthier, higher skilled labour market and new homes for our growing population.

With Government support for our proposition, by 2030 the Heart of the South West can accelerate delivery of 163,000 new jobs, 179,000 new homes and an economy of over £53bn GVA. To put this in context, this is more growth over the next fifteen years than Bristol, Birmingham and Nottingham (the three non-'Powerhouse' core cities) have delivered in the last fifteen.

To do this we will exploit and deliver our Golden Opportunities around investment in nuclear energy at Hinkley, across the peninsula in marine, aerospace, advanced manufacturing and environmental futures. We will connect our rural communities to these transformers and address the challenges of ageing and health-related worklessness with unprecedented health and care integration.

We will take responsibility for fixing our foundations. We seek Government's support to do this through negotiation and delivery of a far reaching devolution deal for the Heart of the South West.

Our approach to delivering this transformation focuses on a comprehensive Productivity Plan:

- **For people:** we will build on Government's own national reconfiguration of the skills system to supply business with the skills it needs and a labour market able to deliver productivity per job and per hour at 'Greater South East' levels (outside Inner London). Our plans for health and care integration will support a significant proportion of our non-working population into work.

- **For business:** our Growth Hub will enable business growth and internationalisation following closure of the national Business Growth Service. We will augment this with specific policies and initiatives to realise national priorities implicit in our Golden Opportunities.

- **For place:** we will provide the infrastructure and housing required and make the Heart of the South West investment ready. We also recognise that much of our growth will occur in specific sub-regional economic geographies. We will plan and manage change in these sub-regions to ensure their connectivity with each other, with the rest of the country and globally. We will make sure that rural areas access and leverage these opportunities and build on Government's 10 point plan for rural productivity geographies. [1]

1. The Heart of the South West's economic transformational opportunities were identified and agreed in our Strategic Economic Plan, March 2014.

Cohesive, coherent leadership and governance of this transformation is crucial. We propose to establish a Combined Authority to provide leadership, supported by sub-regional delivery mechanisms so powers and resources are deployed on the scale at which our economy functions. These arrangements will develop new ways of working to address priority issues.

Our proposals build upon successful and strong business leadership through our Local Enterprise Partnership: we cannot deliver effective economic interventions without a strong business voice.

If we do not act, the Heart of the South West will not be able to contribute to the Government's ambition to meet the national productivity challenge as set out in Fixing the Foundations.

This document outlines our position and objectives. An early agreement on heads of terms for a devolution deal will trigger the start of our governance review and formulation of our Productivity Plan.

New housing across the Heart of the South West

Bridgwater Enterprise and Innovation Centre

Our Vision and Goals

Government recognises that fixing the foundations and devolution are the projects of a generation. Our key challenges are:

- An insufficiently skilled workforce and limited pool of available labour: many young people move away to live and work, rather than stay or move into our area.
- A need for more infrastructure to support our existing businesses and workers and to attract new ones. We need better and more resilient infrastructure: roads, railways, broadband and housing.
- Enabling a more effective, far-reaching support environment for businesses to sustain those we already have and make the area more attractive to inward investment and home-grown entrepreneurs.
- Managing the significant and increasing cost of health and social care, which combined with our ageing population threatens the viability of public services unless radical reforms are completed.

Productivity-led growth in the Heart of the South West will have three dimensions:

- **People:** who are healthy, with the skills they need to access higher value jobs and grow their careers.
- **Business:** more businesses creating new jobs and increasing productivity.
- **Place:** sustainable growth across the geography, supported by modern infrastructure and accelerated housing delivery.

We signalled our intention to meet these challenges with our Statement of Intent. The submission of this more detailed proposition shows how serious our intent is. We believe the proposals we have committed to developing will realise our local ambitions and make decisive, important contributions to Government's national priorities.

With Government support for our proposals we will redress our productivity gap and help us manage demographic challenges more effectively. Key outcomes we will achieve by 2030 include:

- £4bn additional in GVA for the UK economy.
- 163,000 new jobs.
- Infrastructure that supports our ambitious plans.
- 179,000 more homes, and accelerated delivery in major growth points.
- Wage levels higher than the national average.
- Additional tax revenue for the Treasury of £113million per year.
- Apprenticeship starts increased by 400%.
- Every young person in education, employment or training.
- £1bn per year welfare benefits savings as more people enter employment.
- 60% of our workforce qualified to NVQ level 4 or above.
- Faster more reliable rail services with greater capacity.
- Faster and more reliable journey times on our road network, with less congestion.
- 100% superfast broadband coverage.

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The Heart of the South West has a strong track record of delivering in partnership for residents and businesses:

- Securing and supporting major national and international investment in the future of the nuclear industry at Hinkley Point.
- Plymouth and South West Peninsula City Deal.
- A total of £195.5m secured through Growth Deals – including the highest Growth Deal 2 settlement of any LEP area in the country – to deliver a comprehensive programme of projects in pursuit of growth.
- Exeter University, Science Park, Innovation Centre and Innovation Zone.
- Connecting Devon and Somerset superfast broadband.
- Three Enterprise Zones: South Yard in Plymouth to support innovation and growth in marine industries, Huntspill Energy Park near Bridgwater to support the growth of a new nuclear cluster catalysed by investment in Hinkley and east of Exeter sites aligned to opportunities in environmental sciences and big data.
- Delivery of Plymouth Science Park by Plymouth City Council and Plymouth University, now entering phase 5, creating the largest science park in the south of England.
- Better, more reliable roads, including major improvements to A303, A358, A30 corridor, M5 Junctions and A361 North Devon Link.
- The Peninsula Rail Task Force.
- Connecting communities in rural areas.
- Exeter and East Devon Growth Point.
- A high quality and thriving Further Education Sector.
- Health and social care initiatives including Somerset's 'Symphony' Vanguard project, Exeter 'ICE', Torbay's Integrated Care Organisation and 'One System One Budget' in Plymouth.

We can scale up and build on these experiences. However, without the comprehensive framework that our governance proposals will deliver, the Heart of the South West and national Government will miss out on the solutions, linkages, and effectiveness that collective leadership can achieve.

A Heart of the South West devolution agreement with robust governance structures, accelerated delivery, and more focused use of scarce resources is the optimal way for Government to assure itself that the national Fixing the Foundations plan is being proactively and consistently led and delivered across the Heart of the South West.

In this prospectus we set out our goals for 2016-2030 and how we will deliver the long-term and evolutionary work required to achieve our devolution revolution.

FlyBe Academy

National Context

Government set out its long-term ambitions for the UK economy in 'Fixing the Foundations', its productivity plan for 2015-2020. This framework outlined how long-term investment and a dynamic economy could raise productivity and lift living standards. Government's invitation to areas to propose ways that devolution could contribute to this agenda led to our Statement of Intent being submitted on 4th September 2015.

With policy developments in the autumn, and the Spending Review, Government has firmed up the financial intentions behind the productivity plan. In terms of local contributions leadership teams need to deliver an extensive portfolio of reforms:

- In skills and employment, 2016-20 will see major reforms of the post-16 and adult skills systems (both of colleges and providers on the supply side, and of loans for learners on the demand side). Post-16 Area Reviews and introduction of the Apprenticeship Levy offer opportunities to transform the delivery of local labour market skills, however the demands of transition may be acute.

- Physical investment will need to be managed in the context of higher performance expectations for planning regimes, new approaches to housing supply (especially starter home ownership) and proactive asset management at a public estate as well as local authority level. Local leadership teams will also need to play into the revision of the National Infrastructure Plan with new commitments to flagship schemes like HS2 and nuclear energy.

- As the national Business Growth Service closes by March 2016, new pressures will be placed on emerging local Growth Hubs. For innovation, local and regional Science and Innovation Audits will seek to shape national priorities as Research Councils and Innovate UK come together in Research UK with a range of new products.

- These agendas, and others, need to be delivered without diverting attention from existing commitments. These include City Deals, local Growth Deals, the European Structural and Investment Fund programmes, and other legacy programmes, such as the Regional Growth Fund, Growing Places Fund, existing and newly announced Enterprise Zones.

These agendas sit alongside, and will be enabled by, devolution and fiscal reforms and managed in the context of continued public sector expenditure constraint.

The challenge for the Heart of the South West is to shape these national priorities to our unique circumstances. We have drawn on our Strategic Economic Plan to describe the causes of our productivity challenge, identify our key Golden Opportunities and understand how to build on our track record of success.

Hinkley Point C, Somerset

Local Context

The Heart of the South West covers most of the south west peninsula. Its 1.7 million residents live in a mixture of rural and urban settings served by a stunning natural environment and rich cultural heritage.

Most of our businesses are small and medium sized enterprises (SME) employing fewer than five people, providing excellent potential for growth and innovation. We are also home to cutting edge engineering and manufacturing industries including companies of global significance:

- Aerospace and advanced engineering industries employ more than 23,000 people and contribute over £1billion to the economy. Businesses in the area also have specialisms in advanced electronics/photonics, medical science and wireless and microwave technologies.

- Analysis of the comparative advantages of our local assets has identified that the Exeter City Region can make a unique contribution by becoming a globally recognised centre of excellence in weather and environment-related data analytics. Exeter is home to the Met Office, the city leads Europe in combined environmental science, data and computational infrastructure, hosting 400 researchers in environmental and sustainability science. From 2017, it will also host the most powerful supercomputer in Europe.

- The first of the UK's new generation of nuclear reactors being constructed at Hinkley Point will deliver substantial economic benefits across the south west. It is part of our growing low carbon and energy sector and offers £50billion worth of business opportunity in the nuclear sector within a 75-mile radius of Hinkley Point.

- We are a global centre of excellence for marine science and technology, including Plymouth University's Marine Institute and the Plymouth Marine Laboratory.

- There are 30 working fishing ports across the Heart of the South West, including the two largest fishery landings in England at Brixham and Plymouth.

- The South West Marine Energy Park, the country's first, serves the wider south west peninsula, and offers direct access to superb physical assets and resources including the north Devon and north Somerset marine energy coasts for opportunities in wind, tidal and nuclear energy.

Our mixed economy also serves our traditional strengths. Our tourist and visitor economy attracts millions of visitors per year and our food and drink sector has a significant impact on national GVA (4.2% in 2011).

Whilst our largest employment sectors remain public administration, health and education, our Local Enterprise Partnership's Strategic Economic Plan recognises our area as having 'New World' potential if opportunities can be capitalised upon and the right conditions for growth created.

Golden Opportunities

We have identified six Golden Opportunities that we will use to drive productivity and economic growth whilst continuing to support our diverse economy and taking advantage of new opportunities as they emerge.

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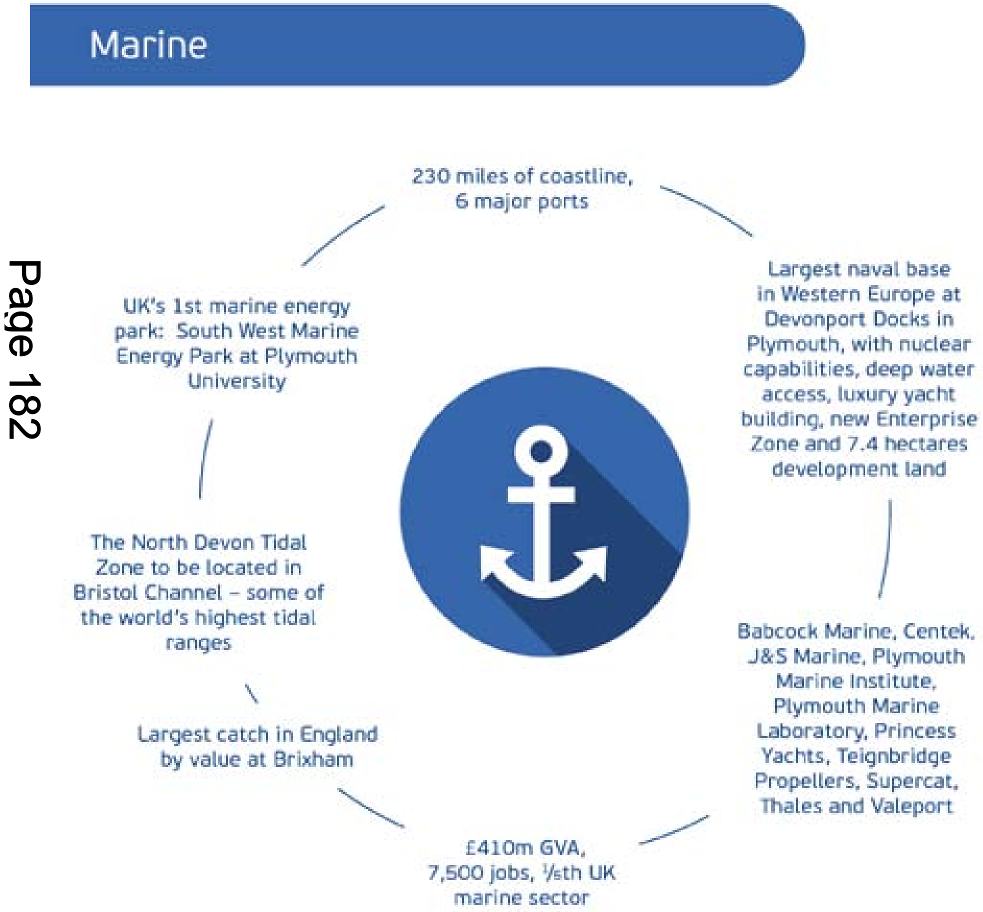
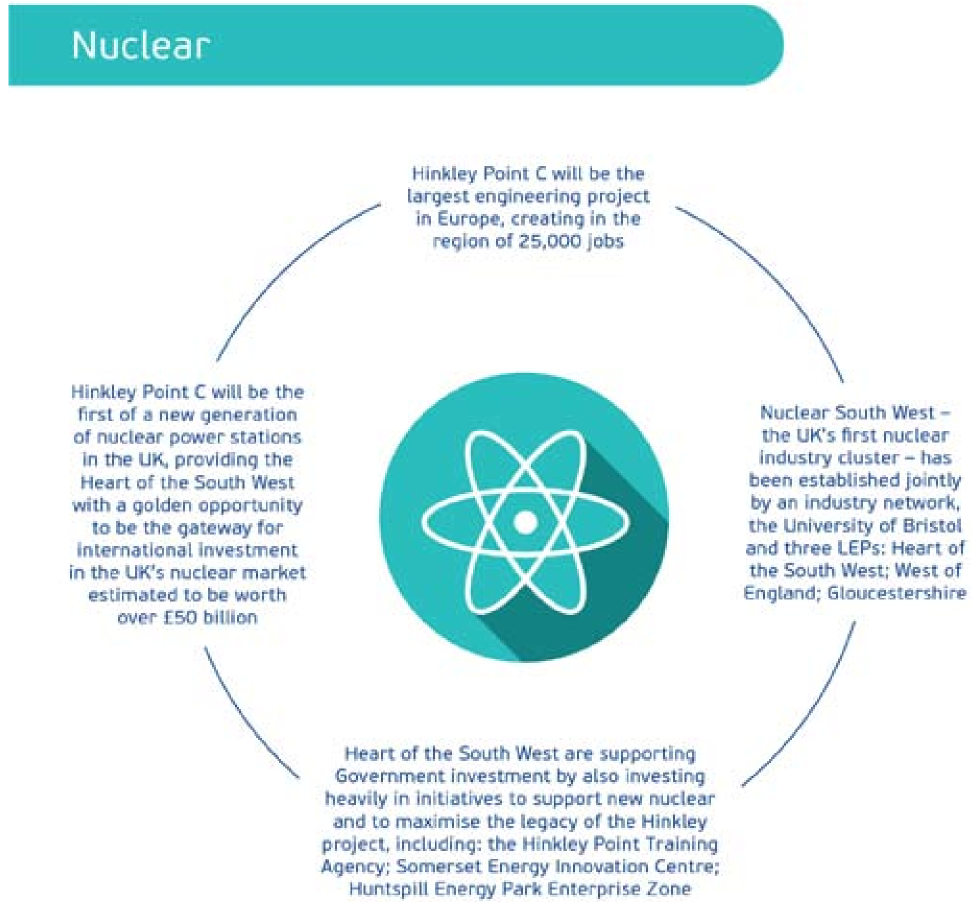




Aerospace and Advanced Engineering

UK has world's second largest aerospace industry – worth £1bn in HotSW employing 23,000

Major companies AgustaWestland, Airbus, Boeing, FlyBe, BAE Systems, GE Aviation Systems, Gooch & Housego, Honeywell, Thales, Rolls Royce, GKN Aerospace

14 of the world's top 15 aerospace and advanced engineering companies in the South West, with 900 supply chain companies

Data Analytics

New Met Office £97m Supercomputer will be the most powerful environmental supercomputer in the world – providing long term, detailed global climate prediction and Big Data

Intellectual firepower of over 400 researchers in the Met Office & University of Exeter

Food Security & Land Research Alliance: Bristol & Exeter Universities, North Wyke Farm Platform (Rothamsted & Duchy College) ground-breaking discoveries in global food security, crop, soil and land management, animal health and marine science

The UK Hydrographic Office in Taunton is the world's leading digital provider in the field of marine navigation, hydrographic & maritime data services

Exeter has more lead authors on the Intergovernmental Panel on Climate Change 5th Annual Report than any other city in the world

Rural Productivity

91% of HotSW area is rural

13,000 commercial farm holdings, 50% of the farms in the South West

High quality natural and historic environment: 2 National Parks, 7 Areas of Outstanding Natural Beauty, 22 nature reserves, 1 national trail

Superfast broadband for 90% of premises by end-2016

Research and innovation in environment and agri-tech: Rothamsted Research Centre (North Wyke), UK Met Office (Exeter), Shepton Mallet Agri-Zone

Food economy for Devon alone accounts for 13% of GVA compared to 7.6% nationally

Rural businesses can be supported to grow with the right kind of support. Through a micro grant scheme and business support programme from the Heart of the South West's Rural Growth Network pilot, there has been a productivity (GVA) uplift of over £8m, creation of over 350 jobs and 15 new businesses

Health and Care

15% of those employed locally work in health and care making it the second largest sector of our economy

The integration of health and care in the Heart of the South West is internationally recognised

With higher rates of absence related to ill health and worklessness due to disability than the national average, we have the potential to unlock lost productivity

With lower incomes, higher relative house prices, and a greater proportion of households in fuel poverty than the national average, improving productivity has the potential to reduce health inequalities and improve wellbeing

Our higher than average rates of volunteering make for a vibrant voluntary sector and resilient communities to complement statutory services

We are making good progress in developing new models of commissioning and delivery to enable people to be more independent and meet the challenge of an ageing population, with those 85 and over projected to more than double in the next 20 years

With almost half of absence due to mental health issues, we can be a test bed for new approaches to prevention and recovery

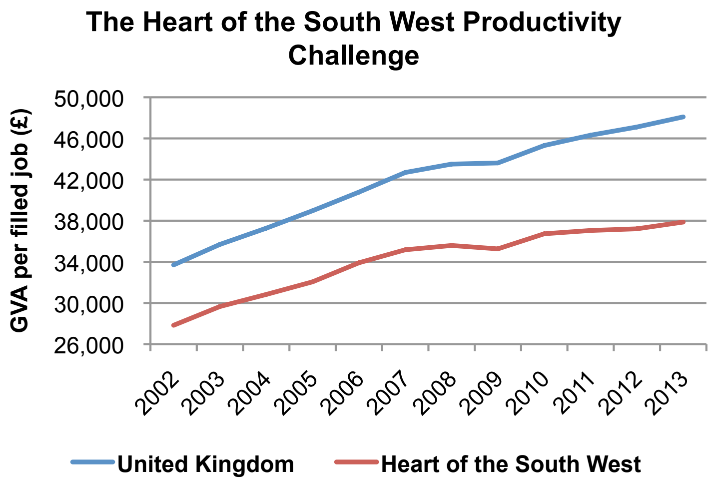
From six Golden Opportunities to six Key Challenges

Realising our vision, goals and targets requires us to address and solve six major, interrelated economic and societal challenges:

1. Our productivity is too low and growing too slowly

Whilst not uniform across the area, in 2013 our productivity per job filled was below 80% of UK averages, a fall of around 3% over the last decade. Our forecasts suggest that unless we unlock our emerging transformational opportunities our productivity will continue to lag behind the rest of the UK.

This performance is a manifestation of poor comparative skills levels, labour market shortages, insufficient infrastructure, and poor connectivity, the human and financial cost of ill-health, a lack of joined-up support for business and need for higher value industrial densities.



2. Our labour market is limited in size and skills levels

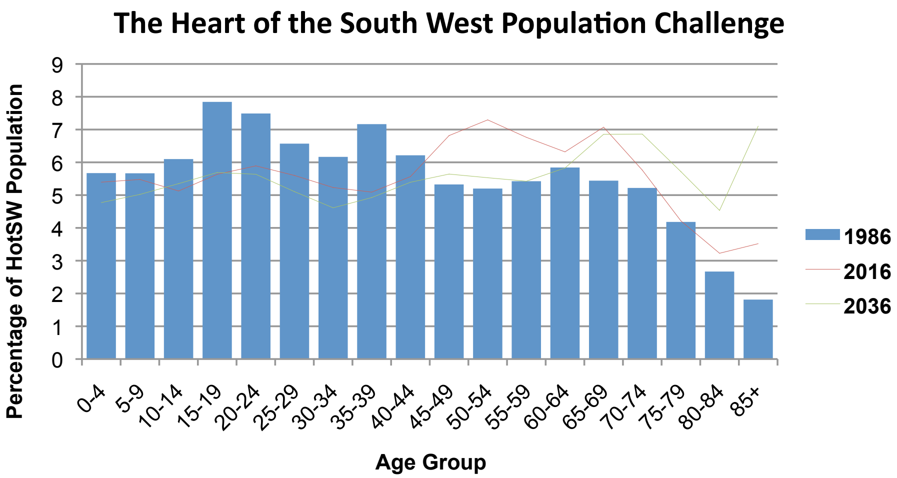
A key factor in our low productivity is a shortage of workers and a shortage of skills. Low unemployment means businesses have a limited labour pool from which to draw recruits. Higher level skills attainment is below national averages and out-migration of our talent to London and other metropolitan centres means that employers regularly report labour shortages and recruitment difficulties.

3. Our enterprise and innovation performance is inconsistent and needs to improve

Evidence shows that businesses that take up support do better than those who don't. However, the business support landscape is complex and confusing and short-term Government funding for programmes creates uncertainty. The Heart of the South West ranks 38th out of 39 LEP areas on many measures of innovation including patent registrations and Innovate UK funding. We cannot resolve these science and innovation issues without more highly skilled workers and a stronger innovation environment, particularly around our Golden Opportunities.

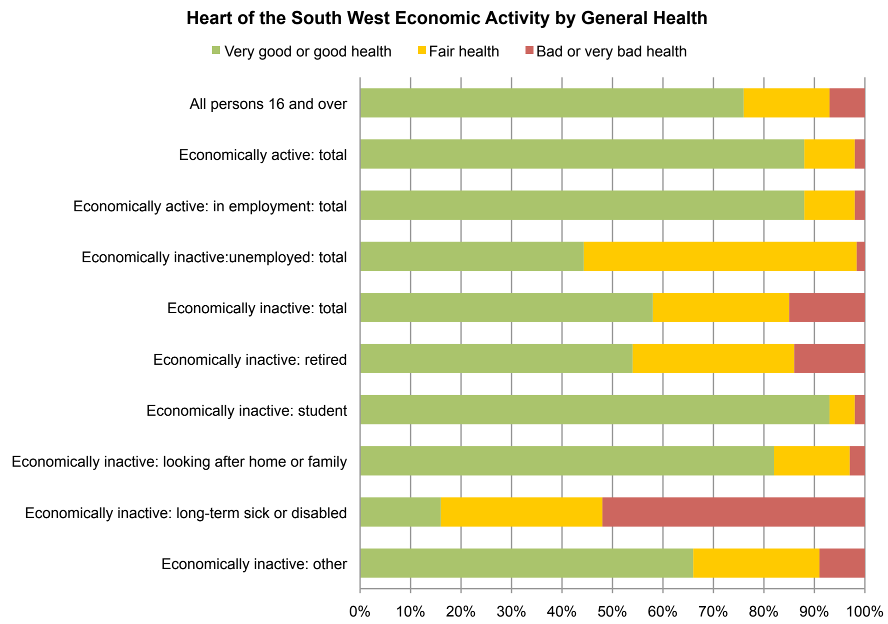
4. We are a leader in facing the challenges of an ageing population

Our population profile shows a significant increase in the proportion of our residents aged 65 or over and a corresponding decrease in the proportion of working age people under 45. By 2036, 17% of our population – more than 327,000 people – will be over 75 years of age.



5. We are a leader in facing the challenges of health and care integration

Particularly related to our demography, our health and care system needs to be reshaped to meet social, economic and financial pressures. Our area performs poorly for mental health outcomes when compared to national figures, making this a key priority.



A healthier population means lower public sector costs and increased economic activity. To fill 163,000 more jobs we must engage the non-working population in the labour market which will require a significant health and care contribution.

Employment of people with physical disabilities, learning disabilities, mental health issues and other long-term conditions is strongly correlated with their achieving better outcomes and being less dependent on publicly funded health and care services. This represents considerable productive potential.

6. Our infrastructure and connectivity needs to be modernised and more resilient

More infrastructure especially housing, transport links, broadband, mobile connectivity and energy grid improvements are required to make our area more attractive to investors and viable for the future. Improving these conditions are key to giving businesses in our area the tools they need to compete in global markets, attract future entrepreneurs and secure investment. We must overcome these barriers if we are to capitalise on our transformational opportunities.

Fixing the Heart of the South West and our contribution to fixing the national foundations

The current landscape of funding and decision-making has only taken us so far. Despite our achievements to date we need freedom to act more decisively. A devolution agreement means we can take responsibility for our unique challenges and capitalise on our Golden Opportunities.

The dividend for the National Productivity Plan is considerable. Besides the specific metrics identified in our goals, the UK will benefit from global and national energy investments and security, environmental futures and big data capabilities, an at-scale set of solutions to health and care integration and public service reforms.

This negotiating prospectus lays out the heads of terms of an agreement to create the foundations for a transformational jump in productivity. It will deliver quick wins this decade whilst planning for the medium and long-term.

Fingle Bridge, Devon

Improvements by Rail

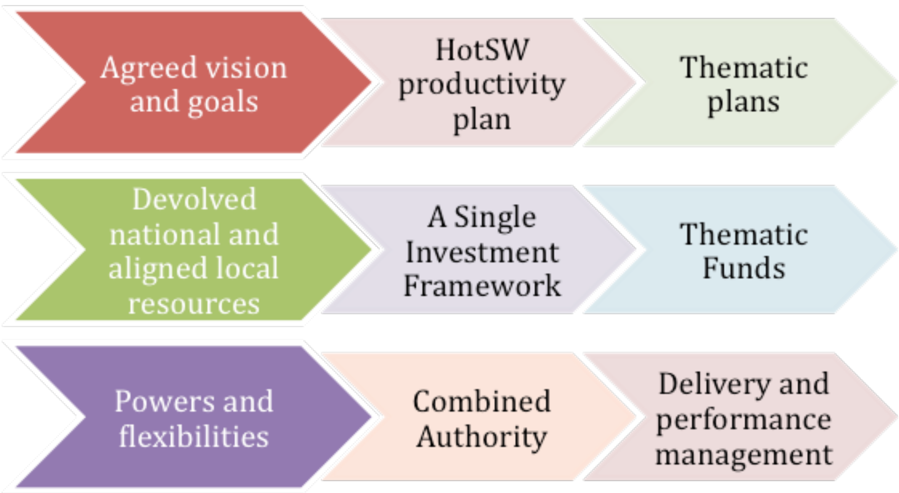
Met Office, Exeter

Our negotiating prospectus

We wish to agree with Government a shared commitment to building three pillars of a devolution deal for the Heart of the South West.

Foundation 1: The Productivity Plan

The Productivity Plan will be our instrument for fixing our foundations. It will incorporate the refresh of our Strategic Economic Plan and scale up local growth agendas for 2016-20 incorporating Spending Review and public service reform priorities. It will include proposals for our Strategic Labour Market Plan and Strategic Infrastructure Plan. It will also reflect our ambitions for integration of health and social care where they link to our devolution deal.



Foundation 2: The Single Investment Framework

The Single Investment Framework will set the financial parameters of our agreement and encompass devolved funds and locally aligned resources. It is likely to include:

1. A single infrastructure fund to provide the physical investment for backbone, nationally-significant infrastructure.
2. A housing delivery instrument to accelerate housing delivery by unlocking key sites and stimulating market activity.
3. Skills and employment allocations to enable remodelling of the skills and employment landscape.
4. Devolved health and care budgets delivering agreed business cases with NHS England and other partners.

We believe agreement to formulate these two foundations will enable early delivery of accelerated housing development, skills reform, and improved business support, with health and social care reform and infrastructure development taking place in parallel.

These two foundations will be overseen and assured by a Combined Authority arrangement. This will, once established, provide the Heart of the South West counterpart to Government for planning and management of our devolution deal. It will take responsibility for the powers, resources and deliverables outlined below.

People

A highly skilled, high productivity labour market meeting businesses' employment priorities

We are clear that without proactive leadership and intervention our skills profile will remain a chronic block to fixing our foundations and delivering our vision.

We intend to use national reforms, led and shaped locally, to deliver a labour market capable of achieving productivity at Greater South East levels (excluding the distorting effect of Inner London).

Government's expectations of local leadership teams for 2016-20 as laid out in existing devolution agreements, the 2015 Spending Review and other policies include:

- Planning and management of phased devolution of post-19 public sector adult skills budgets, leading to full commissioning and funding of providers from 2018-19.
- Chairing and facilitation of successful Area Reviews of post-16 education and training, implementation of review recommendations including reshaping provision where required.
- Co-design of apprenticeship reforms including introduction of the levy and deployment of Apprenticeship Grant for Employers.
- Co-design of future employment support programmes with DWP and performance management regimes.

The Combined Authority will take responsibility for delivering these agendas, augmented by specific asks around:

- Specification and delivery management of Careers, Education Information, Advice and Guidance in schools and colleges.
- Support from Government to deliver a wider Higher Education offer for Somerset, including a new university.

Our Offer	Our ask of Government
Responsibility for reshaping the skills and employment system. Delivered through formulation, agreement, resourcing and delivery management of a business-led **Strategic Labour Market Plan.**	Full devolution of powers to the Combined Authority, phased over a number of years, with relevant skills, education and employment budgets into the Single Investment Framework. Government departments and agencies to co-design and co-deliver the Strategic Labour Market Plan.

Why is this important?

Our analysis has shown:

- Young people are not getting the independent, quality careers and education advice and guidance to help them make informed decisions on their education and training.
- Employer productivity improvements are held back by shortages and lack of skills in local labour markets.
- The national provider system is poor at anticipating and securing future skills needs.
- Support for the workless is ineffective for those furthest from the labour market. Our evidence shows a distinct lack of progress for those in receipt of Employment Support Allowance despite significant investment and reform.

Key outcomes

With the powers and funding outlined above we believe a devolution deal will allow us to deliver the skilled workforce our productivity ambition requires. We will work with Government to design system reforms that deliver:

- 40,000 people helped to move from benefits into paid work.
- Benefit bill savings to Government of £1bn per year.
- Additional money earnings locally per year of £800m.
- Additional tax income for Government of £113m per year.
- All young people in employment, education or training.
- Apprenticeship starts increased by 400% and aligned to our six Golden Opportunities.
- Parity of esteem between vocational and academic pathways.
- Maximised links between Golden Opportunities and skills development to encourage young people into our area's high tech industries.
- A university for Somerset.

Babcock Training

A national demonstrator of effective health and care integration for improved wellbeing

The Heart of the South West already has well established and innovative local approaches to health and care integration, however our system continues to be under demographic pressure. We now have an opportunity to bring together resources across the public sector to deliver the systemic reform needed by the health and care system and through strong local leadership can engage communities and voluntary sector in that enterprise. We want to create a system where prevention and early intervention are an integral part and which rethinks its approach to mental health and wellbeing. In summary:

Our Key Offer	Our ask of government
Building on the NHS 5-Year Forward View, we will deliver a 'whole system' approach to health and care.	Devolution of 5-year place-based population budgets for health, care, and public health

This will include:
Devolved commissioning of primary and associated specialist care services including mental health.
Flexibility in regulation and budgeting, including freedom for partners to pool resources.
Greater emphasis on public health and the link between health and housing.
Capitation-based payments.
Support to address skills shortages.

Why is this important?

We want people to lead longer, healthier, more productive and fulfilling lives while ensuring the sustainability of our health and care services.

Health outcomes are generally good and life expectancy is high, but too many people develop avoidable long-term multiple conditions which affect both the quality of their lives and their ability to work. People with mental health conditions are in too many cases poorly served by a fragmented system in which there is no effective link between preventive, primary care and acute services.

Health and care is the second largest sector in our economy but productivity lags behind other areas and there are workforce and skills shortages which affect both the quality and cost of provision. These issues can only be tackled through whole-system reform and a closer matching of strategy and resources to local need.

Our ageing population demography is ahead of many other areas meaning we have an opportunity to lead the way in tackling the associated health, care and economic challenges.

Key outcomes

Devolution will help us create a health and care system that supports a healthier population, greater personal independence and wellbeing, and improved workforce productivity:

- Better physical and mental health outcomes.
- A system that is integrated and financially sustainable, offering a whole system approach, and is a test-bed for Government innovation.
- People of all ages encouraged and supported to make healthy lifestyle choices and manage their own care, therefore diverting or delaying dependency.

Devolution offers the potential for us to go further, faster, and bring reform initiatives together at a scale and with a scope that can provide a demonstrator (given our advanced demographic profiles) to health and care reforms in other parts of the country:

- The NHS 5-year Forward View and the requirement on areas to develop transformation plans for local areas.
- The financial settlement for local government, including the requirement to submit integration plans by 2017.
- Changing Better Care Fund guidance and the option to work across local authority areas to plan and deliver it.
- The 'Success Regime' applying to NEW Devon Clinical Commissioning Group and its impact on, and learning for, other health and care economies.

Improved heath care and wellbeing.

Business growth and innovation

Government expectations of local leadership teams for 2016-20 includes sustaining and developing support for business growth after closure of the Business Growth Service, as well as enabling distinctive contributions to national research and innovation-led growth priorities. For us this means scaling up the reach and impact of our Growth Hub and realising the full potential of our Golden Opportunities.

To deliver this Heart of the South West partners already have primary responsibilities for:

- Operation and performance management of the Growth Hub and shaping of national agency (eg UKTI) access and support to Heart of the South West business.
- Strengthening the coherence and effectiveness of local innovation eco-systems around our Golden Opportunities - notably the marine cluster anchored by Plymouth, the environmental futures cluster anchored by Met Office investments in Exeter, the UK Hydrographic Office's long-term commitment to Taunton, the nuclear cluster catalysed by Hinkley Point C, and the broader South West aerospace cluster with its major growth node in South Somerset.

Our skills and infrastructure proposals provide a number of interventions to address these challenges. These will feed into and through the Growth Hub so our business growth and innovation strand, in summary, will:

Our Key Offer	Our ask of Government
Scale up and assure a Growth Hub providing a seamless approach to business growth support. Strengthen a network and cluster of 'innovation eco-systems' anchored by each of our Golden Opportunities	An increased devolved revenue pot for at least 5 years which can draw if required on the Single Investment Framework. Co-commissioning of all remaining national business growth and internationalisation services. Commitment to bespoke agreements with national agencies to realise the UK and local growth dividends of each of the Golden Opportunities - underpinned by an early Science and Innovation Audit undertaken by a consortium of south west LEPs and universities.

This strand will include: Collaboration with neighbouring LEPs on a cluster approach to inward investment.

Why is this important?

Discharge of these primary responsibilities is impeded by national pressures which manifest themselves locally. Analysis shows:

- SMEs and early stage entrepreneurs find national and local systems fragmented, opaque and bureaucratic. This leads to low rates of business growth support take-up and entrepreneurial/start-up activity.

- Inward investment, internationalisation and trade, and our visitor economy are held back because the South West is perceived to be a distant periphery. Offers are poorly joined-up and we have a low national profile, and are a low priority for UKTI, VisitEngland and other agencies.

- National science and innovation products and services are not accessed consistently by existing business. Furthermore our national offer is not investment-ready so cannot easily take advantage of the potential of our Golden Opportunities.

We need more certainty of investment and freedom from national funding cycles so we can operate our proposed Single Investment Framework and ensure the right interventions are made at the right time to support our economic opportunities.

Key outcomes

Our Golden Opportunities and distinctive assets have the potential to release major productivity gains for us and for the national economy. Business support devolution will drive productivity through:

- More businesses taking up the support they need.
  · 20% of business stock informed about business support
  · 3,000 businesses supported
  · 750 business accounts managed
  · 10 Operational Level Agreements signed between business support delivery partners
  · 360 businesses receiving intensive support
  · 36 events to co-ordinate network businesses support delivering with the aim to simplify business support customer journey

- Significantly increased levels of inward investment.

- Heart of the South West businesses competing strongly in the global economy.

- Better engagement with business and an entrepreneurial culture.

- Double the number of international tourists to the Heart of the South West and more national tourists.

- Greater levels of science and innovation in our economy: double the uptake of Innovate UK support, and increased research and development.

Place

Government expectations of local leadership teams over 2016-20 include:

- Adoption and implementation of Local Plans with demonstrable collaboration across functional economic areas to drive physical investment.
- A performance regime that accelerates housing and employment growth.
- Devolved local transport budgets and plans including both development and regulatory functions, to improve system performance locally and add value to national infrastructure investments and programmes.
- Contributions to specific national and pan-regional infrastructure priorities, including Hinkley energy agreements and recommendations of the Peninsula Rail Task Group.
- Proactive delivery management of Starter Homes, housing investment pots and local authority contributions to new housing.
- Completion of backbone superfast broadband infrastructure and increasing take-up to support the digital economy and wellbeing.
- Local authority and other public sector land disposal, development and rationalisation strategies.

Our proposals will enable us to take responsibility for delivering these agendas, including, in summary:

Our Key Offer	Our ask of Government
Establishment of an Infrastructure Commission to formulate a new Strategic Infrastructure Plan with implementation overseen by the Combined Authority.	Support to develop, fund and deliver the Strategic Infrastructure Plan. A commitment to create a flexible funding model to support accelerated housing delivery, targeting locally identified growth areas.

This will include Government commitments to:

- Existing and new infrastructure development, including the A361 North Devon Link, A303/A358/A30 improvements and Peninsula Rail Task Force 20-year plan.
- Match funding and co-production to deliver 100% superfast broadband coverage
- Use the two National Parks as test beds for integrated land management and rural productivity.
- Inclusion of Plymouth on the Strategic National Corridor network.

This will include Government commitments to:
• Devolved Air Passenger Duty from Exeter Airport. • Support to develop and sustain new energy initiatives including wind, sub-sea and grid improvements. • A National Policy Statement for renewable energy generation in the Bristol Channel and Severn Estuary.

Why is this important?

Long-term investment in our infrastructure is critical to unlocking growth and delivering our productivity targets. Our Strategic Infrastructure Plan will set out where and when investment is required. We need to accelerate housing and employment land allocations, electronic communications for our businesses, more housing for our workers, and improved transport links to allow faster movement of our workforce, goods and services. This infrastructure underpins growth and is the key to our future productivity.

Despite recent successes we are underfunded compared to other areas. Long-term investment is vital to provide confidence for developers and to drive productivity through faster, more reliable transport and digital connectivity. Investment in resilience is essential to minimise disruption and financial loss during a crisis. There is considerable untapped resource and market opportunity for the Heart of the South West to contribute more to the energy supply of the nation. We have the potential to become a leader in low carbon energy and renewables, however current grid infrastructure is limiting deployment.

Key outcomes

To support productivity growth, infrastructure devolution will deliver:

- 179,000 new homes, and a new Garden Town in Somerset.
- Accelerated housing and employment growth in the identified growth areas of Greater Exeter, Hinkley Growth Zone, Plymouth, Taunton, and Torbay.
- Faster rail connections to London, the South East, and Midlands.
- 100% superfast broadband availability and reliable mobile phone connectivity.
- Prioritised and sequenced infrastructure projects to maximise the value of investments.
- Innovation in energy development and supply to support the national energy strategy.
- Greater resilience of our infrastructure.
- Innovative approach to environmental management, increasing productivity, improving resilience, and growing our rural economy.

Foundation 3: Towards a Combined Authority

The partners to this proposal recognise that leadership and governance of delivery of our deal will require transparent, robust, and efficient structures and processes commanding the confidence and support of Government, local communities, and business.

We also recognise Government's preferred model of choice for this vehicle is the Combined Authority (CA), with Mayoral leadership in the case of Core City Regions.

We will create a Combined Authority with appropriate strong leadership and accountabilities. We will carry out a Governance Review to identify the most effective structure and processes for putting this commitment into effect, ideally with an inception date of either April 2017 or April 2018.

The Governance Review shall draw on the principles outlined in our Statement of Intent as a starting point. The review will proceed in tandem with both the enactment of the Cities and Local Government Bill, and the progress of our devolution agreement negotiations and requirements of its effective implementation.

The Governance Review will set out the powers, roles, functions, and operational arrangements for the Combined Authority - and propose its relationships with and to key delivery partners nationally, locally and with neighbours.

At a minimum, the Heart of the South West LEP, CCGs and others as appropriate will become full non-constituent members of the emerging Combined Authority, playing leadership roles where appropriate in its sub-structures, for example to build on the LEP's business credentials.

In addition, we consider there will be a number of collaborative arrangements that we shall wish to progress with variable consortia of South West neighbours. These may include a 'Transport South West' proposition, the in-train Science and Innovation Audit consortium with neighbouring LEPs and national clusters in areas such as nuclear, renewables energy,

Similarly, our prospectus recognises that specific sub-regional geographies will accommodate significant shares of the growth to be delivered. Bespoke arrangements to plan and manage these changes will build on or adapt existing arrangements including The Greater Exeter Group, The Plymouth and South West Peninsula City Deal, the emergent Hinkley, Taunton and Bridgwater triangle. Options for strengthening and adapting these arrangements (or elaborating new place-based governance) may include Development Corporations, Special Economic Zones, Accelerated Development Zones, or other models.

Next Steps

Delivering devolution requires careful sequencing. A high level roadmap for developing and delivering our deal is outlined below.

A Heart of the South West partners group will launch shadow Combined Authority arrangements and a formal Programme Management Office (PMO) upon agreement from Government of serious intent to progress towards a devolution agreement. The PMO will be resourced to support devolution agreement workstreams with business case and financial management capacity, including assuring fiscal neutrality.

The shadow Combined Authority and PMO will work with Government to deliver six co-produced workstreams by early 2017:

1. The Governance Review will apply the processes required under legislation to specify, agree and launch the form of Combined Authority eventually determined. This work will include the role and voice of business and sub-regional geographical arrangements.

2. The Productivity Plan will elaborate the evidence base, strategies and performance management required to deliver the vision and goals of the devolution agreement.

3. We are seeking Government agreement to establish a Joint Skills Commission to oversee national policy requirements and the process of localising these under the terms of our devolution deal.

4. The local leadership team will work with our successful health integration exemplars, NHS England, and other local, regional and national partners to identify wider opportunities to contribute to the Productivity Plan and national health and care integration priorities.

5. The LEP will ensure existing local growth commitments are delivered effectively, that the refresh of the Strategic Economic Plan feeds into the wider Productivity Plan and that business engagement in the establishment and operation of the Combined Authority and its priorities is strong.

6. We are seeking Government commitment to establish a Joint Infrastructure Commission to firm up the physical investment needs identified in national and Heart of the South West priorities and how the Single Investment Framework will resource these.

This process will allow early wins to be made, including accelerated housing development and initial skills and business support reform, whilst specifying and agreeing the structures needed to deliver the medium and long-term outcomes of our devolution agreement.

In anticipation of a positive outcome from negotiations on our deal we seek early agreement from Government on a match-funded budgetary contribution to co-deliver these workstreams.

We invite Government to begin formal negotiation with us on our proposals and the detail behind them with a view to signing a deal during the first half of 2016.

Outline Roadmap

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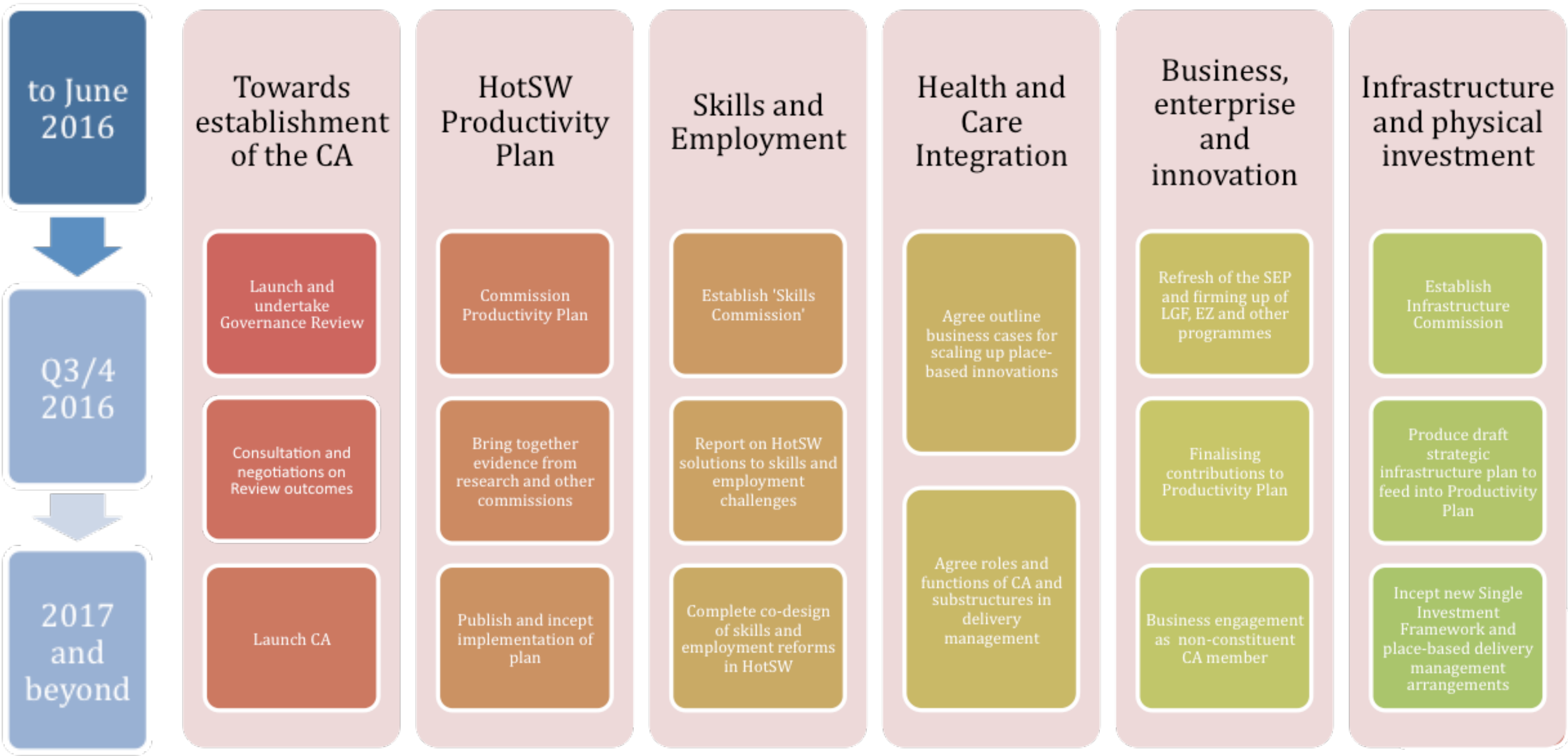


Royal William Yard, Plymouth

NHS
Northern, Eastern and Western Devon
Clinical Commissioning Group

NHS
South Devon and Torbay
Clinical Commissioning Group

NHS
Somerset
Clinical Commissioning Group

Devolution
for the Heart of the South West

Briefing for Leaders and Chief Executives **June 2016**
Discussion with Greg Clark MP, Secretary of State (DCLG)

Since the submission of our Prospectus for Prosperity at the end of February 2016 we have pressed the Secretary of State to enter into discussion with our negotiation team to secure a deal for the Heart of the South West.

Following an invitation from the Secretary of State, on the 25th May 2016, leaders from the upper tier authorities met with the Greg Clarke to seek his view on our next steps forward.

We advised that our Partnership is committed to working together at a pace that, whilst capitalising on any opportunities a Devolution deal might bring, would not be at the expense of making early commitments to a particular model of governance that could damage relationships. We cited the examples of many deal areas that are struggling to hold their Partnerships together as a result of commitments made that could not be delivered.

We explained that working together across Devon and Somerset was the right scale to deliver on the big ambitions set out in our Prospectus. This footprint also makes sense to our business community as it mirrors the LEP boundaries and was indeed one of the key tests the Secretary of State said he would apply in considering any devolution proposals. We reiterated our principle of delivery at the lowest appropriate level within the wider partnership.

The Secretary of State made the following comments:

- **Geography –** the Devon and Somerset area is agreed as the appropriate scale. Our proposal must clearly demonstrate why this is the right geography for our Devolution agreement - and all councils and MPs must support the proposal.
- **Combined Authority** – the Partnership will move forward into the negotiation process based on a Combined Authority model. The Mayoral issue may be considered at a later stage, within the timeline agreed by our Partnership. A Mayor will not be imposed or be a pre-condition of any initial deal.
- **Extent of the deal** – areas that have agreed to have a Mayor will get more powers than a non-Mayoral Combined Authority deal. However, the negotiation process will be an opportunity to push the limits of this initial deal, and the process should be viewed as being incremental
- **Timeline** – we will still work towards an Autumn Statement timeline for the announcement of an initial deal
- **Growth Deal 3 –** the LEP would not be penalised in Growth Deal 3 negotiations because we do not have a Devolution deal with a Mayor. The decision for allocation will be based purely on the quality of the Growth Deal bid.

We believe this is a very positive response from the Secretary of State who advised that if the Partnership, backed by each Council and our MPs, can sign up to the principle of a Combined Authority by the end of July 2016 he will arrange for the Treasury to open up negotiations towards a deal.

Devolution
for the Heart of the South West

To achieve this, we will use the next meeting of the Leaders and Chiefs on **22 June 2016** to discuss and ratify our approach. Given the pressing timetable, we have set out the activities we believe each partner needs to undertake:

1. Secure an '*in principle'* agreement from your Council or Board in the July cycle of meetings to the creation of a Combined Authority Governance model, subject to a further report seeking final ratification in the Autumn. To assist with this task, the Programme Management Office will provide report templates for your use.
2. Develop and agree a draft Heads of Terms document that can be the basis of discussion with Treasury and our negotiation team. A draft document will be circulated prior to the Leaders and Chiefs meeting.
3. Consider and agree a Member Development Programme to be rolled out across all Councils to address some of the myths surrounding devolution and give a fuller explanation of the Combined Authority model.
4. Agree the messages for communication with key stakeholders including MP's

Since the formation of the Partnership back in August 2015 and through the various meetings we have had, we believe it is worth reflecting on our collective and individual reasons for involvement in this process:

- This is our opportunity to release powers and funding from Whitehall and enable us to have greater influence to deliver on the priorities we know are important to our region
- It places our Partnership into an exclusive club with the 10 other deal areas and the advantages this can bring in terms of incremental shifts of power from the centre to local areas
- It is the start of an ongoing process that will allow us to build on our track record and credibility for delivery that helps our communities

We recognise the question that may be posed by your individual councils and boards will be 'what's in it for us'? Obviously this is a question we hope you will take forward and debate at a local level but fundamentally it gives each partner a place at the table in making the transformational changes we need to address our demographic pressures, and secure our future prosperity.

If you have any query, please contact the Programme Management Office team members on devolutionPMO@somerset.gov.uk. Below are the contact details of the PMO team.

Alison Ward – Alison.ward@plymouth.gov.uk tel: 01752 398084 or 07788 325109

Sue Rook – sue.rook@devon.gov.uk tel: 01392 382371 or 07791 031641

Alastair Higton – arhigton@somerset.gov.uk tel: 01823 359353 or 07977 410446

Signed: Councillor John Osman, Councillor John Hart, Councillor Ian Bowyer and Mayor Gordon Oliver

Devolution
for the Heart of the South West

June 2016

What is a Combined Authority?

Summary

Combined authorities (CAs) were introduced under in the Local Democracy, Economic Development and Construction Act 2009 ('2009 Act'), and subsequently amended by the Cities and Local Government Devolution Act 2016. The Heart of the South West Partnership has developed this briefing note as a simple explanation of both a Mayoral and Non-Mayoral Combined Authority (CA). Following a meeting with the Secretary of State in late May, and in line with the briefing note circulated shortly afterwards, the Partnership is considering establishing a Non-Mayoral CA.

It should be noted that we are not seeking to establish a Mayoral CA at this stage, but we are keeping our options open to see what additional powers this could unlock in the future. It is important that we collectively agree to the principle of setting up a Non-Mayoral CA initially to allow us to enter into negotiations with Government at this time.

What is a Combined Authority (CA)?

England has one of the most centralised governance systems in the world. By creating a CA, the Heart of the South West partnership aims to draw down a range of new strategic powers and funding from central Government, through a Devolution Deal. This will mean that more decisions can be taken locally to better reflect local priorities. A CA can be set up by two or more local authorities. It is a formal structure with a recognised legal status. It usually has one representative from each of the constituent member local authorities, and operates on either a Leader and Cabinet, or Committee structure. A Mayoral CA also has a directly-elected Mayor who is the overall Leader or chair.

The 2016 Act removes previous limitations on the powers that a CA can exercise and permits the Secretary of State to transfer a wide range of statutory functions, including functions from public bodies. The only qualifications on this relate to the transfer of health service functions. The extent of the powers transferred depends on the Devolution Deal agreed with Government. The Secretary of State has been clear that the Mayoral CA model enables areas to draw down the most extensive range of powers. Examples of some pre-existing Combined Authorities that will become Mayoral CAs by May 2017:

- Greater Manchester Combined Authority
- Sheffield City Region
- Liverpool City Region

What it's not……..

A Combined Authority is **not**:

- part of a process to instigate local government reform, or bring about unitary status.
- a take-over by any authority, nor a merger of authorities to form a 'super council'.
- about ceding (transferring) powers to a single body without the express will of the constituent local authorities.
- a 'physical entity,' for example with teams of regeneration officers from the constituent authorities sitting in one building – **unless** the constituent local authorities wish it to be. (Except for a very small core support team that is required by law)

What is a Mayoral CA?

A Mayoral CA is a new variant introduced under the 2016 Act and is different to the elected mayors that a number of councils already have in place such as Torbay.

Up until recently, the Mayor of London had a unique position within English local government, with powers over strategic planning, transport, fire and emergency planning, policing and crime, and economic development over all of London, together with an elected 25-member London Assembly with scrutiny powers. The remaining local government functions in London are performed by the 32 borough councils.

Through Devolution Deals a number of areas have agreed to have a directly elected Mayor and a CA in return for a range of additional powers. An example of this is Greater Manchester Combined Authority. It will have a different model from London as they will operate a cabinet model CA, where all GMCA leaders have a clear portfolio of responsibilities that will act as a supporting and advisory function to their Mayor and CA in respective policy areas. Elections for the GMCA Mayor will take place in May 2017.

In this example the Mayor will need to consult the Cabinet on his/her strategies, which it may reject if two-thirds of the Members do not agree. Some functions such as the Statutory Spatial Framework will need to be approved by a unanimous vote of the Cabinet.

What is the process for setting up a CA?

There are a number of routes for establishing a CA.

- 2009 Act – requires the authorities to carry out a governance review and publish a scheme recommending the creation of a combined authority. This requires the consent of the authorities involved in the scheme and the Secretary of State will agree to make a Parliamentary Order under the Act to create the CA.

- 2016 Act – the Secretary of State can establish a Combined Authority if the councils in the area consent. The Secretary of State must hold a public consultation if this has not already been undertaken locally. The Secretary of State needs to be satisfied that the CA is likely to *"improve the exercise of statutory functions"* in the area. The typical timeframe for establishing a CA through this route is 6-9 months.

An existing CA can be changed into a Mayoral CA through a Statutory Order from the Secretary of State. Any authorities that do not consent must be removed from the CA when the elected Mayor is established.

The governance review stage is important in determining the best model of CA for an area and is part of the overall scheme. In a Non-Mayoral CA the constituent members need to decide if they want a Leader and Cabinet, or a Committee style model for the CA

Can the membership of a CA be changed?

It is possible for councils to leave, or for new councils to join a CA, however Government agreement is required to amend or dissolve the Combined Authority. If a local authority wishes to leave the Combined Authority, a new review of governance arrangements would have to take place, and a revised scheme would need to be published, before the Statutory Order could be amended.

What sort of powers could the HotSW Combined Authority expect to receive through its first Devolution Deal?

No other areas of the country have been given a Devolution Deal based on the establishment of a new Non-Mayoral Combined Authority, however the Deals struck with Cornwall and West Yorkshire provide a guide as to what we might expect to be in our Deal.

We believe we are in a strong position to push for as much as possible in our first Deal with Government.

Devolution Deals tend to be incremental and to evolve over time. Once areas are able to demonstrate that they have strong and accountable governance arrangements in place, and that they can successfully deliver on the new functions, Government is willing to transfer further powers by negotiating subsequent deals. In March 2016, Greater Manchester, the pioneers of Devolution, successfully secured their 4th Deal with Government which gave them greater powers over more public services, including the criminal justice system.

All Devolution Deals have a common set of themes; however, the greatest powers, funding control, and influence are reserved for areas with Mayoral Combined Authorities. We believe that the following examples would be available to us as a bare minimum:

- **Transport** – for example around bus franchises, and determining local bus network routes
- **Learning and Skills–** for example, control of the Adult Education Budget to redesign further education
- **Business Support** – having the freedom to join up a range of Government agencies locally to provide a better, more coordinated offer to businesses
- **Employment Support** – the ability to influence commissioning of the new DWP Health and Work Programme
- **Land and Housing** – greater influence over the use or disposal of central Government land and assets, and working with Government on planning reforms

We will be pushing hard for all the powers and influence reflected in the 'Asks' in our Prospectus. In particular, we will be making a strong case to secure a long term investment commitment for the infrastructure we need to unlock growth.

How would it impact on my Council?

The CA does not replace the existing member Councils, it operates alongside and allows those members to draw down and exercise a range of powers and control funding from Government they would not otherwise be able to access. It means that local politicians have greater control over decision making traditionally held in Westminster. The extent of the powers is determined by the Devolution Deal negotiated with Government.

It is not intended for any existing council functions across Devon and Somerset councils to transfer to the CA at the time of its establishment, but once established it would be possible, where there is a clear benefit, for councils to transfer functions into the CA, subject to agreement.

Further information

House of Commons Briefing Paper on Combined Authority – February 2016
http://researchbriefings.files.parliament.uk/documents/SN06649/SN06649.pdf

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Report to:	**Council**
Date:	**28 July 2016**
Title:	**ANNUAL REPORT**
Portfolio Area:	**Leader of the Council**
Wards Affected:	**All Wards**
Relevant Scrutiny Committee:	**Overview and Scrutiny Panel**

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Author:	**Steve Jorden**	Role:	**Executive Director (Strategy and Commissioning) and Head of Paid Service**
Contact:	**email: steve.jorden@swdevon.gov.uk**		

RECOMMENDATION

That the Council RESOLVES to consider the Annual Report (as outlined at Appendix A) and adopt it accordingly.

1. **Executive summary**
   1.1. This report presented by the Leader of the Council with the Executive Director (Strategy and Commissioning), reviews the Council's progress over the last financial year and appears as Appendix A
   1.2. It is good practice to review the Council's progress across a range of internal and external activities as well as providing a public record.
   1.3. Finally the report sets the scene for the upcoming year ahead.

2. **Background**
   2.1. The last financial year has been one of significant change for this Council. It is appropriate to take stock of the key issues, successes and challenges met by the Council and how they have been addressed.
   2.2. It is also important to look at the impact on residents, communities and our organisation.

2.3. It is usual to provide an annual report as an externally facing document, which along with its Annual Governance Statement should help reassure the public that the Council is undertaking its statutory functions, delivering its services and meeting its financial responsibilities in an open and transparent way.
2.4. The report covers the financial year 2015/16 and includes the financial information available after the close down of accounts, hence being presented at this Council meeting.
2.5. This is a public report and is in line with our requirements to be open and accountable.
2.6. The report aims to help Members, the public and our staff to better understand the Council's activities and approach to delivering services to our community.

3. **Outcomes/outputs**

3.1. This is the first Annual Report since the implementation of the T18 programme and the establishment of the new Senior Leadership Team of the Council. It shows significant progress of the transformation programme and also acknowledges the challenges that have been faced over the past months.
3.2. Financial targets are on track, savings have been realised and the Councils internal controls are fit for purpose.
3.3. The report acknowledges that there has been a significant reduction in the establishment (permanent staff), along with changes to systems to drive efficiencies and service improvements.
3.4. It should however be noted that we are still in the implementation phase, with more yet to do. This will be reported in next year's annual report where we expect to see improved customer experience, better use of technology, more streamlined services.
3.5. The next phase will see more focus on channel shift to provide customers with a variety of choices on how to access services and do business with the Council.

4. **Options available and consideration of risk**

4.1. Constitutionally, the Leader of Council is required to provide an annual report, but it is also good practice to do so.
4.2. An alternative to the report could be a verbal report from the Leader at full Council but it is considered better to have a formal document accessible to the public and published online.

5. **Proposed Way Forward**

5.1. It is proposed that the contents of the report are noted.
5.2. Members views on presentation and content of the report would be helpful to inform future Annual Reports

6. **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		There are no legal implications as a result of this report, however it is considered good practise to produce an Annual Report so as to highlight to Members and the public how the Council conducts its business and what the key issues are facing it.
Financial		There are no financial implications as a result of this report.
Risk		As this report is for noting only there are no significant risks involved.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None – no policy or service change is proposed in this report
Safeguarding		None – no policy or service change is proposed in this report
Community Safety, Crime and Disorder		None – no policy or service change is proposed in this report
Health, Safety and Wellbeing		None – no policy or service change is proposed in this report
Other implications		However the publication of the Annual Report may help understanding of the Councils position and the way it operates amongst partners and the public.

Supporting Information

Appendices:
A: The Annual Report

Background Papers:
The Council Constitution

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South Hams
Annual Report

2015 - 2016

South Hams
District Council

1 Introduction

The 2015/16 financial year has been a challenging year as the organisation changes the way in which it works. South Hams District Council (SHDC) and West Devon Borough Council (WDBC) continue to work in partnership to deliver services to our communities.

During the year there has been a 30% reduction in staff providing an annual on-going saving of £5 million (across both Councils) with no services to the communities being removed. However this has meant that, combined with the introduction of a new IT system, performance in some key areas has been below that which should be expected. With the implementation of improvement plans, and a commitment to providing extra temporary resources, performance did start to recover in the last quarter (Dec 2015 to March 2016).

In early 2015 a completely new leadership team was appointed to lead the organisation through the transformation programme, become more customer-focused, save money, and explore ways of generating income for the Council. The Councils are now led by a small leadership team consisting of two Executive Directors and three Group Managers. The role of the Senior Leadership Team (SLT) is to implement the plans and policies to support the strategic direction of the Council set by Members. The Extended Leadership Team (ELT) includes the principal people managers and professional lead officers in areas such as Housing, Planning, Environmental Health, Asset Management, and Support Services such as Finance, Legal, and Human Resources.

The implementation of our T18 transformation programme, along with more flexible ways of working and a new IT system, has meant that the Council is now well placed to meet the continued financial challenges brought about by year on year reductions in Local Government funding. There is still more to be done but the Council is establishing a solid base from which to become more commercial in its approach to meeting the forecast budget gap of £1,009,835 by 2020/2021, whilst protecting its much valued services.

30% reduction in staff

£5m annual saving across both Councils

No services to communities removed

A challenging year | New leadership team | Meeting the financial challenge | Commercial approach

In recognition of the early successes of this innovative transformation programme, the Council achieved national recognition as Council of the Year for 2016 at the recent iESE (the Improvement & Efficiency Social Enterprise) Awards and a gold award in the category “Transforming Through People”. In addition, the Council was a finalist in the “Workforce Transformation” category in the recent Municipal Journal Awards.

These successes are a reflection of the significant changes and progress the Council has made in designing services for the future; successes of which members and staff should be rightly proud.

The year has also seen the Council develop our strategic plan for our community. ‘Our Plan’ sets out eight key priorities and the practical actions that need to be taken to achieve our ambitions for our communities. In tandem, work has begun to develop a Joint Local Plan with Plymouth City, West Devon Borough Council and Dartmoor National Park. Work on this joint plan is due to be completed by early 2017; a key milestone for those wishing to progress their Neighbourhood Plans.

S Jorden

Steve Jorden
Executive Director (Strategy & Commissioning) and Head of Paid Service

J. Tucker.

Cllr John Tucker
Leader of the Council

Working together

South Hams District Council

West Devon Borough Council

National recognition — Our Plan — Joint Local Plan — Neighbourhood Plans

2 Governance

In May 2015, the District Council elections were held and new Councillors elected for a four year term. The Council moved from 40 to 31 Councillors in this year.

Following the Boundary Review and the local elections, 2015/16 was the first year for the new 31 Member Council. To coincide with the reduction in Members, a new governance structure was implemented whereby all 31 Members served on one of either: the Executive; the Overview and Scrutiny Panel, or the Development Management Committee. Other notable changes were that the Executive membership was reduced from eight to six and the number of Overview and Scrutiny Panels was reduced from three to one.

With regard to the Executive portfolio areas, these were no longer linked to service areas, but were each now aligned to a representative of the Council's Senior Leadership Team.

The Council has a Governance Framework which comprises of the systems, processes, culture and values under which they operate. This is reported on annually through the Annual Governance Statement.

In addition to the controls and procedures mentioned above, the Council's primary governance documents are set out in the Constitution (for example, Contract Procedure Rules, Financial Procedure Rules and Codes of Governance). The Constitution is reviewed annually and adopted at the Annual Meeting for the forthcoming year.

A Statutory Officers' Panel, which meets quarterly, has been set up comprising of the Head of Paid Service, Chief Finance Officer, and the Monitoring Officer, with other key officers invited as appropriate. This Panel amalgamates the former Probity Group, Risk Management Group, and Governance Group, and its key roles are to ensure that the Council complies with, and manages:

- Governance frameworks
- Strategic risk management, and
- Regulatory framework

The Statutory Officers' Panel has important links with the Audit Committee, Overview and Scrutiny Panel, together with Senior Officers.

The Council has a Report Monitoring process in which all reports are checked against the principles of clarity, fairness, legality, and financial regularity and soundness.

Transformation

3

Since 2007, South Hams and West Devon have operated a shared service arrangement, initially sharing a Chief Executive, and now sharing all in-house services.

Despite the shared service arrangement already delivering an annual saving of £1.7 million, the two Councils knew they would be facing a predicted funding gap of £4.7 million over the next four years. Councillors were adamant that they did not want to cut front line services, so they embarked on an ambitious and challenging transformation programme to remodel how the Councils worked.

So, over the last two years, South Hams and West Devon have completely transformed how they work in order to deliver services that are more suited to their customers' needs. As a result of this transformation programme called T18 (Transformation by 2018), both Councils have completely remodelled their organisations, focusing on how the customer interacts from the beginning of their enquiry to its conclusion. This has enabled us to have a more flexible response to our customers.

The transformation programme is being delivered under five work streams:

Our Customers: Putting the customer at the heart of the organisation and offering them more ways to interact with their Council through the use of technology, more face to face opportunities, and offering them the option of a personal account which enables them to make service requests linked to their own individual profile on the back office system.

Our People: Restructure the organisation, including creating entirely new roles and employing people to those roles based on behaviours.

Our Accommodation: Transform how and where staff work, reducing the office space, streamlining working practices, enabling officers to work in an agile way from hot desks, and getting rid of silos.

Our Technology: Embracing the latest technology to enable Councillors and Officers to work in smarter ways, iPads instead of PCs for Councillors, one streamlined work flow system, and encouraging the use of video conferencing and virtual meetings.

Our Business: Ultimately South Hams wants to become more commercially aware to generate its own income and, in order to do this, the organisation needs to operate in an efficient structure, enabling the Council to maximize all opportunities.

Transformation programme

Flexible, responsive workforce

responsible
communicative
adaptable
challenging
co-operative
outcome focused

impact

Our business
is our customer

Our business is our customer

As part of the transformation, staff were required to demonstrate that they could carry out their work in accordance with an agreed, new behavioural framework. The framework has been designed to create, embed, and support a new culture where the staff put the customer at the heart of everything they do. We call our behavioural framework IMPACT:

responsible – We take ownership of our actions and are accountable for our performance, finding a solution to every problem, and making appropriate decisions

communicative – We express ourselves clearly, respectfully, and with enthusiasm; varying the way we communicate to ensure the message is understood

adaptable – We maintain a positive outlook; we are adaptable and show flexibility in the way we work

challenging – We are innovative, challenging the status quo to drive continuous improvement in everything we do

co-operative – We work collaboratively with colleagues and partners, building and maintaining effective working relationships with a range of people

outcome focused – We deliver timely and excellent results, focusing on quality outcomes for our customers

The assessments were carried out by external experts and were used to assess people throughout the organisation, including the Senior Leadership Team.

Employees remain accountable against the IMPACT behaviours through the performance management and staff appraisal systems, and the Council is using the IMPACT behaviours to help recruit new people into the organisation with the right technical skills and customer focused behaviours.

At the end of the financial year, the two Councils employed the equivalent of 411 people, which is a 30% reduction in staff. The turnover in the last quarter of the financial year was 2% which, after the significant loss of employees as part of the Transformation Programme, is now more stable.

At the centre of the new organisation is a group of 'Case Managers' who manage cases, which can be anything from a planning enquiry to a request for an Environmental Health water test. They take a request or task from start to finish: the customer has one point of contact throughout their enquiry. Case Managers are helped by Specialists in different fields, who can be asked for their expertise when necessary, leaving the Specialists to take on more complicated tasks.

More front line officers have also been introduced through the Localities Team; they act as customer services officers on the ground, answering face to face enquiries from residents, and sign posting to the services the Council provides. Because these new officers are often working within their communities, they are on site and available for such tasks as putting up planning notices, or inspecting playparks. This releases the Specialists who previously would have had to cut into their working day to, for example, drive to a remote part of the district to display a planning notice: now the Specialists are freed up to concentrate on cases which require their specialist knowledge.

All of the traditional, physical office spaces have been removed, including those of the very senior managers, to be replaced with bright open plan offices that encourage people to work alongside colleagues from different parts of the organisation, or to work from home or other locations where possible.

There are no physical telephones in the offices, with the majority of the communication effected through laptops. This has significantly reduced the amount of travel for officers who now use the new technology to hold video conferences, whilst a new Travel and Subsistence Policy has encouraged officers to car share when journeys are unavoidable.

New computer systems are also being rolled out which are gradually taking pressure from the Customer Call Centre so that they can focus on customers who really need our help, while residents who can, and wish, to self-serve via the website, are able to. The Councils began to roll this out at the end of 2015 and without any promotion they have already had over 1,600 people completing tasks and service requests through our new online customer website. This is 1,600 people who would have come through the customer contact centre. There are now 450 separate tasks that customers can do for themselves through the website, including reporting a missed bin collection, requesting services from Environmental Health such as Pest Control, or viewing and paying their Council Tax bill. See **APPENDIX 1** for more information about the Council's transactional activity.

Due to the make-up and rural location of the population, the Customer Contact Centre has not been removed nor slim-downed.

South Hams has been recognised nationally for the work that has been done in transforming the workforce. Along with our partners, iESE, we were finalists in the People Management Awards organized by the professional body for human resources, and finalists in the prestigious Municipal Journal Awards, the leading awards event in Local Government. The Council also received an Award recognizing the cultural change in our workforce in this year's iESE Awards.

4 Finance

The Council's net budget is £8.75 million for 2016/17. By 2018/19 the Council will receive no Government funding and the Council will need to be self-sufficient. The withdrawal of Government funding has happened two years earlier than expected. Since 2013, the Council has seen a 40% reduction in Government funding.

Due to the continued reductions in Government Grants it means that by 2020, the Council will be facing a £1,009,835 funding gap which the Council is planning to cover through a combination of generating income through business development, ensuring maximum use of its assets, and further reduction in costs.

The Council increased Council Tax by £5 for 2016/17 to £150.42 for a Band D property. Of the money that South Hams collects in Council tax (an average Band D bill is £1,660) only 9% goes to services provided by South Hams, the rest goes to Devon County Council, the local Town or Parish Council, the Fire and Police services.

How your money is spent

9% South Hams District Council
for: refuse collection and kerbside recycling, housing, planning, street cleaning, leisure

10% Police and Crime Commissioner for Devon and Cornwall
for: law and order and crime reduction

5% Devon & Somerset Fire and Rescue Authority
for: fire prevention, fire and rescue

3% Town and Parish Councils
for: local amenities

72% Devon County Council
for: education, roads, care for the elderly and disabled, child protection, public health, libraries, recycling centres and waste disposal

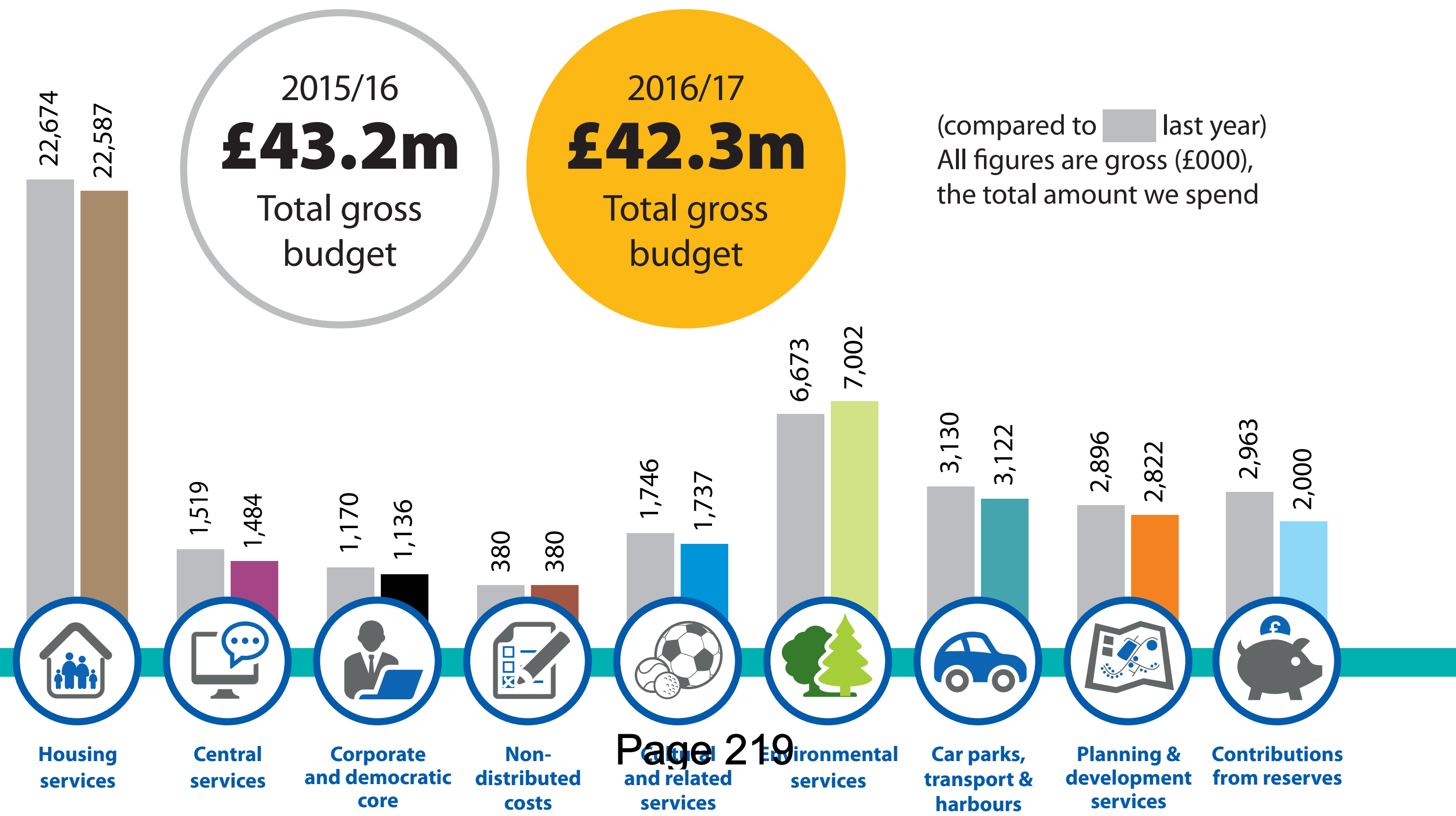
1% Devon County Council - additional precept in 2016/17 for adult social care

Financial performance for the year to 31st March 2016

The 2015/16 net budget for South Hams was £8.84 million but the actual spend was 0.8% lower, providing a saving of £69,000 which will go into the Council's Unearmarked Reserves, increasing them to £1.81 million. The Council's financial strategy recognises the need to maintain these reserves to provide stability for both medium and longer term financial planning and to provide a contingency against unforeseen events. Maintaining a level of reserves also protects against the volatility of some income and expenditure budgets which can be dependent on economic conditions, the weather and tourism.

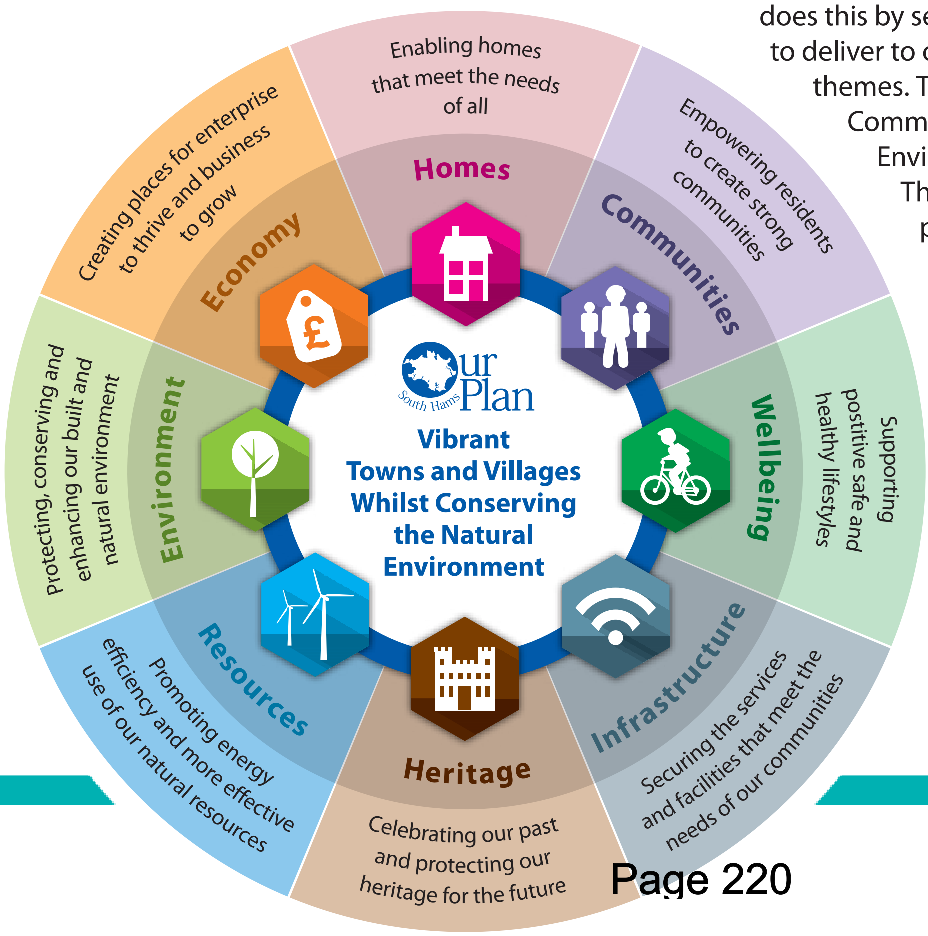
The Council's gross expenditure was £43.2 million for 2015/16. Gross income for the year was £34.36 million, resulting in a net budget for 2015/16 of £8.84 million. The Council receives income from Government grants (such as rent allowances, revenue support grant and new homes bonus) and from business rates and fees and charges.

The Council's spending plans for 2015/16 and 2016/17



5 Strategies & Plans

The Council has a number of strategic documents and plans that guide its approach to achieving its vision and ensuring that it remains financially sustainable. The most impactful and important of these are: Our Plan; Joint Local Plan; Medium Term Financial Strategy (MTFS); and Asset Management Plan.



Our Plan

The Council's 'Our Plan' describes the Council's vision and its aspirations for our communities. It does this by setting out what the Council wishes to deliver to our communities under eight themes. These themes are: Homes; Economy; Communities; Wellbeing; Infrastructure; Environment; Heritage; and Resources. There is then a plethora of external policies and strategies which support the delivery of 'Our Plan' (eg Planning Policy Guidance, or Homelessness Strategy) helping the Council to deliver this vision. Underpinning these outward looking policies and strategies is a raft of internal policies and strategies to help us to deliver Our Plan (eg ITC policies, or agile working, or staff appraisals to help develop our workforce). The Council posts all of its strategies and policies, both internal and external, on its website.

Joint Local Plan

A key responsibility of the Council is to adopt a Local Plan – a plan that deals with land use and sets out policies and allocations to support and guide housing and employment development. The Council had originally intended that this work would be set out within the Council's "Our Plan" – however as circumstances have changed the Council is now committed to producing a Joint Local Plan in partnership with Plymouth City Council and West Devon Borough Council. This will appear separately to Our Plan as the *"Plymouth and South West Devon Joint Local Plan"*. Work has commenced on this Joint Local Plan – with public consultation and submission to take place later this year.

For further details on the South Hams profile please refer to **APPENDIX 2**

Medium Term Financial Strategy

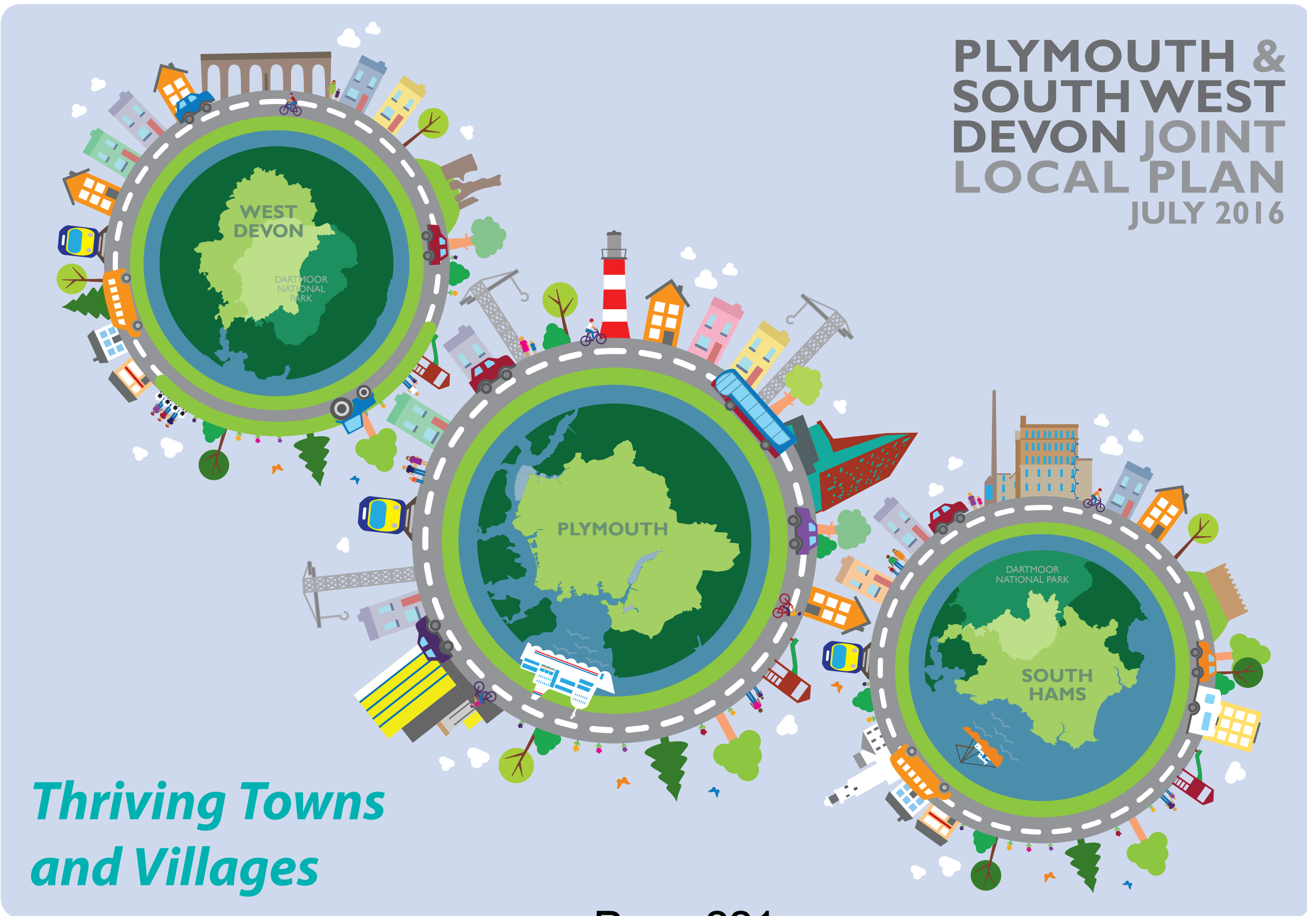
The Medium Term Financial Strategy (MTFS) looks at financial planning and management for a five year period. This helps us to develop a sustainable budget over the medium term. The MTFS incorporates key factors such as changes in Government funding, our spending plans, and the levels of savings we need to make to keep our Council Tax at an affordable level. It also offers assurances that our spending plans are affordable over the medium term (five years).

Asset Management Plan

Our Asset Management Plan sets out the strategic direction for the Council, both as a land owner and with respect to its asset portfolio. It is essential to have a long term plan, to facilitate day to day operational decisions. The key points of the plan are:

- to commence a limited programme of residential development;
- to grow the existing commercial portfolio of small starter units;
- to facilitate community use of assets if appropriate;
- to dispose of underperforming and non-strategic assets for re-investment.

A list of the key Council assets appears in **APPENDIX 3**



6 Performance

As a Council, we capture data for three main reasons: to assess the performance of our staff and the services they deliver, to provide feedback on our actions, and to guide decision making which will help us deliver our strategy. If we don't measure our performance we can't see whether we are making progress towards our goals.

The development of 'Our Plan' will become the strategy that all our measures will feed into, providing a structure so our staff can see how the work they do fits into the Council's goals, and how they can contribute to improving the life of our residents.

It is acknowledged that as we have progressed through the transformation programme, and with the reduction in staff numbers, we have not always performed as well as we would have liked in some service areas but this is only a temporary dip in performance. Plans are already in place to address this.

Strong management of performance is vital to the success of any organisation, ensuring that customers are satisfied. Whilst everyone must accept responsibility for managing performance, the Council's SLT is committed to driving performance forward so that a high standard of service delivery can be achieved across all services.

Performance across the Council is monitored monthly by the SLT and quarterly by the Overview and Scrutiny Panel. The SLT also provides a forum to raise any concerns over general performance issues so that early interventions can be put in place as necessary.

In addition, the Council has developed a new staff performance appraisal system called WorkPAL which enables staff to evidence their contribution to the IMPACT behaviours, to identify training needs, and to ascertain how staff contribute more widely to the Council's key strategic priorities.

Achievements
during 2015/16

7

The Council has achieved national recognition as Council of the Year for 2016 at the recent iESE Awards and a gold award in the category *"Transforming Through People"*. In addition, the Council was a finalist in the *"Workforce Transformation"* category in the recent Municipal Journal Awards and finalists in the People Management Awards organized by the professional body for human resources. The Council also received an Award recognizing the cultural change in our workforce in this year's iESE Awards.

The Council has now created an Invest to Earn Innovation Fund, from existing reserves and surpluses, in order to fund income generation initiatives that aim to deliver recurrent income streams for the respective Councils, reducing the forecast deficits.

After a detailed audit of the Council's systems and processes, the External Auditors reported that they were satisfied that in all significant respects the Council has put in place proper arrangements and have therefore been judged as providing value for money.

Channel Shift 2015/16

The Council would like to be digital by choice, and are currently putting more and more processes on-line so that customers can self-serve at a time and place that suits them. To facilitate this a new service called 'My Account' has been introduced, an online portal, which will enable customers to track the progress of service request they make.

There have also been improvements to the Duty Planning service with the introduction of booked appointments which is working well and has been well received.

Invest to Earn Innovation Fund

Channel Shift

Localities Officers

A team of nine officers was established in June 2015. The impact of more officers on the ground has been noticeable - resulting in quicker turnaround times to remedy local issues.

Highlighted below are examples of actions delivered by this new team of front line officers:

- Undertaken over 1,200 play park inspections
- Affixed over 1,600 planning notices
- Dealt with over 120 abandoned vehicles
- Dealt with over 200 fly tips
- Read over 1,100 utility meters
- Made over 5,700 asset checks on Council owned land and property
- Delivered over 3,500 household election forms
- Checked over 450 empty homes for Council Tax purposes
- Attended over 220 community events engaging with 2,400 residents

Better Regulation

The Council is working with a regional Better Business for All (BBfA) group, that includes partner regulatory agencies and local business, with a view to improving regulation and having a positive impact on the local economy. Work areas include improving communication and our regulatory approach (working with business) and identifying areas of expertise that business would be prepared to pay for.

The team made a successfully acquisition of a site in Kingsbridge, called Rope Walk, which is “the missing piece of the jigsaw” within the allocated development site. This will form part of the master plan for redevelopment, which will be the largest single residential and commercial development undertaken by SHDC for many years, possibly ever.

Work to procure the construction of commercial units at five sites across SHDC and WDBC has commenced. This will provide a delivery programme over the next few years, to meet our strategy of expansion in this sector, increase the employment opportunities for small businesses as well as improving current revenue streams.

Alongside the development work, Assets have maintained an occupancy rate above 90% across the employment estate, providing a net revenue stream in excess of £1.3 million.

Risk Management 8

Over the past year, officers have implemented a new method of recording and managing risks within the organisation, with the aim of helping all levels of the organisation to understand the risks and what is expected of individuals to deal with these risks.

Risks are logged in a central information repository, where officers can pro-actively log, view and update the information held. For each risk, the uncertainties are identified, along with the consequences and strategic impacts that would result from the risk. The causes of uncertainty are listed and then mitigating actions / internal controls planned, or being taken, are logged. Each risk is then scored, based on the impact and likelihood of that risk as at the time of logging, and an estimate is made of the risk score once the internal controls / mitigating actions have taken place. Due to the shared service model, a single consolidated risk log is maintained covering both SHDC and WDBC.

On a monthly basis, the SLT review the corporate risk log and updates are reported to Elected Members via the Audit Committee on a bi-annual basis. Members have the opportunity to raise concerns with the mitigating actions being taken by officers and can suggest new risks for consideration.

APPENDIX 4 shows the latest SHDC / WDBC corporate risk register.

Central information repository

9 Audit Assurance
& Annual Auditors' Report

Audit provides an Independent Assessment of the performance of an organisation.

The Council's Audit Committee meets five times a year and its role is to:-

- Keep under review the operation of the Council's financial and information systems;
- Oversee the stewardship of the Council's resources;
- Monitor internal and external audit performance and risk management systems, and consider the reports from the Council's Internal Auditors and External Auditors;
- Keep under review and ensure compliance with those codes of practice and policies which relate to the Council's financial administration.

AUDIT ASSURANCE

The Audit assurance is provided from both the Council's Internal Auditors and the Council's External Auditors. Below is the role that each performs:-

Internal Auditors –
This service is managed by the Devon Audit Partnership who oversee an in-house team of two members of staff. The role of the Internal Audit service has evolved into an assurance and consulting activity focussed on risk management, control, and governance processes.

External Auditors – This is an external firm appointed by the Audit Commission. Grant Thornton were the Council's External Auditors up until the 2014/15 financial year and KPMG have been appointed as the External Auditors from the 2015/16 financial year.

They provide an opinion on the accuracy of the Council's Accounts and whether they present a true and fair view of the financial position, expenditure, and income for the year. They also report on whether the Accounts have been properly prepared in accordance with the Chartered Institute of Public Finance and Accounts (CIPFA) Code of Practice on Local Authority Accounting.

The External Auditors also reach a formal conclusion annually on whether the Council has put in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources (the Value for Money conclusion).

Value for Money audit conclusion –
The External Auditors reported that they were satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2015. The report gave the Council a 'Green' rating (the highest rating possible, which indicated adequate arrangements are in place) in all the areas assessed for strategic financial planning, financial control, financial governance, prioritising resources, and improving efficiency and productivity.

Next Steps

10

Local Authority Controlled Company

The Council is considering the establishment of a company which would be wholly owned by the two Councils, to deliver the full range of Council services. In doing so, it is anticipated that this would create an opportunity to sell these services to other organisations to generate income. The company would have a twofold relationship with the two Councils:

- As a provider of services to the Councils, controlled by a contractual relationship;
- As a wholly owned asset of the Councils, controlled through the shareholders' agreement and the associated governance structures.

T18

To continue embedding the IMPACT behaviours and attitudes to ensure T18 continues to progress and a new and innovative way of working is created. This, in and of itself, will create revenue as the Council will be ideally placed not only to weather the increasing financial constraints placed upon it but also will be ideally suited to offer those services to other Councils who are not as ably prepared.

Developing our Assets

South Hams currently runs its commercial property portfolio to generate a revenue stream. In accordance with its recently updated Asset Management Strategy, the Council has agreed to increase the portfolio size over time, by developing sites in Council ownership.

The Council is actively pursuing this strategy in order to increase its asset utilisation, seek efficiencies, and generate recurrent income streams. A number of projects have been instigated and will begin to deliver significant benefits in the coming years.

Channel shift in 2016/17

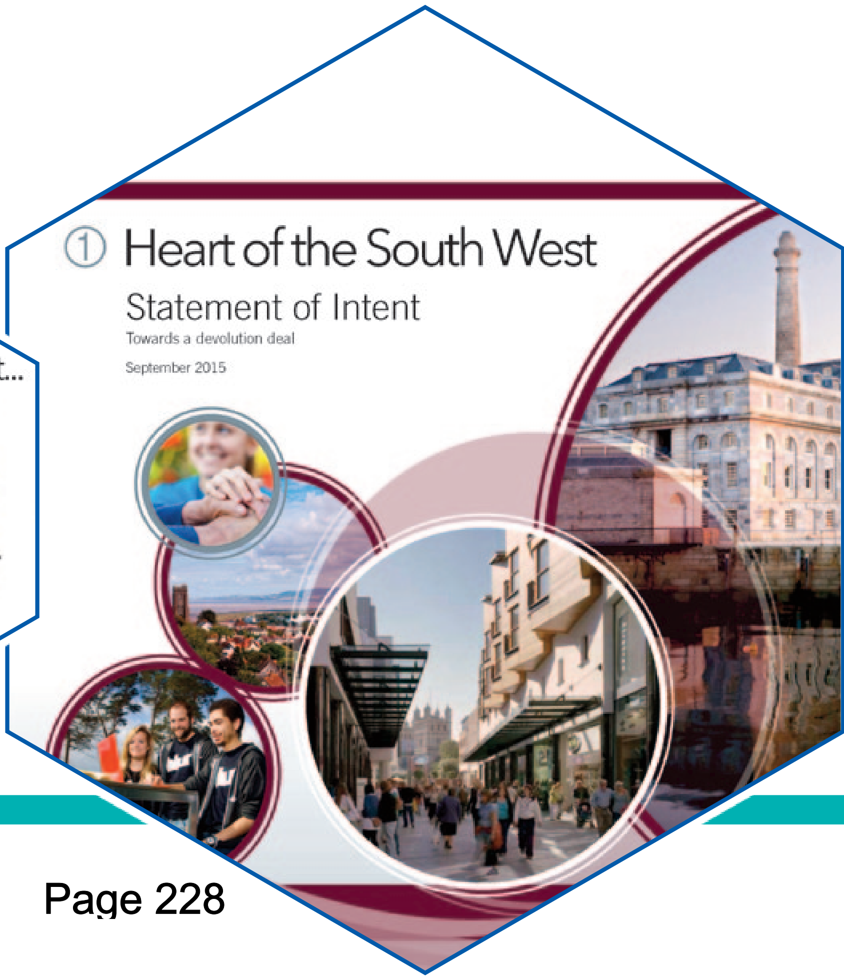
For the coming year, we will continue with a greater emphasis on 'digital by choice' with nearly all processes available to be completed online via any interface. A revamp of the Council's website will enable customers to find it easier to locate the information they require, or to perform any task. Key high volume services (eg Council Tax account or Housing Benefit applications) will be available online, offering customers easy access to the information they need, and therefore reducing the need to contact us over the phone. However, if they do wish to contact us by phone, a new contact centre phone system, which includes the ability to offer customers webchat, will be live later this year. The system will enable the Council to provide a more responsive and adaptable service to our customers.

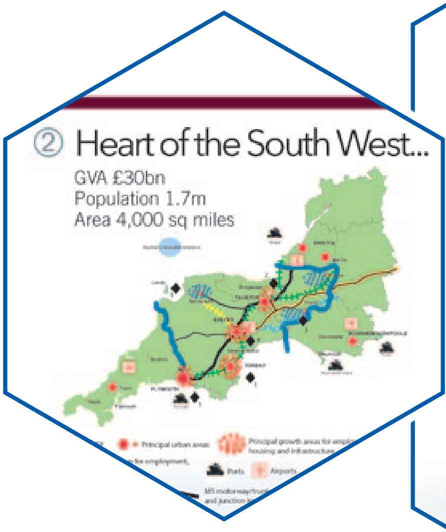
Devolution

The Council plays an active part in the Heart of the South West Local Enterprise Partnership (LEP) devolution project. In September 2015 the Heart of the South West (HotSW) submitted its devolution Statement of Intent to Government. After considerable further work during Autumn 2015, the partners – 17 local authorities, two National Parks, the Local Enterprise Partnership and the three Clinical Commissioning Groups – are now in a position to commence detailed negotiations with Government on a devolution deal. Our approach to delivering this transformation focuses on a comprehensive Productivity Plan:

- **For People -** We will build on Government's own national reconfiguration of the skills system to supply business with the skills it needs and a labour market able to deliver productivity per job and per hour at 'Greater South East' levels (ie outside Inner London). Our plans for health and care integration will support a significant proportion of our non-working population into work.
- **For Business -** The HotSW's economic transformational golden opportunities were identified and agreed in their Strategic Economic Plan, March 2014. This is due to be refreshed, and through devolution, specific policies and initiatives will be formulated to realise these opportunities. Following closure of the national Business Growth Service in March 2016, the partnership's Growth Hub now supports business growth and internationalisation for local business.
- **For Place -** We will provide the infrastructure and housing required and make the Heart of the South West investment ready.

The financial year 2015/16 has seen significant change both in the way the Council is funded and the way in which its services are delivered but the significant Transformation Programme (T18), which the Council is pursuing, will give the best possible foundation from which to meet future challenges facing Local Government and maintain those services which are much needed and appreciated by our communities.

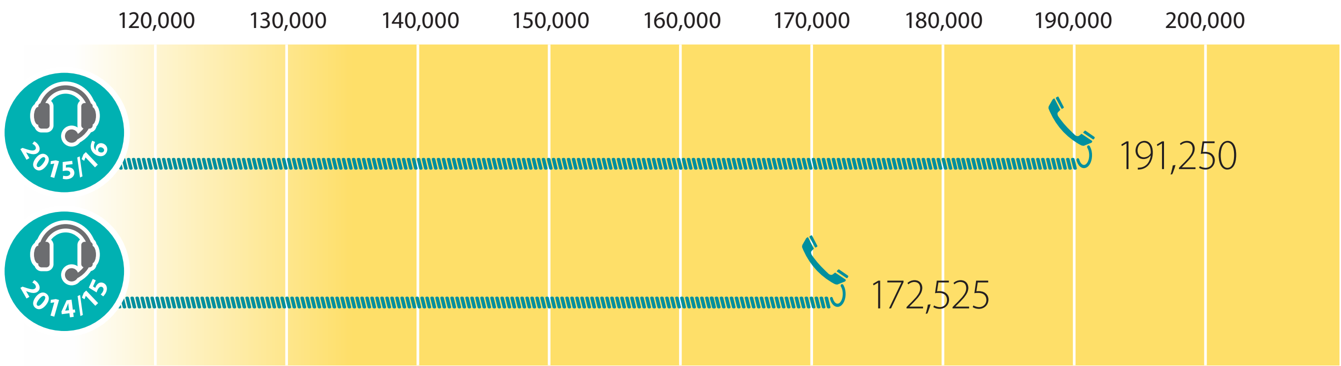




Appendices

Appendix 1 - The Council's transactional activity

The total volume of calls for South Hams for 2015/2016



Households where homelessness was prevented in 2015/16	206
Households rehoused through the housing register (Devon Home Choice) in 2015/16	243

% of billed council tax collected in 2015/16	98.17%
£ of council Tax collected in 2015/16 (9% goes to services provided by South Hams)	£59,031,690.86
Number of households billed in 2015/16	43,483

% of billed NNDR collected in 2015/16	98.18%
£ of NNDR Collected in 2015/16	£31,307,925.47
Number of businesses billed in 2015/16	5,416

Average days to process new claims for housing benefit in 2015/16	29.9 days

Appendix 2 - Local Authority Profile

Profile of local area

Area	906 sq km
Population (2015 Devon County Council)	84,600
Households (July 2013)	43,483
Dartmoor National Park (DNP)	19% of South Hams in DNP
Sites of Special Scientific Interest (SSSI)	27
Areas of Outstanding Natural Beauty (AONB)	South Devon AONB Tamar Valley AONB
Land use	92% greenspace
Main towns	Totnes Dartmouth Ivybridge Kingsbridge
Sparsity	**Rural-80:** districts with at least 80 percent of their population in rural settlements and larger market towns
Mean average annual earnings by place of work *(Annual Survey of Hours and Earnings 2013)*	£19,429
Employment rate – working age population 16-64 (Jan – Dec 15) *(nomisweb)*	71.3%
Total JSA claimants - November 2015 *(nomisweb)*	290
% JSA claimants - November 2015 *(nomisweb)*	0.6%
Average property price - Quarter 1 2016 *(CLG live table 581)*	£327,942
Lower quartile average property price - Quarter 1 2016 (most recent) *(CLG live tables)*	£188,000
Ratio lower quartile house prices to lower quartile earnings - 2015 *(CLG live tables)*	10.66x earnings

Number on Housing Register *(Bands A –D, April 2016)*	1,068
Number of affordable homes delivered 2015/16	60
Reduction in number of long term empty homes in 2015/16	73
Number of remaining long term empty homes	246
Number of Disabled Facilities Grants administered by the Council 2015/16	143
Total number of planning applications determined 2015/16	2,490
Number of benefits claims 2015/16	4,810
Percentage of household waste sent for reuse, recycling and composting 2015/16	52%

Profile of local authority

Number of Members	31 Members
Political structure	Executive
Political composition	Conservative - 25 Green - 3 Liberal Democrat - 2 Vacancy - 1
Average Council Tax Band D (2016/17)	£1,660.73
Wards	20 wards
Parishes	61 parishes
Number of Full Time Equivalent Staff (employed by South Hams April 2016)	330

Profile of financial information

Net revenue budget 2016/17	£8.75 million
Actual revenue spend 2015/16	£8.77 million

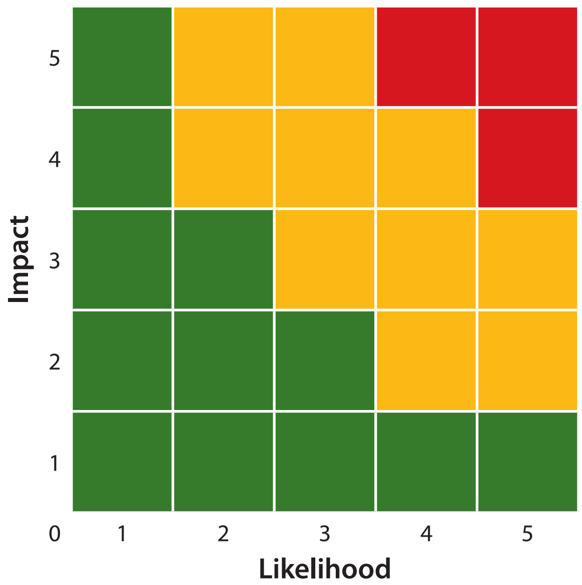
Source: 2016/17 Budget reports

Appendix 3 - Key Council Assets

- Salcombe – Batson Creek and Fish Quay
- Salcombe – North and South Sands beaches
- All the Leisure Centres
- Kingsbridge Quay Car Park
- Steamer Quay and Central area Car Parks, Totnes
- 300+ employment units
- Dartmouth – Mayors Avenue Gardens and Coronation Park

Appendix 4 - Risk Register

Likelihood		Impact	
1	Unlikely to occur under normal circumstances	1	Very low impact to delivery
2	Potenial to occur however likelihood remain low	2	Minor impact to service delivery with potential for some financial / reputational implications
3	Likely to occur	3	Impact on service delivery and financial / or reputational implications
4	Most likely to occur	4	High impact on service delivery resulting in services / resources being unavailable for a long period
5	Almost certainly will occur	5	Severe impact on service delivery resulting in closure of some services / ceasing of project and / or significant financial and/or reputational implications



Monitor	These risks have low impact and/or low likelihood of occuring. Have a plan to prevent them escalating but only light touch monitoring required
Manage	These risks need to be managed to prevent them causing an impact on the business or project. Clear plans with owners need to be in place and they should be managed by the project team or service leads on a regular basis
Escalate	These risks can have a significant impact on the business or project and must be managed by the project board or service management team. Mitigations must be in place and managed to ensure that the risk is not realised or can be controlled

#	Risk Description									After Treatment			Action / Update
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	
1	Encouraging communities to thrive	Delivery of local plan (inc. 5 Year Land Supply in South Hams)	Risk of speculative development without a 5 year land supply in South Hams, following Riverside ruling. Risk of designation in relation to Development Management & local plan across both councils.	Lack of detail / contingency around 5 year land supply until the Plymouth joint local plan is completed. Work has commenced.	3	4	12	Mitigate	Work underway to agree joint strategic working plan between Plymouth, South Hams and West Devon to ensure land supply across the three areas is sufficient. Collaboration agreement due to be signed by April 2016	2	2	4	Agreement by three Councils; plans and joint team in place, with recruitment where required due soon

#	Risk Description									After Treatment			Action / Update
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	
2	Financial Sustainability	Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government Policy and/ or Income Streams	Failure to sustain a robust on-going medium term financial strategy with adequate reserves to meet unforeseen circumstances, due to cost pressures and missed income targets, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFS, particularly if national/ regional businesses successfully appeal against business rate valuations	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. Reclassification of waste classes by the Environment Agency could see items becoming recoverable rather than recyclable material, e.g. leaf sweeping could reduce recycling rate by about 5% in West Devon and 1% in South Hams. It is as yet unknown if and when such changes may take place.	3	4	12	Mitigate	Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council are not intending to rely heavily on sources of income which may not be sustainable. SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT have been engaged in the development of the medium term financial strategy in the context of the Transformation Programme. Latest budget reports approved by both Councils in February 2016 after member workshops in October 2015 and result of Government Finance Settlement communicated. The possible effects of a fall in NNDR income are mitigated in WDBC by the Councils membership of the Devon wide pooling scheme, which significantly reduces the risk to income volatility. SHDC do not participate in the pool due to uncertainty surrounding outstanding business rate appeals.	2	3	6	SLT to keep watching brief over Government changes in policy and to proposals to alter funding - strategically amending the MTFS and local plans to adapt to changes. Officers to develop income generation response as part of MTFS; 'invest to earn' budgets allocated to seed fund income initiatives. Report to both Councils in March/April set out asset strategy, housing options and income generation principles.
3	Financial Sustainability	Implement-ation of LACC	Capacity impact on staff and BAU delivery; timescale of delivery may slip; Due diligence before LACC set-up may not be complete; Business case may not evidence a discernible market for the proposed company	Business case and implementation plan are yet to be produced; next milestone is completion of these items and a series of member workshops leading to Council decision on whether to proceed with implementation. At this stage it is difficult to predict impact upon organisation	3	4	12	Mitigate	Procurement underway to employ services of experienced external consultants to prepare business case and implementation plan. This will help determine the validity of the business proposition and help SLT and Members the appropriate timescale for delivery and impact on capacity (along with any necessary mitigations)	2	3	6	Procurement is live; contract award during March 2016

#	Risk Description									After Treatment			
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	Action / Update
4	Financial Sustainability	Strategic Leisure Review	Risk that the Councils may not end up receiving a bid that meets its requirements; Capital demands from bidders may exceed available reserves, which could restrict ability to deliver other programmes	Future cost of service may increase in both capital and revenue terms in view of aging assets and potential competition to Meadowlands	3	4	12	Mitigate	Detailed procurement process and constant monitoring; wide review team of officers; budget set and highlighted as part of tender process	2	3	6	Procurement process ongoing; competitive bids received within certain tolerances
5	Provision of quality services	Adherence to Council policies & processes and Government guidelines	Failure to manage/ enforce s106 conditions. Ombudsman complaints could lead to finding of maladministration due to management of issues, e.g. poor record keeping; time to resolve issues or meet imposed timelines; reputational damage. Failure to meet current and changing needs of customers and to manage customer feedback. There is a risk of failure to respond to changes and to recognise external influences such as changes in government policy; Risks of losing JRs, appeals and Ombudsman rulings	T18 programme rollout has seen service levels reduce and customer perception affected for certain services	3	4	12	Mitigate	Plan to measure customer satisfaction during 16/17. Increased customer engagement; review of complaints policy underway to ensure organisations learns lessons from prior failures / compliments	2	3	6	Complete review of customer complaint process and embed new process within organisation

#	Risk Description									After Treatment			Action / Update
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	
6	Provision of quality services	Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occuring, e.g. Failure to ensure the continuous availability of critical IT systems	Following the event, how quickly will certain systems and processes be able to be back on-line	4	3	12	Mitigate	Agile working reduces reliance on two main office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated • priority areas • ICT Networking • Payroll & Creditors Payments	1	2	2	Annual work programme to address critical areas. A Business Continuity Plan for the ICT. On- going review of the Business Continuity/ Disaster Recovery arrangements.
7	Provision of quality services	Potential for late filing of accounts	There is a requirement that closedown of 16/17 accounts be brought forward 4 weeks to end of May 2017. The risk is that resourcing within the finance cop and delayed process improvement prevents closedown by the government deadline	Whether the new timetable is achievable for the existing team.	3	4	12	Mitigate	Consider resourcing plans, review processes and commence year end processes early, trial run of 4 week early closedown to be held for 15/16 closedown	2	4	8	Mitigation in place. Team working to reduced timetable for 2015/16 closure and additional resource (deputy s151 officer recruited)
8	Provision of quality services	WD Waste Procurement	If LACC does not progress then timeline to procure new provider may exceed time available before existing contract ends and therefore existing provider contract will need to be extended	Future cost of service may increase in both capital and revenue terms in view of aging assets during extension period. Service received during transition / notice period may deteriorate.	3	4	12	Mitigate	Existing contract management / monitoring in place. Detailed procurement process including specification ; wide review team of officers/members; budget will be set and highlighted as part of tender process if required	2	3	6	Procurement process for LACC business case & implementation plan underway. Specification and pre-procurement process for waste also being run simultaneously.

#	Risk Description									After Treatment			Action / Update
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	
9	Provision of quality services	Data Protection	Failure to control the appropriate use of data and unauthorised Access.	To manage the risk of non compliance with Cabinet Office PSN CoCo, PCI DSS, Data Protection Act, RIPA, Human Rights Act.	2	5	10	Mitigate	Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices. Look out for advice from the Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. All staff will be completing a data protection awareness course in the near future via the Council's new eLearning tool.	2	3	6	eLearning tool being rolled out as part of new performance management system during 16/17
10	Provision of quality services	Emergency Response, e.g. Coastal Erosion / Storm Damage / Flooding	There is high public expectation in relation to supporting communities during coastal erosion/ storm damage/ flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	3	3	9	Mitigate	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity	3	3	9	Processes have stood up to recent storm damage

#	Risk Description									After Treatment			
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	Action / Update
11	Financial Sustainability	Inadequate asset maintenance	Failure to maintain all Council owned assets and buildings.	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard, To consider and manage the risk of redundant properties / assets.	2	4	8	Mitigate	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme. Risk assessments and regular health and safety inspections.	1	3	3	HR proposal for dedicated resource, coupled with Asset COP proposal to appoint a consultant to write the initial long-term maintenance plan, will assist with the risk in respect of the maintenance of all Council assets.
12	Financial Sustainability	T18 Benefits Not Delivered	Failure to deliver sustained benefits from the T18 Programme; Risk of new systems not being fit for purpose during transfer and then for BAU; Capacity risk post March 2016 when budget runs out for temporary staff	Poorly executed delivery could affect quality of customer service; timescales to complete routine tasks and an increase in complaints. Staff moral and reputation can be affected.	2	4	8	Mitigate	Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Quarterly monitoring reports to Members.	2	3	6	Continued management focus on programme delivery
13	Provision of quality services	Corporate Governance	Failure to maintain effective Corporate Governance arrangements.	To maintain effective Member standards and develop new Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act 2010. To ensure that there is on-going review and self assessment of the effectiveness of governance arrangements within the Council	2	4	8	Mitigate	Promotion of necessary policies via staff intranet. Reviewed and implemented new Council constitution. To provide necessary Annual governance self assessment review by both ELT and SLT. Audit Committee established with wider terms of reference. External reviews including the Council's external auditors. Appropriate committee monitoring. Service based risk assessments and action plans, with a particular focus on high risk service activity	1	3	3	n/a

#	Risk Description									After Treatment			Action / Update
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	
14	Provision of quality services	Health & Safety	Failure to manage the health, safety and welfare of the public, visitors and staff. Key consideration in relation to number of external frontline staff, including lone workers.	High impact on service delivery resulting in resources / services being unavailable for long periods	2	4	8	Mitigate	Safe working environment, policies and procedures, e.g. fire safety policy, travel at work policy. IIP, PDRs. Revised sickness absence policy, health and other wellbeing initiatives. Awareness of appropriate legislation e.g. Corporate Manslaughter Act, Equalities Act. Up-to-date corporate Health & Safety Policy/procedures	1	3	3	Review as required
15	Provision of quality services	Inadequate Staffing Resources	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and reskilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	2	4	8	Mitigate	Review of staffing arrangements and GAP analysis is planned for 16/17. New performance management system being introduced linked to recruitment IMPACT behaviours; staff will continue to be set SMART objectives and be regularly appraised to give early warnings if issues. Staff forum to be reintroduced; continued SLT engagement with unions and regular staff comms sessions held. Other comms media under review and several improvements made. Staff satisfaction survey planned for 16/17.	1	4	4	Review of staffing arrangements and GAP analysis is planned for 16/17.

#	Risk Description									After Treatment			Action / Update
	Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1-25	Risk Approach	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1–25	
16	Provision of quality services	Political commitment	On-going political commitment to ensure that the local plan and BAU is delivered in the context of major external change and the inevitable challenges that will emerge as a result	Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	2	4	8	Mitigate	Ongoing liaison with Members to maintain shared vision. Managing interest from potential partners in terms of securing critical project timescales and taking account of organisational capacity. Raise awareness of the scale of organisational change and the impact on existing arrangements for both Members and Staff. Ensure that the new model delivers and retains separate Council identities.	1	4	4	Continued liaison with members to alleviate this risk
17	Provision of quality services	Safeguarding	Council and/ or contractors fail to adhere to meet safeguarding obligations as set out in legislation such as Children Act 2004 section 11.	Do staff, members and contractors know what is required and how to react?	2	4	8	Mitigate	Policies in place and key staff & management have received appropriate training and contact details to spot and report safeguarding issues	1	4	4	n/a
18	Provision of quality services	SH Waste Round Review	Risk of reputational issue to the Council if the project fails to run to project timeframe and deliverables. Risk to identified efficiency savings if project not run on time. Failure to manage customer enquiry and feedback in a timely manner could also affect reputation.	Amount of customer contact. External factors.	2	4	8	Mitigate	Project group are meeting weekly and the operational plan is supported by a communications plan. Additional staff are included in the customer contact/ case management plan.	2	4	4	n/a

South Hams
District Council

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 30 JUNE 2016

Members in attendance *** Denotes attendance** **ø Denotes apology for absence**			
*	Cllr I Bramble	*	Cllr J T Pennington (Vice-Chairman)
*	Cllr J Brazil	*	Cllr K R H Wingate (Chairman)
*	Cllr J A Pearce		

Members also in attendance:
Cllrs H D Bastone, D Brown, J P Green, M J Hicks, T R Holway, R J Tucker, L A H Ward and S A E Wright

Item No	**Minute Ref No below refers**	**Officers and Visitors in attendance**
All Items		Business Development – Group Manager, Section 151 Officer, Monitoring Officer, Devon Audit Partnership Manager, KPMG Manager and Senior Specialist – Democratic Services

A.1/16 **MINUTES**

The minutes of the meeting held on 24 March 2016 were confirmed as a correct record and signed by the Chairman.

A.2/16 **DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.3/16 **KPMG INTERIM AUDIT REPORT 2015/16**

A report was presented that summarised the key findings arising from KPMG's interim audit work in relation to the Council's 2015/16 financial statements.

In his introduction, the KPMG Manager advised that the management responses to this report would be presented to the next Committee meeting on 28 July 2016.

In discussion, reference was made to:-

(a) payroll starter and leaver controls. When questioned, the KPMG Manager informed that, during their review, neither a physical or electronic payroll record could be found in some instances. However, it was acknowledged that this review was undertaken at a spot moment in time during the Transformation Programme and the auditors were content that a number of issues (including this one) had since been addressed;

(b) the lack of an IT Disaster Recovery exercise having been carried out. A Member emphasised the importance of both having an IT Disaster Recovery Plan and the need for it to be rigorously tested and requested that this be reported back to the next Committee meeting as part of the management responses to this report;

(c) the Non-Domestic Rates Appeals risk. In emphasising that this was a new risk, the Committee was informed that it had been included in light of a significant appeal that was still outstanding and there being a major cash flow risk associated to this appeal. The Leader proceeded to confirm that he and the lead Executive Member for Support Services continued to be heavily involved in this matter and they both supported the recommended approach that was being taken to this risk.

It was then:

RESOLVED

That the Interim Audit report for 2015/16 be noted.

A.4/16 **ANNUAL AUDIT FEE 2016/17 – KPMG REPORT**

The Committee considered correspondence from KPMG that confirmed the audit work and fee that the organisation proposed for the 2016/17 financial year.

With regard to the redistribution of the Audit Commission surplus, Members were informed that this was an evolving issue and the KPMG Manager confirmed that he would ensure that the Committee was kept updated on this matter.

It was then:

RESOLVED

That the Annual Audit Fee be noted.

A.5/16 LOCAL AUTHORITY CORPORATE RISK REGISTER – KPMG REPORT

Members considered an information report that advised the Committee of the most frequently featured risks across local authority risk registers and the key changes from 2014 when a similar exercise was carried out.

It was then:

RESOLVED

That the report be noted.

A.6/16 ANNUAL GOVERNANCE STATEMENT 2015/16

The Committee considered a report that presented the draft Annual Governance Statement (AGS) for 2015/16. The report stated that the purpose of the AGS was to provide evidence of a continuous review of the Council's internal control and risk management process, to provide assurance as to their effectiveness and to identify actions being taken or planned to address any key weaknesses identified.

In discussion, reference was made to:-

(a) the establishment of the Statutory Officer Group (SOG). It was noted that the Council had established a SOG comprising of the Head of Paid Service, the Monitoring Officer, and the Section 151 Officer. The Group met quarterly and its primary functions were to draft the Annual Governance Statement and to review all aspects of the Council's approach to Strategic Risk Management and its Internal Controls;

(b) inclusion of a summary of the findings from KPMG. The Committee agreed that the Section 151 Officer should be given delegated authority to include a summary of these findings before the Statement was then signed off by the Leader of Council and the Head of Paid Service;

(c) the role of Members in providing the strategic direction of the Council. Members requested that the role of Members be included in the Scope of Responsibility section of the Statement. Taking this point a step further, a Member was of the view that the effective measuring of strategic direction was generally an area of weakness for the Council.

It was then:

RESOLVED

1. That the processes adopted for the production of the 2015/16 Annual Governance Statement be noted;

2. That the adequacy and effectiveness of the system of internal audit be endorsed; and

3. That Members have considered the draft Annual Governance Statement for 2015/16 and the supporting evidence provided in the presented agenda report and approve it for the signature of the Leader of Council and the Head of Paid Service, subject to delegated authority being given to the Section 151 Officer to include a summary of the findings from KPMG.

A.7/16 **UPDATE ON ANTI-FRAUD, CORRUPTION AND BRIBERY POLICY AND STRATEGY, ANTI-MONEY LAUNDERING POLICY AND CONFIDENTIAL REPORTING POLICY**

Members considered a report that presented a number of policies and documents and recommended their adoption to the full Council. These policies and documents were as follows:-

- The Anti-fraud, Corruption and Bribery Policy and Strategy;
- The Anti-fraud, Corruption and Bribery Response Plan;
- The Anti-Money Laundering Policy Procedures and Guidance for Staff;
- The Anti-Money Laundering Policy;
- The Confidential Reporting Policy; and
- The Confidential Reporting Policy Frequently Asked Questions.

In discussion, the following points were raised:-

(a) During future reviews, it was agreed that the proposed changes made to these policies would be specifically highlighted. In addition, Members advised that they would welcome these policies being produced in a more reader friendly format (e.g. through the use of graphics and different typefaces);

(b) In response to a request, the Monitoring Officer confirmed that she would check that, in the case of agency staff, references were taken by the agency to establish the honesty and integrity of the employee. As a further assurance, the Monitoring Officer confirmed that she would report back on this specific point to Committee Members;

(c) Specifically regarding the Benefit Fraud Prosecution and Sanction Policy, the Committee recognised that, in certain instances, it may be more appropriate to issue a formal Local Authority caution rather than to prosecute. By ensuring that the Policy was sufficiently flexible (and not overly prescriptive), should guarantee that an instance of fraud, that was simply an oversight, would be handled appropriately.

It was then:

RECOMMENDED

That Council be **RECOMMENDED** that the following reviewed policies and documents be adopted:

1. The Anti-fraud, Corruption and Bribery Policy (as outlined at Appendix A of the presented agenda report);
2. The Anti-fraud, Corruption and Bribery Response Plan (as outlined at Appendix B of the presented agenda report);
3. The Anti-Money Laundering Policy Procedures and Guidance for Staff (as outlined at Appendix C of the presented agenda report);
4. The Anti-Money Laundering Policy (as outlined at Appendix D of the presented agenda report);
5. The Confidential Reporting Policy (as outlined at Appendix E of the presented agenda report); and
6. The Confidential Reporting Policy Frequently Asked Questions (as outlined at Appendix F of the presented agenda report).

A.8/16 **INTERNAL AUDIT ANNUAL REPORT 2015/16**

The Committee considered a report that summarised the work undertaken by the Council's Internal Audit team during 2015/16. In addition, the report sought to review the performance of the Internal Audit service and to provide an audit opinion on the adequacy of internal control.

In discussion, reference was made to:-

(a) deferral of the Development Control (Enforcement) audit. Officers advised that the decision to defer this audit had been taken in light of the Development Management Service Peer Review which had been undertaken. It had since been agreed that this audit would commence towards the end of Quarter 3 of 2016/17;

(b) the audit opinion on the T18 Transformation Programme. A Member expressed his reservations on the Audit conclusions on the Programme. In response, the Internal Audit Manager advised that the Audit Committee had asked for the scope of this audit to be concentrated on the employment of iESE, how and why the organisation had been engaged and had due process been followed. For absolute clarity, the Audit Manager advised that this audit had not looked at the delivery of individual service areas;

(c) the 50 days audit work on the Greater Dartmoor Local Enterprise Action Fund and the South Devon Coastal Local Action Group Grants. Officers confirmed that all costs were recovered and the Council was required to undertake this work in its capacity as the 'accountable body'. Furthermore, the Committee was reminded that the Council had resolved to make its grave concerns over the administrative burdens associated with the current decision-making process known to the District Councils Network (Minute 71/15(a) refers);

(d) the waste service. As a general point, a Member highlighted her concerns at the significant current budgetary pressures which were related to the waste service. In response, the Leader confirmed that these concerns were recognised and the lead Executive Member for Commercial Services was closely monitoring this apparent upward trend in expenditure arising from the waste service;

(e) recording of staff time allocations. Officers advised that a Civica software solution was to be integrated that would ensure that real time accounting of staff time between the Council and West Devon Borough Council would be accurately apportioned. In welcoming this news, the Section 151 Officer advised that this would save an extensive amount of officer time that was currently expended making the required adjustments through the accounting process.

It was then:

RESOLVED

1. That it be noted that overall and based upon work performed during 2015/16, and that of our experience from previous year's audits, the Head of Internal Audit's Opinion is of 'Significant Assurance' on the adequacy and effectiveness of the Authority's internal control framework; and

2. That the satisfactory performance and achievements of the Internal Audit Team during 2015/16 report be noted.

(Meeting commenced at 10.00 am and finished at 11.40 am)

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Chairman