

Report to: **Council**
Date: **25 July 2017**
Title: **Proposal for a single Council for West Devon and South Hams**
Portfolio Area: **Leader of the Council**
Wards Affected: **All**

Relevant Scrutiny Committee: Overview & Scrutiny Committee

Urgent Decision: **N** Approval and clearance obtained: **N/A**

Date next steps can be taken:

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RECOMMENDATIONS

That Council be **RECOMMENDED** to:

1. agree in principle to the establishment of a single second-tier Council for West Devon and South Hams from 1 April **2020**
2. proceed to consultation with the public and stakeholders from early August through to the end of September 2017, with delegated authority being given to the Head of Paid Service, in consultation with the Leader of the Council to agree the final contents of the consultation document (Appendix B refers) prior to its publication;
3. agree to bring back to Council (as soon after the expiry of the consultation period as is practically possible) the outcome of the consultation together with the final Proposal for submission to the Secretary of State for approval.

1. Executive summary

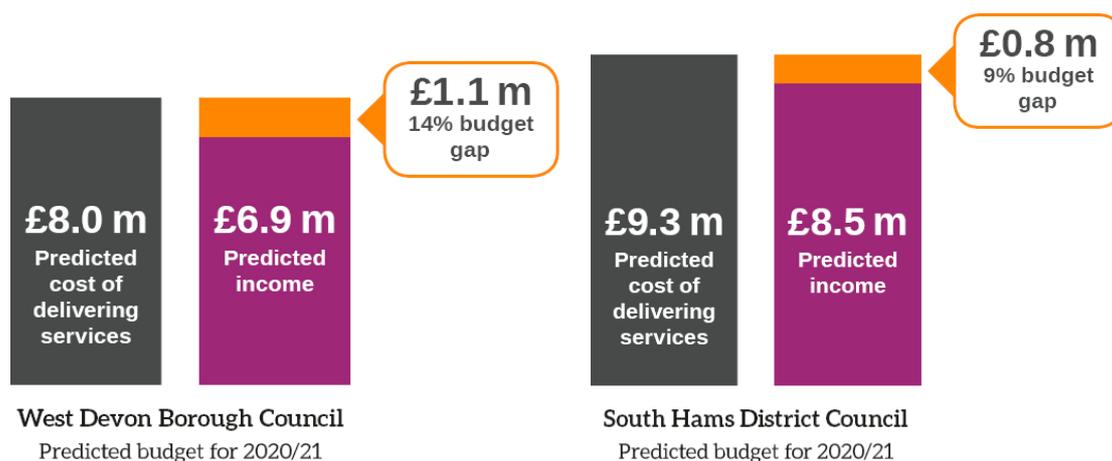
- 1.1 The Joint Steering Group (JSG) was tasked by West Devon Borough Council and South Hams District Council to consider options to achieve financial sustainability and address the forecast budget deficit for both Councils; one of those options is the formation of a single Council, and the intention of the Proposal is to respond to severe financial public sector constraints, maximise efficiencies and simplify the way that the Councils work, whilst protecting and investing in the services that the Councils provide.
- 1.2 This report sets out the recommendations of the JSG to:
 - proceed in principle with the formation of a single, second tier Council for West Devon and South Hams from 1 April **2020**;

- consult with the public and stakeholders for a period from early August through to the end of September 2017; and
- bring a report to the Council in October 2017 with a final proposal for submission to the Secretary of State, having considered the outcomes from the consultation.

The Proposal for the creation of a Single Council is attached at Appendix A and the Consultation document is attached at Appendix B.

1.3 A new Single Council will inevitably be different from the two existing Councils and will build its own vision through engagement with its Councillors, and through them, its communities and local businesses. Central to the proposal to create a Single Council is the need to ensure that we can continue to meet the challenges that we are facing and to take full advantage of opportunities. During 2015/16 the Council reviewed its priorities and Members agreed that their top priority was to achieve financial sustainability. Members also stated that they did not want to see a reduction in the level and quality of the services delivered to their communities.

1.4 The predicted budget gaps for the Councils by 2020/21 are £0.8m for South Hams District Council and £1.1m for West Devon Borough Council. Therefore the scale of the financial challenge is £1.9 million by 2020/21 as shown below.



1.5 It is important that Members note that other options are also currently being considered as part of a package of measures, (such as outsourcing of some services and the commercial property acquisition proposals) and are the subject of separate reports presented to this Council. The strategy being advocated by the JSG is to implement a number of different schemes, not only to meet the immediate funding gap but to ensure financial sustainability for the medium to long term. If the option to create a single Council is progressed, it will not be progressed at the expense of the other options. However no single option is guaranteed to meet the financial challenge on its own. Each option will derive benefits on differing timescales, some have the ability to deliver benefits straightaway, others will realise benefits over a longer term. These (together with the risk of ‘doing nothing’) are discussed in section 4 below.

- 1.6 The Proposal does not impact adversely on service delivery as the Councils already have a shared workforce and customers are unlikely to notice an immediate difference in services. On day one of a new Single Council, there will still be a physical Council presence across both West Devon and South Hams with places for communities and businesses to access our services in different areas. It is only the governance arrangements that would be affected. In time, the new Council may alter its property strategy.
- 1.7 Residents and businesses would benefit from simplified arrangements to access a Single Council. It is envisaged there would be no change to locally delivered services, good customer access and strong connections between local councillors and their communities.
- 1.8 Due to the fact that both Councils have worked together in a shared services partnership since 2007 and have shared a non-manual workforce since 2015, West Devon annually saves £2.2 million whilst South Hams annually saves £3.9 million. As the financial section of the business case makes clear, the main financial driver of the proposal to become a Single Council is to protect this £6.1 million per year savings achieved through the T18 programme and to maximise each organisation's efficiency to address future financial challenges. The Proposal would also aid financial sustainability, ensuring resilience of much-valued local Council services enabling us to best support businesses and residents.
- 1.9 There would be significant financial advantage arising from the proposal in relation to additional efficiencies of (approximately) up to £0.5 million per year from staff efficiency reductions, plus increased council tax income (which varies depending on the option for equalisation) which could achieve a sustainable financial future for both Councils.
- 1.10 A new Single Council would have a single level of council tax after a period of harmonisation. The financial section of this report sets out options for council tax equalisation, how this might be achieved and the positive impact this would have on the financial sustainability of the Councils and the continued delivery of services.
- 1.11 The Proposal shows that if the Council adheres to the proposed timetable attached at Appendix C, the creation of a Single Council from April 2020 is achievable, particularly given that the majority of the Councils' services are already shared. This demonstrates that there is a low risk to the Council service delivery by pursuing this option.
- 1.12 If a decision on proceeding with this Proposal is not made at this meeting then the opportunity to submit the Proposal to the Secretary of State in time for a decision to implement for April 2020 is lost, the financial benefits as detailed would not be achieved and there is a significant risk that both Councils would not be able to meet their legal requirement to achieve balanced budgets in the medium to long term.
- 1.13 Adherence to the timetable is important and requires that a decision to proceed in principle (together with agreement to engage in consultation from early August 2017) needs to be made in July 2017 and a decision to submit the Proposal to the Secretary of State needs to be made in October 2017. The earliest date for implementation of the proposal is April 2020 which will enable the required parliamentary stages of the process to be completed. The

next Borough and District Council elections would be deferred to May 2020 to enable a Boundary Commission review to be undertaken beforehand. The Department of Communities and Local Government (DCLG) has advised that any delay in the submission of the Proposal to the Secretary of State will mean that it is very unlikely that the creation of a Single Council could be achieved before April 2023.

- 1.14 If both Councils agree to the principle of a Single Council, there will be a period of public engagement from early August until the end of September 2017, and a final Proposal will be brought to the Councils in October for approval and submission to the Secretary of State.

2. Background

- 2.1 The scale of the financial challenge is £1.9 million and is shown in 1.4 above. The predicted budget gaps for the Councils by 2020/21 are £0.8m for South Hams District Council and £1.1m for West Devon Borough Council. During 2016/17 the Government offered Local Authorities the opportunity to apply for a four year agreed funding settlement, subject to the production of an efficiency plan. Both Councils applied and were accepted for the four year agreement. By 2018/19 both Councils will receive no Government funding (Revenue Support Grant) and the Councils will need to be financially self-sufficient. Both Councils' Settlement Funding Assessment (Revenue Support Grant and funding from Business Rates) is reducing by over 37% between now and 2019/20.

2.2 Why form a Single Council?

The shared services efficiency savings that have been made in the past mean that the finances of the Councils are inextricably linked and operationally the two Councils are interdependent. This is due to the degree that services and staff have been shared since 2007 with over £6 million shared services savings being achieved annually. Therefore the financial challenges that the Councils face are a shared challenge.

- 2.3 West Devon Borough Council currently has a Partnership Agreement with South Hams District Council and a completely shared workforce for all West Devon in-house services. There is a strong history of the Councils working together to achieve savings and efficiencies since 2007 to mutual advantage. In 2013 the Councils took the sharing of services a stage further with the T18 Transformation Programme which has resulted in a shared workforce and has successfully delivered efficiencies in monetary terms (joint savings of £6 million) together with efficiencies in the delivery of its services. The clear priority of both Councils is to achieve financial sustainability in order to continue providing services to their local communities, and the creation of a single Council is the next logical step.

2.4 Timing Imperative

It is important that the Councils take steps now to ensure that their financial challenges are met and the delivery of their current services are maintained. Discussions with DCLG have made clear that there is a short window of opportunity to submit a Single Council Proposal. There are specific legislative steps that need to be undertaken in order to create a single Council (which are set out in the governance implications in section 6 and Appendix C of this report). The earliest date for the start of a Single Council (allowing for ministerial timetables and an implementation phase for the

Council) is April 2020.

- 2.5 If the Councils do not submit their Proposal to the Secretary of State in October 2017 (to allow time for ministerial consideration and for making the relevant regulations by **October 2018**), then the DCLG has advised it is very unlikely that there will be sufficient parliamentary time for consideration of any single-council proposals during this parliament because of the Government's Brexit commitments.
- 2.6 **National Picture**
Nationally, since 2010 Local Authorities have been subject to increasing budgetary pressures, decreasing grant income from Central Government and the complete withdrawal of the Revenue Support Grant by 2018-19, in addition to uncertainty around the future of the business rate retention (which was omitted from the 2017 Queen's speech) means Councils need to alter the way in which they operate. Current Government policy is to encourage increased partnership-working, and to support Councils who wish to create combined authorities, and other local solutions. Other second tier councils are also pursuing the single/combined authority option including Suffolk Coastal, West Suffolk, East Kent, Dorset and Taunton Deane and West Somerset Councils. In June this year, Forest Heath District Council and St Edmundsbury Borough Council agreed in principle to the proposal for a single West Suffolk Council and are currently consulting on their proposals.
- 2.7 **Why not unitary or wider shared service?**
There is no current interest from other Devon authorities in terms of further sharing or provision of services, or for creating a larger single Council. Officers will continue to explore any possibilities that arise, but pursuing the creation of a Single Council between South Hams and West Devon would not preclude these dialogues. It is clear that there is no current appetite locally for a Unitary Council in Devon (and the unitary agenda is not currently being pushed by Central Government). The Proposal therefore concentrates on a solution that is within the gift of our two Councils to achieve.
- 2.8 The Single Council proposal will affect the following:
Residents: local people will benefit from the simplification of dealing with one organisation which has one contact point and one website. There will be no detriment to the delivery of services during the implementation period as the Councils already operate a customer focussed, shared workforce. Potentially, a larger single Council will have the capacity to take on and deliver more services for residents, if this proposal is pursued in conjunction with other income generation or cost saving initiatives, as a financially sustainable Council will be created.

Council Tax: The Council Tax policy for West Devon residents will be dependent on the option taken forward for the harmonisation of council tax. There is currently a £63 difference in Council Tax between the Councils and council tax equalisation options are set out in Appendix E. **Further to the meeting with DCLG on 21st July, options for the modelling of council tax equalisation on a longer equalisation period (6years,7 years and 10 years) have been shown in Appendix E.**

Under a five year equalisation period (Option 2 of Appendix E), West Devon residents would see an increase in their Band D Council Tax of £5 per year for 5 years. The current West Devon Band D is £218.39 for 2017/18. Please refer to the table in 3.10 as to how this will affect other bands.

Businesses: as with residents, business will benefit from simplification of dealing with one Council, particularly any businesses that operate across the whole area, and there will be no impact on business rates.

Public Sector partners: Devon County Council, Plymouth City Council, Torbay, other District Councils, the National Park, Police, and Health Trusts will benefit from dealing with only one Council rather than two and a simplification of decision-making. There are opportunities for Parish and Town Councils to increase the services that they deliver locally and for closer working with both councillors and the community.

Staff: All staff employed by West Devon and South Hams would transfer to the new Council from day one. There will be a reduction of less than 10 posts across the whole organisation (out of current establishment of 430.5 fte) and these few posts are likely to be lost through natural turnover rather than redundancy. Additionally, there is a positive impact on work-loads as a result of dealing with one set of policies, ledgers, committees and working groups, and this capacity will enable a greater focus on the delivery of key projects and strategic priorities.

Councillors: A Boundary Commission review would be undertaken before the new Council is formed on 1st April 2020, with elections to the new Council being held in May 2020. A change of governance from two Councils to one is likely to see a reduction in Councillors. A single Council will be an opportunity for Members to build on their current joint meetings and collaboration, and critical to the success of the new Council would be the local leadership role of ward members. A single Council will have a stronger voice as the largest district in Devon, and the single Council would also benefit from the support of the 11 County Councillors.

3. Outcomes/outputs

3.1 The objective is to achieve a single second tier Council for West Devon and South Hams in order to protect services and achieve a sustainable financial future.

3.2 **Timetable and legislative requirements:** the powers that enable the creation of a new Council are set out in the governance implications in section 6 below and this approach has been agreed with the DCLG. The timetable for the Proposal is attached at Appendix C and includes the formal statutory process for creating a single Council. The earliest date to enable implementation of a new Council is 1 April 2020. Conversations with DCLG to date have made it clear that in order to achieve this, the Councils will need to submit the Proposal to the Secretary of state in Autumn 2017. This is because the Secretary of State needs to consider the proposal before making his recommendations in the Autumn of 2018, with a view to making regulations for parliamentary debate and approval by October 2018. This will enable a period of approximately 18 months within which to implement the necessary changes. Based on discussion with the DCLG, Officers are confident that implementation can be achieved within that timescale. A public

referendum is not required to form a new Council or to increase Council Tax by more than the current £5 / 1.99% limit per annum, to achieve council tax equalisation.

3.3 **DCLG principles:** the Proposal covers the five key principles adopted by DCLG for considering proposals for combining authorities. Namely:

- Improved local public services
- Greater value for money
- Stronger local leadership at a strategic and local level
- Significant cost savings
- A sustainable future in the medium to longer term

These are not statutory nor more widely defined, and no weightings are given to the five principles. The Proposal in Appendix A addresses these issues under several headings:

- The rationale for the new Council
- Governance and members
- Our workforce
- Accommodation and assets
- Timing and process
- Consultation
- Financial justification
- Risk and opportunities

3.4 **Consultation:** The Proposal must also demonstrate that the Councils have consulted on the Proposal; it is a matter for individual councils to decide how to engage with local people, businesses and organisations. There is no statutory requirement for a referendum or to consult in a particular way for a particular period, however, the Proposal must include evidence of support for a new Council from the County Council and local Members of Parliament. If approved, a consultation will take place from early August to the end of September 2017, during which period the Council will:

- Publish a summary of the Proposal which will also include specific questions which our residents, local businesses, public sector partners and other partner organisations can answer. Please see Appendix B
- Set up a dedicated website called 'One Council' featuring the proposal documents, frequently asked questions, and on-line survey
- Commission a statistically sound telephone survey of residents across West Devon and South Hams
- Engage with the public through attending a number of events and briefing sessions throughout both Council areas over the summer to capture additional responses to the public consultation
- Issue 'One Council' newsletters to residents, local businesses and public sector partners & other partner organisations
- Issue press releases and engage the public through social media
- Engage with neighbouring councils and other key stakeholders, public sector partners and other partner organisations (such as Dartmoor National Park, Devon and Cornwall Police etc.) on the proposal.

3.5 **Summary of details in the Proposals:**

3.5.1 **Governance:**

A Boundary Commission review would be undertaken before the new Council is formed in April 2020. Elections would then be held to the new Council in

May 2020. Parliament would be required to approve deferring the currently scheduled 2019 District and Borough elections by 12 months as part of the overall proposal. The Boundary Commission review will present the opportunity to consider 'single member' wards and the effective number of members for the urban centres.

- 3.5.2 Governance arrangements are prescribed by law, and the new Council will have the option of operating executive arrangements either through an elected mayor with a cabinet executive, or a leader and a cabinet executive. The proposal is that the new Council operates a Leader with a 'Cabinet' and the change in terminology from Committee and Executive system, will signify a positive change from both current structures. A Cabinet can comprise up to 10 members, and whilst this is a matter for the new Council, the JSG has recommended that the Cabinet comprises between 6 and 8 members in accordance with best practice in order to operate with maximum effectiveness. Individual portfolio holders will have defined decision-making powers (which will be decided by the new Council) such as debt write-off and award of community grants.
- 3.5.3 The new Council will retain a democratically sound model, but with an end to duplicated and separate decisions by the existing Councils on shared issues. There will be a reduction in the overall number of council bodies for a single organisation (Council, Cabinet, Audit Committee) but the Proposal sets out that there will be at least two Development Management Area Committees, and two or three Overview & Scrutiny Committees comprising of Members not on the Cabinet, with the opportunity of the O&S Committees being chaired by a member of the minority parties.
- 3.5.4 The new Council with a combined population of 138,500 would be the largest district in Devon (54,000 for West Devon and 84,500 for South Hams) and allow the larger organisation to have more influence regionally and nationally. A new Single Council will be better able to play its part in delivering its strategic goals shared by all of the public services in Devon. A larger, Single Council will have more resilience than two smaller organisations and therefore better able to face the significant changes and challenges that local government will experience in the future, for example, the changes relating to local government funding, changes to New Homes Bonus and 100% business rate retention.
- 3.6. **Statutory frontline services and benefits to our communities:** the efficiencies that can be delivered through staff capacity, by supporting one rather than two Councils, will protect our statutory frontline services, as this capacity can be dedicated to provide further support to these services. This will ensure the Council can continue to meet its statutory obligations. There may also be some options to improve services as a larger Council would have the scale to take on and deliver more services, and as a larger Council, with a stronger negotiating position, the new Council will have a stronger voice both nationally and locally.
- 3.7 **Efficiencies in back office services:** this will be particularly relevant to accounting as we would move to one ledger removing the necessity for apportionment and recharging. We will be able to have a single set of the Council's policy framework documents (budget, Constitution) and other policy documents. A Single Council would enable further efficiencies such as a single membership fee or licence where this is currently payable by both

Councils (such as ICT licensing fees). Further efficiencies can be achieved through the reduction in member support for those member meetings currently duplicated. Efficiency savings across both Councils are predicted to be up to £0.5 million per annum in total.

- 3.8 **Accommodation and Assets:** the Councils already have a flexible workforce who can work from any location. In the longer term, the new Council would need to consider whether there is a continued need for two large head offices and how best to support customers across both areas who need access to Council staff. A single Council would enable:
- The assets of both Councils to be combined (£20 million West Devon and £75 million South Hams)
 - A comprehensive review of the Councils' operational locations
 - Increased partnership working closer to communities, with officers or committees co-locating with other public bodies or in community buildings to reduce or avoid the need for customers / staff / Members to travel large distances
 - The potential disposal and/or redevelopment of the two head office locations

Further details of the JSG Asset Strategy can be found at Appendix D. No figures for savings have yet been modelled into the proposal.

3.9 **Financial section**

3.9.1 Cost of Implementation and Efficiencies and Savings

Modelling of one-off costs of planning and implementation are predicted to be £325,000 as shown below. This is for costs such as IT costs, public consultation, remodelling of Council finances, legal costs and a prudent estimate for any redundancy and pension strain costs.

- 3.9.2 Savings of up to £0.5 million a year are predicted. These savings are not frontline service cuts and would be from efficiencies from back-office activities. The number of staff posts affected would be in the single figures (i.e. less than 10) and it is hoped that this could be largely addressed through natural turnover. However, redundancy and pension-strain costs have been included within the financial modelling as a worst-case scenario.

- 3.9.3 Becoming a Single Council would mean releasing some capacity absorbed by serving two bodies. This would reduce the amount of time spent on complex or duplicated processes. Financial systems would be simpler, with single reporting requirements, with a removal of the complexities of recharging money between both Councils and the need for two sets of reconciliations (such as bank reconciliation, control account reconciliations, shared services reconciliations etc.). This would release some staff capacity as a result of more simple and effective ways of working, allowing staff to focus on the delivery of key projects and strategic priorities.

3.9.4 The table below shows the one-off implementation costs of £325,000 and the annual savings predicted of up to £0.5 million per annum. The one-off investment costs of £325,000 are paid back mid-way through the second year (2021/22). The table also shows the additional income generated from council tax under a five year equalisation period (Option 2 of Appendix E), which is shown for illustration purposes only. Other equalisation periods have been modelled which are shown in Appendix E.

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Planning and Implementation costs							
Advice and modelling for Council Tax	3,000	3,000	4,000				
Project Management and Support		15,000	15,000	15,000			
Public Consultation	12,500	2,500					
IT costs			25,000	25,000			
Comms Support / Branding/ website etc		5,000	10,000				
Remodelling council finances etc		25,000	10,000				
Legal, including novation of contracts			10,000	5,000			
Redundancy and pension strain costs				85,000	20,000	20,000	15,000
Implementation Costs (one-off)	15,500	50,500	74,000	130,000	20,000	20,000	15,000
					Total Implementation costs		325,000
Savings							
			2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Staff efficiency reductions					-370,000	-370,000	-370,000
One Financial Ledger (50% reduction) including reductions in processing recharges between councils etc					-25,000	-25,000	-25,000
Accommodation rationalisation (TBA)							
Member reductions (20% of £425,000)				-85,000	-85,000	-85,000	-85,000
Reduction in subscriptions and memberships				-20,000	-20,000	-20,000	-20,000
Reduction in Audit Fees				-40,000	-40,000	-40,000	-40,000
Annual Savings			0	-145,000	-540,000	-540,000	-540,000
					Total Savings		-1,765,000
Increased Income							
			2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Council Tax equalisation (Equalisation over 5 years is shown)				-488,000	-987,000	-1,489,000	-1,999,000
Net cost/(additional income)	15,500	50,500	74,000	-503,000	-1,507,000	-2,009,000	-2,524,000

If the proposal is approved, the implementation costs would either be paid for from each Councils' Unearmarked Reserves or funded from the savings which occur from 2020-21 onwards. These costs would be split to each Council 50%/50%

The table above shows that by 2020/21 the net income position is £503,000 for the Single Council and this rises to £1.507 million by 2021/2022 (using Option 2 for equalisation of council tax over 5 years for illustrative purposes). By Year three (2022/23) the net income raised is £2.009 million and then this increases to £2.524 million by Year 5. The Single Council Proposal being considered by the Joint Steering Group is one of two options which are the most likely to achieve financial stability for both Councils. The other option is the commercial property acquisition strategy which is mentioned in section 4.5 below. Neither of these two options will meet the immediate budget deficit for 2018/19 so in any case the Council will also need to consider some other short term solutions through the budget setting process this year for 2018/19.

3.10 Council Tax Equalisation

Appendix E sets out possible options for the equalisation of Council Tax. This has been amended following the meeting with DCLG on 21st July and further modelling has been undertaken on a longer equalisation period and

re-profiled accordingly. There are many different ways in which this could be achieved. There is currently a £62.97 difference in Band Council D Tax levels between West Devon (£218.39) and South Hams (£155.42) for 2017/18. The meeting with DCLG has indicated that Council Tax can be equalised over a longer period and additional modelling has been carried out over 6,7 and 10 year periods.

Appendix E shows the efficiency savings and additional income generated from Council Tax equalisation under each option of equalising over 3,5,6,7 and 10 years. All of this modelling will form part of the consultation with stakeholders.

The benefits of equalising over a shorter period are that the additional income from council tax equalisation materialises at an earlier date, which generates more income to be used to benefit the community and to deliver services. However the drawbacks of a shorter equalisation period are that it means a higher increase in council tax in the earlier years for South Hams residents.

If a longer equalisation period is implemented, this will mean that the increase in the council tax for South Hams residents is lower in the earlier years as it will be spread out over a longer period. A longer equalisation period assists with the affordability of the increase in the South Hams council tax for residents. This does mean that other income or efficiencies would need to be generated from elsewhere.

The maximum increase allowed whilst remaining within the council tax threshold would be a £5 increase in the combined Band D and combined Taxbase. DCLG have confirmed that the Council can submit options that also include those that exceed the council tax threshold and this will be considered by Ministers.

The table below further shows the impact on South Hams residents of the council tax equalisation by bands for a five year equalisation period.

Effect of South Hams Council Tax Increase	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Ratio to Band D (9ths)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9
Option 2 – Equalise Council Tax over 5 years from 1 April 2020	£ 11.73	£ 13.68	£ 15.64	£ 17.59	£ 21.50	£ 25.41	£ 29.32	£ 35.18

3.11 Financial Strategy of the Joint Steering Group

The strategy being advocated by the Joint Steering Group is to implement a number of different schemes, not only to meet the immediate funding gap but to ensure financial sustainability for the medium to long term.

Each scheme will vary in risk profile, achievability and the impact on our finances. By implementing a number of solutions rather than over-reliance on one option, the Councils will spread the risk and maximise the benefits.

3.12 The successful outcome of the proposal will be the establishment of the single Council in **April 2020**, once the regulations have been approved by the Minister, and the implementation changes have been completed. Following this point, efficiencies and improvements in service delivery can be achieved.

3.13 The success of the proposal will be initially demonstrated by endorsement from the MPs and Devon County and through the support of our communities and stakeholders and the subsequent approval of the Proposal by the Secretary of State. If the Proposal is approved, a legislative Order will be made, and a single Council created on 1 **April 2020**. Success can be measured with balanced budgets and a sustainable medium to long term financial plan with no detriment to services and a stronger local voice.

4. Options available and consideration of risk

4.1 **Option 1: Do nothing:** This is not a viable option as we have a statutory duty to balance our budgets, and the other options that the Councils are exploring alongside this Single Council Proposal do not provide one single solution to the budget deficit on their own. The budget would need to be balanced in a different way (such as service cuts) but ultimately if the Council fails to set a balanced budget the Government would intervene, with the likely option of a forced merger with another authority. Considering this proposal now before the Council reaches that position, in a planned way, will cost less and enable the Council to retain control over its future.

4.2 **Option 2: Extend shared services to other Councils.** This is not solely in the gift of the two Councils and relies on participation from other organisations; there is limited appetite from other Councils to extend our model of shared services, though there may be opportunities to work with Torbay in future. The financial benefits for West Devon and South Hams of extending shared services are extremely limited and would not help meet our forecast deficit as these savings have already been taken from moving to the current model; however there should be benefits in terms of resilience from extending the workforce. Extending our model to other Councils would create disruption to service delivery and the workforce, and require significant management capacity. However, the proposal to form a single Council does not preclude the extension of shared services in the future or other restructures (e.g. Unitary) if the Council is so minded; in fact having a single Council would make any such proposals less complicated to achieve in future.

4.3 **Option 3: Cut/reduce services.** One of the Council's key objectives is to protect services, not cut them. The JSG did consider this option early on and agreed that the appropriate mechanism for changes to services is through the budget setting process. Officers will bring proposals forward during the autumn for consideration by Council during the budget process, however the intention is not to cut services if at all possible. Members should note that, without other measures, cutting services in West Devon is unlikely to close the entire budget gap.

4.4 **Option 4: Out-sourcing / Wholly owned company.** In February/ March 2017 the Councils decided not to set up a Local Authority Controlled Company for all services. However this is still an option for some services, as is continued or further outsourcing of some services where there is a clearly defined market or efficiency opportunity. It is possible to pursue this option alongside the Proposal for a Single Council, and the JSG supports a dual strand approach to achieving the objectives of financial sustainability and protecting services. This is therefore the subject of another report from the JSG to Council on today's agenda.

4.5 **Option 5: Property Acquisition strategy.** This involves borrowing to acquire commercial property with the aim of achieving significant revenue to help meet the budget deficit. A proposal has been worked up by the Invest to Earn Working Group. There is no guarantee that the Property Acquisition strategy alone would meet the financial challenge we face, but it is recommended that it is pursued as part of a multi-strand approach to achieve our financial sustainability objectives. The recommendation from the Hub Committee is for a £25 million initial property portfolio. The net income that could be achieved from the commercial property investment strategy on a £25 million property portfolio is between £190,000 and £450,000. Therefore this option on its own does not meet the known budget deficit. It also does not address future cost pressures such as public sector pay increases, further reductions in New Homes Bonus etc. Again, this option can be pursued alongside the proposal for a Single Council.

The two schemes most likely to achieve financial sustainability are the property acquisition strategy and the single Council proposal - neither of which will meet the immediate budget deficit for 2018/19 so the Councils will also need to consider some other short term solutions through the budget setting process this year.

4.6 **Option 6: Proposal for a Single Council.** This proposal has the ability to meet the financial challenge and protect services in the long term. All elements within the control of the Councils are easily achievable and relatively low cost to implement. There is a dependency on DCLG to approve the Proposal and adhere to the timetable set out in order to achieve implementation for April 2020.

4.7 The options have been evaluated by the JSG, which has met 4 times since the Council tasked it with considering a range of options to achieve financial sustainability to address the forecast budget deficit. The options it considered at its first meeting were:

Single Council

Service reductions

Asset growth and income

Merger with Plymouth or other Councils

More shared services with other Councils

Outsource services

Full SHWD Combined Council

Wholly owned council company for specific services

Unitary proposal

Further channel shift

Increase Fees and Charges

Structural review

Council tax increase

4.8 Those highlighted in bold were considered viable options for the JSG to consider further. Other options such as Channel Shift were already being progressed as business as usual and Fees & Charges are reviewed annually already. Service reductions had previously not been an option for Members and it was agreed that it was more appropriate to consider this option through the budget process. A council tax increase above £5 would involve a referendum costing approximately £230,000 (£100,000 for West Devon and £130,000 for South Hams) and it was considered that it would not be viable as a stand-alone option as it could be explored through the Single Council option which does not require a referendum.

4.9 Extending shared services with other Councils was not progressed due to the reasons set out above. Having defined the priority areas for consideration and refining has resulted in options 4 and 6 being considered in detail and reports being put before Council for approval today. Alongside this are the proposals for the Property Acquisition Strategy. As set out previously, none of these options are stand-alone options and may be pursued at the same time.

Each of the options considered vary in risk profile, achievability, and impact on the Council's finances. By implementing a range of measures and solutions the Council is spreading and mitigating its risk and maximising the benefits. The two schemes most likely to achieve financial sustainability are the commercial acquisition strategy and the Single Council proposal - neither of which will meet the immediate budget deficit for 2018/19 therefore the Council will also need to consider some other short term solutions through the budget setting process this year. All of the options contribute to closing the budget deficit, but don't give the wider non-financial benefits given by the Single Council option that are identified above.

4.10 Consultation is a key part of the Single Council proposal and Members are being asked to approve the consultation process as set out in paragraph 3.4 above. The outcomes of the consultation process will be brought back to the Council in October for consideration alongside the final proposal.

5. Proposed Way Forward

5.1 The JSG recommends that the Council agrees in principle to the creation of a single second tier Council for the area of West Devon and South Hams as set out in the accompanying proposals.

5.3 The following impacts have been identified in relation to the Proposal:
Positive impacts: there are clear financial benefits through efficiencies and increased income (which will result closing the gap and providing future sustainability). There will be removal of duplication in officer time and meetings, and a simplification of governance structures for residents, businesses, partners and staff. Significantly, there will be no cuts to services.
Negative impacts: there will be an increase in Council Tax above the £5 council tax increase threshold for South Hams residents in order to achieve harmonisation. There will be implementation costs of £325,000 but these are one off costs only.

Other impacts: Potential reduction in the number of Councillors from formation of the Council in **April 2020** and a likely rationalisation of offices and

assets. There will be no direct impact on residents and businesses as a result of the implementation of the proposal, and once the new Council has been created, there will be improvements to residents as identified above.

Risks. These are set out in the table in section 6 below.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>Powers for the Councils to create a Single Council are set out in two key pieces of legislation.</p> <p>Sections 8 -10 of the Local Government & Public Involvement in Health Act 2007: the Local Government Boundary Commission for England may undertake a review at the request of the Secretary of State or the Local Authority. The review may request boundary changes, including the abolition of a local government area (i.e. a Council area) and the setup of a new council area. This procedure can be used to merge two district councils (this is a different process from the Boundary Commissions regular electoral review of ward boundaries).</p> <p>Section 15 of the Cities & Local Government Devolution Act 2016 sets out a more expedited process for review of local authority areas and councillor numbers. Under this process, the request for a merger can be put directly to the Secretary of State (as opposed to the Boundary Commission). Proposals for the size of the new Council (i.e. number of Councillors) can also be put to the Secretary of State directly, with the Boundary Commission having a more restricted role developing new boundaries for the new Council.</p> <p>Discussions with DCLG have confirmed that the Councils would need to submit, directly to the Secretary of State, a formal proposal for merger and the formation of a new Council under the 2016 Act, but the procedure would also require a modification of the 2007 Act. This means in practice, that the Government needs, therefore, to make two sets of regulations (which need to be debated in Parliament) before it can make an Order setting up the new single Council.</p> <p>DCLG has also set out 5 key principles that it expects the Council to address in its proposals: Improved local public services</p> <ul style="list-style-type: none"> • Greater value for money • Stronger local leadership at a strategic and local level

		<ul style="list-style-type: none"> • Significant cost savings • A sustainable future in the medium to longer term <p>These principles have been addressed in the Proposal document.</p> <p>Only full Council can agree submit a proposal for a single council and a further report will be brought back to the Council in the Autumn seeking this agreement.</p> <p>A public referendum is not required to form a new Council or to increase Council Tax by more than the current £5 / 1.99% through the equalisation of council tax process.</p>
Financial	Y	<p>If the proposal is approved, the implementation costs could either be paid for from each Councils' Unearmarked Reserves, or funded from the savings which occur from 2020-21 onwards. These costs would be split 50%/50%.</p> <p>The table above shows that by 2020/21, the net income position is £503,000 for the Single Council and this rises to £1.507 million by 2021/2022 (using Option 2 for equalisation of council tax over 5 years for illustrative purposes). By Year three (2022/23) the net income raised is £2.009 million and then this increases to £2.524 million by Year 5</p> <p>The Single Council option is an option being considered by the Joint Steering Group which is one of two options which is the most likely to achieve financial stability for both Councils. The other option is the commercial investment strategy (property acquisition strategy). Neither of these options will meet the immediate budget deficit for 2018/19 so the Council will also need to consider some other short term solutions through the budget setting process this year.</p> <p>The options for equalisation of council tax are shown in Appendix E</p> <p>Under a five year equalisation period (Option 2 of the Appendix E), West Devon residents would see an increase in their Band D Council Tax of £5 per year for 5 years. The current West Devon Band D is £218.39 for 2017/18. Please refer to the table in 3.10 as to how this will affect other bands.</p> <p>The financial implications of the Asset Strategy are shown in Appendix D. A single Council would enable the assets of both Councils to be combined (£25 million West Devon and £75 million South Hams). No figures for savings have yet been modelled into the proposal.</p>

Risk	Y	<p><i>One partner does not agree to Single Council Proposal and a reputation risk if Government intervention is necessary:</i> if one Partner Council does not agree then there is a significant risk that the Council will not attain financial sustainability as a combination of measures are required. If there is Government intervention then this will have a reputational risk for the Council, and have adverse financial impact and limit the control of the Council in relation to its own future.</p> <p><i>Not meeting the timetable for submission:</i> if the Council has not agreed to submit proposals to the DCLG by the Autumn it is likely that there will be no parliamentary time to consider such proposals during the current parliament which will mean that the Council may not achieve the financial sustainability it needs. A timetable has been drafted to ensure that the Council submits the proposal in time for DCLG consideration.</p> <p><i>Not accepting the proposal and delays at DCLG:</i> whilst we have received strong indications that the DCLG supports proposals for single councils between two or more authorities, there is no guarantee that the DCLG will accept the proposal and issue the appropriate regulations to enable us to proceed. If there are delays in the timetable by the DCLG then it is likely that the regulations would not be made in the summer of 2018. Delays after this are likely to mean that there is insufficient parliamentary time to consider proposals for a single council until during this parliament. This is outside the control of the Council.</p> <p><i>Customer remoteness from Council Offices:</i> there would be no immediate changes to the office locations however a priority for the new Council would be to develop its asset strategy and consider locations for service delivery. Although the Council will continue to enhance its digital and online access routes, local presence will be important. The Locality Team will play a critical part in ensuring a presence across the area.</p> <p><i>Expected financial benefits are not realised:</i> The savings identified in this report are considered to be robust. Where savings or increased income are likely but not quantifiable, these figures have not been included in the calculations. Delivering services through one Council may also provide future opportunity to consider how services are delivered across the new area – for example, aligning our Waste service across the area (South Hams currently in house West Devon Outsourced)</p> <p><i>Confusion for residents, businesses and partners during the implementation of the new council / Adverse response to consultation:</i> A detailed and extensive communications and engagement plan has been developed to ensure that</p>
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		<p>all stakeholders are clear on the changes. From the point of decision by DCLG, we would have 18 months to implement the new Council to be ready by 1st April 2020, during which we would communicate through a number of channels.</p> <p><i>Uncertainty around future external environment:</i> Having recently concluded a general election and now entering into Brexit negotiations, Local Government is still in a period of uncertainty however our Medium Term Financial Strategy sets out clearly the financial positions for both Councils and action needs to be taken to ensure future sustainability of services. A single new council will have greater resources available to it and will therefore be more resilient and more able to adapt to future challenges.</p> <p><i>Political change and conflict between the Councils:</i> Councils are political organisations and the current Partnership between the two councils carries significant risk to its sustainability in the event of conflict arising in the event of political change, or through conflict arising between the Councils. This risk could result in the breakup of the partnership arrangement and the loss of the shared services savings to date, causing intolerable financial pressure for both Councils and this risk would be mitigated by the creation of a single Council.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity		<p>There will be extensive publicity and engagement with our customers and stakeholders during the consultation and any future phases. There will be no impact on the day to day delivery of council services.</p> <p>The Council Tax equalisation will have a greater impact on South Hams residents.</p> <p>Staff will be kept updated throughout and would TUPE into new Council, carrying out the same roles as they do now.</p> <p>A Boundary Commission review would be concluded before the formation of the new Council on 1st April 2020 (with the elections to the new Council being in May 2020) There will be one new governance structure and one Leader in the new Council.</p>
Safeguarding		None. No change to staff roles and their responsibilities.
Community Safety, Crime and Disorder		None. No change to staff roles and their responsibilities.
Health, Safety and Wellbeing		Staff – will be transferred into the new Council carrying out same role at same location. Consultation will continue with staff and unions through the TUPE process. HR will

		provide support and drop in sessions for anybody concerned by change. Jobs should remain safe, services protected through a sustainable future.
Other implications		Finance/Budgets – JSG funding has been provided to develop the option of setting up of a new Council. Procurement/Contracts – existing contracts would look to be novated across to the new Council with existing terms and as they expire, new contracts will be drawn up.

Supporting Information

Appendices:

- **Appendix A:** Proposal for the creation of a Single Council for South Hams and West Devon
- **Appendix B:** Consultation Document for the Proposal of a Single Council
- **Appendix C:** Timetable for submission of Single Council proposal (as circulated 24/07/2017)
- **Appendix D:** JSG Asset Strategy
- **Appendix E:** Equalisation of Council Tax options (as circulated 24/07/2017)
- ~~**Appendix F:** Evaluation of Council Tax Equalisation Options 5 and 5a~~

Background Papers:

Medium Term Financial Position for 2018/19