Agenda Item No:	8
Report To:	Cabinet
Date of Meeting:	9th February 2017
Report Title:	An independent business case to examine the feasibility of establishing a new single council in East Kent.
Report Author & Job Title:	Tracey Kerly Chief Executive
Portfolio Holder Portfolio Holder for:	Cllr G D Clarkson Leader of the Council

Summary: In July last year, this Cabinet approved a Statement of Intent to explore a potential merger of the five East Kent district councils. As a result of this a business case was jointly commissioned to examine the advantages, disadvantages and feasibility of forming a single East Kent district council. This report is the culmination of that work and a recommendation needs to be made by Cabinet to Full Council as to the decision to proceed or otherwise.

Key Decision:	YES
Significantly Affected Wards:	All potentially

Recommendations: **The Cabinet recommends that the Council:**

I. **Notes the potential implications of the business case, as measured against the council's current financial position and its long-term vision to become more commercially-minded and self-sufficient from central government funding.**

II. **Based on the content of the business case, the Council does not pursue a merger with the other four East Kent district councils.**

III. **Agrees to retain sufficient flexibility to enable ABC to work with other authorities and partners throughout Kent and outside the county.**

IV. **Authorises the Chief Executive, in consultation with the Leader of the Council and Directors, to agree a Memorandum of Understanding as a basis for Ashford's future working relationship with a new single council.**

Policy Overview:	In line with Cabinet's agreed aim to provide value-for-money in its service and business delivery the recommendation is not to proceed with any further discussions with the four East Kent councils
Financial Implications:	In line with the Council's wish to remain the lowest taxing authority in Kent the recommendation is not to take this forward
Legal Implications	There are no legal implications arising from the recommendation to retain the Council's independent status.
Equalities Impact Assessment	Attached
Exempt from Publication:	**NO**
Background Papers:	**East Kent Districts: A Business Case for the potential creation of a single council from the five East Kent districts**
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Agenda Item No. 8

Report Title: An independent business case to examine the feasibility of establishing a new single council in East Kent

Introduction and Background

1. In July last year Cabinet approved a Statement of Intent to explore a potential merger of the five East Kent district councils. Those five Authorities – Ashford, Canterbury, Dover, Shepway and Thanet – jointly commissioned the production of a business case to examine the advantages, disadvantages and potential mechanisms for a merger.

2. Led by consultants Local Partnerships with the Local Government Association (LGA), all five councils have contributed information to the business plan. The report sets out a business case for establishing a single new council in East Kent, comprising the five districts.

3. Local government currently faces significant financial pressures and the exploration of a merger was deemed to be the next logical stage in trying to provide a stable and sustainable long-term solution to those pressures.

4. Sharing of services between various combinations of councils within Kent already exists and initial consideration was given to providing a wider range of shared services, or having a single staffing structure to serve all five councils.

Development of a Merged Business Case

5. It was identified at an early stage, however, that the savings to be achieved in additional shared services would be "considerably less than could be achieved through a merger" and even a single staffing structure would still have a significant resource requirement "to support the political machinery of five autonomous councils"[1]. It was therefore agreed that exploration of a full merger would be a more worthwhile option.

6. These themes are covered in detail in the full business case (attached at Appendix A); however, early on in the process, each council's Leader and Chief Executive were asked for their 'red lines' – i.e. boundaries and deal breakers which could not be crossed – in achieving a single council.

7. Ashford's line, unsurprisingly, was maintaining the lowest council tax in Kent – a benefit to all the borough's residents that the Council was not prepared to lose.[2]

[1] Local Partnerships: EAST KENT DISTRICTS – A business case for the potential creation of a single council from the five East Kent districts p4
[2] ABC Media Statement January 2017

Ashford’s Medium Term Financial Plan

8. Before looking at the options provided within the business case, it is important to remember Ashford’s position in terms of the Medium Term Financial Plan, which is balanced over the next five years.

9. The table below is an extract from the business case showing ABC’s MTFP for the next five years.

	17/18 £000	18/19 £000	19/20 £000	20/21 £000	21/22 £000
Income	15,162	14,672	15,683	17,008	17,649
Expenditure	15,217	14,869	14,758	16,268	18,041
Savings Required	(55)	(197)	925	740	(392)

10. If ABC can sustain this ratio of income over expenditure, the MTFP is viable - both now and into the future.

Business Case Outputs

11. To understand the merits of the five-way business case, some of the projected outputs need to be set in context and their impacts understood.

12. The business case identified that £102m of savings (the total from the five East Kent authorities) are required for the period 2017-2025.

13. The anticipated savings of a five-way merger for this same period would be £56m, leaving a budget gap of £46m.

14. These figures assume that the new single council sets a Council Tax for Band D of £207.08 from merger. Under this regime, the taxpayers of Ashford would stand to see an increase of 38% over the current Band D charge; moreover, a tax at this level would not balance the new council’s budget … leaving it to decide whether further savings could be made or to set a higher level of Council Tax.

15. If the new council were to harmonise over a period of five years to the lowest Council Tax rate (Ashford’s), this would increase the budget gap of the new authority by £38m. So Ashford’s ‘red line’ is detrimental to the business case of a five-way merger.

16. The differences in the various areas’ Council Tax - ranging from Ashford at £150 p.a. at Band D equivalent in 2016/17 to Shepway at £232 p.a. - present difficulties in the business model, so harmonisation of council tax (over varying periods) across the five authority areas is presented as an option.

17. There are still questions on the statutory mechanism of harmonisation and the equitability issues that harmonisation would create but, even if it were possible, the outcome for Ashford's residents would be a range of increases in Council Tax – the largest one being a one-off increase of 29.5%.

18. The following paragraphs highlight one or two of the key points of interest from the attached business case.

The Benefits of Merger

19. The main argument supporting Ashford not joining a five-way council is, as we have seen, financial – and principally that affecting council tax.

20. Other issues raised in the business case include size providing greater resilience and economies of scale which it would do but, given our financial position, we would contend that many of these benefits would be more beneficially achieved for Ashford by sharing services – possibly more creatively and with a smarter use of technology – or by seizing opportunities for innovation and joint working.

21. One of the leading business case themes is the economic case, in terms of growth, regeneration and wider economic renewal, but at Ashford these are areas we have been focussing on and actively engaged in for some time now, and our achievements are starting to be seen through delivery of our Corporate Plan priority projects. In addition, Ashford's job growth has been consistently high, showing a 47% increase since 1997. We acknowledge, however, that there is always room for further growth and we would welcome the opportunity to explore mutually beneficial opportunities with the single council if the four councils vote for a single authority.

22. Ashford has also benefited substantially through both SELEP, with a substantive amount of the LEP funding coming to the borough, and through New Homes Bonus (reflecting what's been built in the borough already). Our planned future agenda continues in this vein where we think Ashford can be confident on a 'broader stage' – but joint approaches to substantial infrastructure projects may well be of benefit to the wider area in the future.

23. Finally, although a single local plan is highlighted as one of the possible benefits of merger, there are already statutory requirements around the duty to co-operate and we would maintain that planning processes and outcomes are being mutually improved around plan making and planning issues spanning local authority boundaries, and we hope this would continue with the development of a single authority.

Projected Savings

24. Part 4 of the business case gives the financial detail, where £8.7m p.a. (in today's prices) could be saved through a five-way merger – mainly through staff and management cost savings.

25. Modelled to 2024/25, the cumulative projected savings would be £56 million[3].

26. It is assumed that the remaining savings requirement will be delivered through a combination of pre-merger savings and service transformation initiatives. At this stage the known impact that this level of savings and transformation would have on the services and service standards delivered by the new authority is not fully understood.

Other Consequences

27. The main consequence to Ashford and its residents of a merger would be the lack of savings that Ashford would achieve – and the concomitant requirement that Ashford would raise its council tax.

28. There are, however, some other outcomes that have been predicted which would arise as a result of a five-way East Kent council. One of these issues is the 'democratic deficit': the requirement that the number of councillors representing constituents would have to be reduced in order to cut democratic costs.

Other Options Considered

29. With the thought that Ashford might not proceed, the remaining four East Kent councils are considering a four-way merger to see what could be achieved via this means.

30. ABC, however, needs to be clear about its 'drivers' and their resulting options. The Council's current financial position is strong; we have a clear Medium Term Financial Plan in place and a vision to continue our evolution into becoming more commercially minded and independent of central government funding. Merging, for Ashford, would not provide savings; but we have not ruled out exploring further opportunities to work more closely or to share services with East Kent or other authorities in the future.

Conclusion

31. Ashford's position – partly because of its low council tax level – is not really comparable with the four other East Kent authorities in terms of council tax levels and savings requirements.

32. Because of its low council tax - and other factors highlighted in the report - it is important to note that a five-way merger into a single council would benefit neither Ashford nor its neighbouring councils.

33. It is important to note, however, that Ashford will be seeking to participate in economic partnerships etc., and we have made it clear that we will still want to be involved and play an active part in the East Kent Regeneration Board and other East Kent partnerships.

[3] Local partnerships: EAST KENT DISTRICTS - A business case for the potential creation of a single council from the five East Kent districts p45

34. To this end, a Memorandum of Understanding is being composed which, if a single council for the four remaining East Kent districts is pursued, will be considered.

Portfolio Holder's Views

35. As Portfolio Holder, I should like to comment as follows:

In the light of the Government's devolution agenda, financial challenges facing local government, and the opportunity to drive improvements, it was only right and proper that we thoroughly examined the idea of a potential merger, and we entered the process with an open mind.

We, at Ashford, following the conclusions drawn from the business case, have decided to make the recommendation to withdraw from any further discussions at this stage to allow the other parties the opportunity to progress discussions on the potential of a four-way East Kent single council.

We do, however, wish to retain – and possibly build upon in the future – our close working relationships and develop any options that could be of mutual benefit.

We wish Canterbury, Dover, Shepway and Thanet well in their pursuit of a single council at district level.

G D Clarkson
Leader of the Council

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Gerry D Clarkson, Leader
Ashford Borough Council

Equality Impact Assessment

Date of initial assessment	01/12/2016 – Initial EIA screening
Service	Thanet District Council Canterbury City Council Shepway District Council Dover District Council Ashford Borough Council
Proposal to be assessed	A business case for the potential creation of a single East Kent council
New or existing policy or function?	New
External (i.e. public-facing) or internal?	External
Lead officer	Madeline Homer — Chief Executive — Thanet District Council Colin Carmichael — Chief Executive — Canterbury City Council Alistair Stewart — Chief Executive — Shepway District Council Nadeem Aziz — Chief Executive — Dover District Council Tracey Kerly — Chief Executive — Ashford Borough Council

Please outline your proposal, including: • Aims and objectives • Key actions • Expected outcomes • Who will be affected and how • How many people will be affected	**Summary:** The Leaders of Ashford, Canterbury, Dover, Shepway and Thanet District Councils have undertaken a series of discussions to examine options for closer collaboration, leading to a shared view that a merger of the five East Kent districts merits further serious consideration. The Statement of Intent confirmed the Leaders' thinking on the purpose of a merger and the principles that would underpin evaluation of the business case. The creation of a new unitary council for East Kent is not under consideration. In response to financial challenges facing local government and the opportunity to drive improvements and growth in the East Kent area, during the summer of 2016 the five East Kent councils gave approval, based on the Statement of Intent, to explore the advantages and disadvantages of a merger of the five East Kent District Councils of: • Ashford; • Canterbury; • Dover; • Shepway; • Thanet; • and to also examine how a single district council could operate. The East Kent districts already have a well-established track record of collaboration and sharing services, which reflects a similar approach to delivery; for example: • East Kent Services (EKS) provides 'back-office' functions (such as HR and payroll) as well as customer contact and revenues and benefits (Canterbury, Dover and Thanet). • East Kent Housing (EKH), an arm's length organisation, provides services to Canterbury, Dover, Shepway and Thanet. • East Kent Audit Partnership, which is an in house shared service, supports Canterbury, Dover, Shepway and Thanet. • The East Kent Engineering Partnership involving Canterbury City Council, Thanet DC, Dover DC and Shepway DC. • East Kent Spatial Development Company (EKSDC), which was set up as an infrastructure, delivery and regeneration organisation to bring forward employment land where viability was an issue and/or there was a lack of private sector interest. **Aims and Objectives:** There is provisional evidence to suggest that creating an East Kent district could deliver savings as well as reinforcing the ability of local Government to provide better outcomes for the residents, businesses and visitors to the area. Historically, East Kent has worked well collaboratively on such issues and the work sought to build on these relationships for the benefits of our communities. With the aim to deliver:

- A more effective local government that is lean and commercial in its approach;
- A reduction in the numbers of different management structures;
- Clarification of governance for clear decision for each level of powers;
- Upwards and downwards devolution of services in order to achieve best fit and most logical and effective outcomes.

The proposal aims to explore the benefits and savings that could be achieved through the establishment of a single East Kent district authority.

Expected Outcomes:

To be confirmed after public engagement commencing in March 2017

Who will be affected and how?

At this stage very high level information is known, for example:

- All residents living in the five districts
- All staff employed by the five councils
- All staff employed by organisations commissioned to carry out services/functions on their behalf by one (or more) of the five councils.
- All Elected Members in the five districts

Impacts against the relevant protected characteristics are not known at this stage.

How many people will be affected?

The total population of the East Kent districts (five councils) was 647,300 in 2015 and expected to rise to 690,800 by 2021. The impacts could possibly be further reaching than this.

The council tax support scheme changes were the subject of an extensive Equalities Impact Assessment . Dover District Council and Canterbury City Council have very similar schemes to Thanet District Council, but Shepway District Council is different. If the schemes need to be merged (as well as any possible harmonisation of council tax itself), there could be an uneven effect on some of the (working age) population. Details at this stage are unknown.

What relevant data or information is currently available about the customers who may use this service or could be affected? Please give details; for example "x% of customers are female" or "x% of customers are aged over 60"

Demographic data:

Population mid-year estimates, 2015		KCC Population forecast 2021
Ashford	124,300	137,700
Canterbury	160,000	171,200
Dover	113,200	121,400
Shepway	110,000	113,700
Thanet	139,800	146,800
Total East Kent population	647,300	690,800

	All East Kent districts have identified significant common demographical challenges: • An ageing population: for example, in Canterbury, compared to the rest of England, the district has fewer people in their 30s, 40s, and 50s but a higher proportion of people over the age of 65. In 2013 about one in five residents were over 65; this is estimated to increase to one in four by 2031. All five districts face similar challenges. • Areas of multiple deprivation: for example, Thanet remains Kent's most deprived local authority district in the Index of Multiple Deprivation (IMD) 2015. Nationally, Thanet is ranked at 21 out of 326 authorities, placing it within England's 10% most deprived authorities. There are similar issues in other coastal towns such as Folkestone and Dover, and Canterbury district has ten areas that rank in the top 20% most deprived areas in England. Overall, the East Kent economy has performed relatively well compared to the rest of Kent and the South East, with particularly strong performances in Ashford and Canterbury and Dover showing the least strong. Overall, in common with much of the rest of the South East, East Kent has seen population growth, particularly of working age people. East Kent exports significant labour outside the region, particularly to London. Notably, there is also a relatively high degree of 'self-containment', with Ashford and Canterbury providing employment to the coastal districts. The types of employment currently available across the five districts are slightly different and complementary. For example, Ashford has more information / communications, wholesale retail and transport than the East Kent average, whereas, Dover has more accommodation, food services and recreation. In terms of housing, completion rates have started to recover after the 2008 credit crunch, with particular pressure points in Ashford and Canterbury in terms of affordability.

Is the decision relevant to the aims of the Public Sector Equality Duty, which are listed below? Guidance on the aims can be found in the EHRC's [PSED Technical Guidance]		
Aim	Yes/No	Explanation
Eliminate discrimination, harassment and victimisation	Yes	Should the merger go ahead there could be opportunities to achieve this aim that should not be missed. **Staff** The Business Case covers the workforce for each of the East Kent Councils which will, by the nature of the organisations, include individuals who are covered by one or more of the full range of

		protected characteristics, as defined within the Equalities Act 2010. Currently no significant detrimental impacts have been identified which cannot be readily mitigated through existing HR policies, enhancements to existing policies and protocols. If the decision outcome is to proceed with the creation of a new single East Kent district council, there could be some potential inequalities which may stem from the merger proposals if not proactively addressed.
Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it	Yes	Should the merger go ahead the potential for consistency across the district and therefore advancement of equality of opportunity should be enhanced.
Foster good relations between persons who share a relevant protected characteristic and persons who do not share it	Yes	Should the merger go ahead the potential for consistency across the district and therefore there could be opportunities to foster good relations which should not be missed

Assess the relevance of the proposal to people with different protected characteristics, and assess the impact of the proposal on people with different protected characteristics.			
Protected characteristic	Relevance to proposal **High/Medium/Low/None**	Impact of proposal **Positive/Neutral/Negative**	Explanation
Age			Unknown at this stage
Disability			Unknown at this stage
Gender reassignment			Unknown at this stage
Marriage and civil partnership			Unknown at this stage
Pregnancy and maternity			Unknown at this stage
Race			Unknown at this stage
Religion or belief			Unknown at this stage
Sex			Unknown at this stage
Sexual orientation			Unknown at this stage
Other groups: for example – low income/ people living in			Unknown at this stage

rural areas/ single parents/ carers and the cared for/ past offenders/ long-term unemployed/ housebound/ history of domestic abuse/ people who don't speak English as a first language/ People without computer access etc.			

Are you going to make any changes to your proposal as a result of these findings, in order to mitigate any potential negative impacts identified?	Following a period of public engagement more information about how a potential East Kent merger will affect people with or without a protected characteristic will be collected and the Equality Impact Assessment will be updated with new information.
Is there any potential negative impact which cannot be minimised or removed? If so, can it be justified?	None identified at this stage. This will be reviewed following a period of public engagement

What additional information would increase your understanding about the potential impact of this proposal?	Separate conversations have continued to take place across the whole of Kent on the possibility of making a bid to Government for the devolution of powers and funding from Government to the public sector in Kent. The East Kent district councils, whilst being party to these discussions are also keen to build on the economic and social cohesion of the area of East Kent. In response to this, the districts have been engaging in further complimentary activity with the county, to explore devolution options around; Highways, Public Health and Community Safety. Strategically, a single East Kent district could enable the development of strong, strategic leadership at all levels throughout East Kent, offering economies of scale, greater resilience and the capacity and capability to further enhance and improve the value for money and quality of the services delivered, placing East Kent in a stronger position as the discussions progress.

	Information regarding the potential impact on people during a period of public engagement will also inform the EIA.

Next stage:

Date of revised assessment	Click here to enter a date.
Have you made any changes to your initial assessment?	
Did you undertake consultation? **– if yes, give date and the consultation results:**	If a decision is taken to progress, the councils will carry out a programme of public and stakeholder engagement.
Do you have new information which reveals any difference in views across the protected characteristics?	
Can any new conclusions be drawn as to how the proposal will affect people with different protected characteristics?	
Are you going to make any changes to your proposal as a result of these findings, in order to mitigate any potential negative impacts identified?	
Is there any potential negative impact which cannot be minimised or removed? If so, can it be justified?	

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EAST KENT DISTRICTS

A business case for the potential creation of a single council from the five East Kent districts

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Introduction

This report sets out a business case for establishing a single new council in East Kent comprising the current five individual districts – Ashford Borough Council, Canterbury City Council, Dover District Council, Shepway District Council and Thanet District Council.

Background and Options Considered

The five districts in East Kent all face significant financial pressures and have been exploring joint initiatives to provide a stable and sustainable
long-term solution for the locality. They already have a track record of collaboration and have considered whether greater sharing of services could be the preferred solution for providing financial sustainability. Indeed, further sharing of services remains a viable option if this business case for a merger is not taken forward. Options could include one council delivering a function on behalf of the others, or East Kent Services (EKS - a shared 'back-office' function between Canterbury, Dover and Thanet) providing a wider range of shared services on behalf of all five councils. As an alternative, a single staffing structure could be established to serve all the councils. These are fundamentally different approaches, but both are credible alternatives to a merger. However, when compared to the option of a formal merger these options are considered to be sub-optimal for a number of reasons described below:

- the projected staffing savings for one council delivering a function on behalf of the others, or an extension of EKS, would be considerably less than could be achieved through a merger, as the current senior management costs for each council would not be significantly impacted
- if a single staffing structure could be established to serve all the councils there would still be the significant resource requirement to support the political machinery of five autonomous councils
- any shared service arrangement would lose the benefits of 'speaking with one voice' on important issues
- shared arrangements may not be as stable as a merged council because there always remains the potential for them to be reversed

Therefore, this business explores the implications and opportunities of a full merger of the five districts.

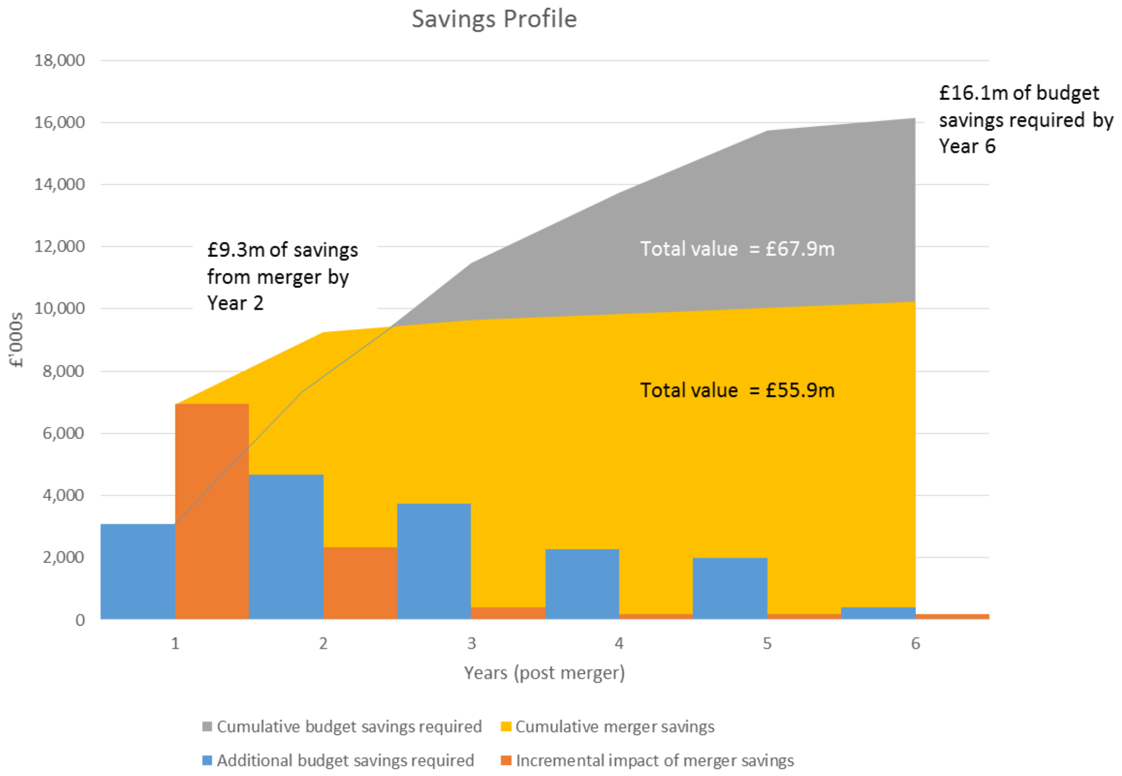
Approach

This business case uses a HM Treasury five case model considering the case for change through a number of different perspectives, which are described below.

The Financial and Commercial Cases

Under the current arrangements for local government finance, long term estimates for major income streams such as Business Rates and New Homes Bonus are difficult to predict. In projecting the baseline budget position for the five districts, significant assumptions have had to be made about key variables such as expenditure growth and government funding. Under a prudent scenario agreed with the councils' Section 151 officers, the combined savings that would need to be identified by 2024/25, if the five districts continued to operate individually, are estimated to be £21.0m[1], with £4.9m of these required prior to merger.

Of the remaining £16.1m, this business case identifies c. £9.3[2]m of savings that could be achieved within two years of merging, largely made up of staff savings through structural changes and some consolidation of services. The graph below illustrates how the profile of savings required and savings identified relate to each other.



These savings are considered to be at the lower end of what could ultimately be delivered through merger. If, like others, the new council takes the opportunity of merger to transform services, it is estimated that a further additional 50%, i.e. £4m - £5m, of savings could be delivered per annum.

In order to deliver a new merged council, there will be one-off transition costs that are estimated to be c. £8.3m[3] in today's prices (2016/17), covering, for example, redundancy costs, harmonisation of technology, communications and engagement, etc.

The new council would also need to determine a single rate of council tax for the new merged district. The current range of rates across the five existing districts is large. In engaging with DCLG to develop this business case, a senior DCLG civil servant, has made it clear that a new council would have a variety of options in determining its preferred approach to harmonising council tax. The proposed approach would be agreed in advance with DCLG and set out in the statutory order required to establish the new council.

[1] An alternative, more pessimistic scenario, is illustrated in section 4 - Financial Case; this projects a combined savings requirement by 2024/25 of £30.4m.

[2] This differs to the £8.7m in Table 11 as a result of inflation.

[3] The value of £8.704m in the table overleaf has been adjusted for inflation.

Harmonising to the highest rate would involve significant increases for some existing districts which is likely to be politically unacceptable. This business case models three possible approaches to council tax harmonisation:

A) harmonisation to the lowest rate over five years

B) harmonisation to the average rate over five years

C) harmonisation to the average rate in Year 1

Drawing on the points above, the table and subsequent paragraphs below summarise the financial case for a merger.

	A		B		C	
	Harmonise to the lowest rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at Year 1 (2019/20)	
Period	(2017/18 - 2024/25)		(2017/18 - 2024/25)		(2017/18 - 2024/25)	
Option	**As-Is**	**Single District**	**As-Is**	**Single District**	**As-Is**	**Single District**
	Cumulative (£'000s)		Cumulative (£'000s)		Cumulative (£'000s)	
Value of cash to be saved by 31 March 2025	(102,189)	(102,189)	(102,189)	(102,189)	(102,189)	(102,189)
Less impact of savings to be made pre-merger	*34,279*	*34,279*	*34,279*	*34,279*	*34,279*	*34,279*
Cash to be saved post-merger	(67,910)	(67,910)	(67,910)	(67,910)	(67,910)	(67,910)
Savings generated by merging	0	55,946	0	55,946	0	55,946
Sub-Total	**(67,910)**	**(11,964)**	**(67,910)**	**(11,964)**	**(67,910)**	**(11,964)**
Merger savings as a % of total requirement	0%	82%	0%	82%	0%	82%
Add:						
Costs of merging						
Transition Costs	0	(8,704)	0	(8,704)	0	(8,704)
Council Tax Loss	0	(37,863)	0	(830)	0	(54)
Risk adjustment	0	(3,475)	0	(3,475)	0	(3,475)
	0	**(50,041)**	**0**	**(13,008)**	**0**	**(12,232)**
Balance of savings to be identified	**(67,910)**	**(62,005)**	**(67,910)**	**(24,972)**	**(67,910)**	**(24,196)**
Balance of savings to be identified (%)	100%	91%	100%	37%	100%	36%
Balance of savings identified (%)	0%	9%	0%	63%	0%	64%

It can therefore be concluded that:

- the merger of the five district councils is an action that has the potential to make a significant contribution to the savings required over the six year period to 2024/25
- the impact of savings on the annual budget of the new authority should pay back the estimated transition costs in a little over a year
- once the merger is implemented and the reductions in operating costs achieved, the changes will have eliminated £8.7m, in 2016/17 prices, of annual expenditure from budgets which represents c.11% of the current combined net revenue expenditure of the five districts. The extent to which this saving benefit resides within the council or is transferred to residents, depends upon the choice of approach to harmonising council tax rates

It is likely that the new council would want to transform the services it inherits and leverage its scale, once it has been created, and additional savings of up to 5% of overall expenditure should be achievable based on research of other merger authorities. This would equate to between £4m and £5m savings per annum over and above those identified in the table above[4].

Other Aspects of the Business Case for Creation of a New Council

Whilst important, the financial and commercial positions are only two aspects of the case for change. The other aspects explored in this report are summarised below.

Strategic Case

In strategic terms, a single East Kent district makes sense. It enables the development of strong, strategic leadership at all levels throughout East Kent, offers economies of scale, greater resilience and the capacity and capability to further enhance and improve the value for money and quality of the services delivered.

A merged organisation would also be able to offer greater value for money and consistency of approach, particularly for customers operating across different districts, for example in the areas of planning, licensing and environmental health requests.

Whilst the new council would not be a unitary authority, in considering the option(s), a merged council opens up the possibility of devolution at two levels:

- Firstly, from the County to the new district. Engagement with Kent CC is ongoing, exploring areas such as aspects of operational highways maintenance (for example, street furniture and verge cutting), public health and community safety
- Secondly, from the new district to town and parish councils. For example, aspects of services that are best dealt with at a local level such as public conveniences, open spaces and local assets such as community centres. Again, consideration of the extent and nature of 'downward' devolution is ongoing

There remain important decisions to be made as to the precise nature this devolution would take and any cost implications, including the potential for such an approach to reduce the economies of scale which can be derived from a merger.

There is, therefore, potential for East Kent to achieve an optimum balance of strong, strategic leadership and local responsiveness through mechanisms such as devolution of services and decision making to Town and parish councils. In the process of developing this business case, a range of stakeholders have been engaged across the East Kent area and it is clear that there is broad support for the principle of creating a new council subject to further detail being provided in due course. The business community, in particular, strongly recognises the ability of a single district to take a strategic lead for the whole region, speaking with a louder voice on issues such as transport and planning (engaging with South East Local Enterprise Partnership (SELEP) and Kent Country Council, Highways England (HE), Network Rail (NR) and others) and skills (engaging with Department for Education (DfE), Department for Business, Energy & Industrial Strategy (BEIS)etc.). The new, larger, council should create opportunities to have greater influence with these organisations, securing more funding from both private and public sector sources.

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[4] For the avoidance of doubt, the savings and transition costs modelled and appraised within this business case solely concern the restructuring of the existing five district councils. The business case does not investigate the transformation potential of a single district as this will be for the new entity and its Members to determine.

Economic Case

In economic terms a single, larger district would have the scale to operate and deliver economic outcomes more effectively. East Kent's growing coherence as an economic unit provides the scope to better exploit the synergies between the different constituent areas and this can be better achieved through merger than through collaboration between existing districts.

All districts recognise that future funding of local government will be increasingly dependent on economic performance. The opportunities for a single new council include:

- **Creating a single political vision:** with the benefits to potential investors and partners of greater certainty (for example captured in a single local plan)
- **Creating a new council that fits with the underlying functional economic geography of the area:** providing greater capacity and capability (a single team). In addition, a larger authority is likely to have greater scale to borrow and increase investment in priority areas
- **Promotion of housing growth –** for example by scaling-up as a single team with greater capacity and capability to increase the quantity of new housing and the speed of delivery
- **Development of infrastructure** - supported by a coherent and costed plan that would provide increased certainty to potential developers. This should help create a productive investment environment which should feed through over time into increasing local revenue sources for the new council, particularly via business rates
- **Supporting coastal communities** - for example, by promoting increased tourism through a co-ordinated and complementary offer across the area
- **Developing a cultural 'offer'** that leverages East Kent's considerable existing assets and attractions
- **Exploring income generation opportunities** - through a co-ordinated East Kent-wide approach rather than through competition between the existing districts
- **Promoting complementary specialisms** in different areas of East Kent (for example by expanding Higher Education facilities beyond Canterbury)

Management Case

Moving five districts into one would be the most ambitious yet tackled by district councils and the associated transformational and culture change would represent a major programme of work requiring careful management of a number of inter-related areas:

- **Programme and Project Management** - dedicated resources, using proven programme and project management methodologies
- **Governance** - Member and Officer led governance arrangements. This would include a Steering Group / Implementation Executive who would provide strategic and political leadership for the overall programme to create a new council and a Programme Board responsible for the delivery of benefits
- **Finance –** dedicated work-streams to deal with issues such as staff, assets, and liabilities transfer as well as budget amalgamation
- **People –** dedicated work-streams to prepare new staffing structures, recruit new posts and to plan for pay and conditions harmonisation

- **Stakeholder Engagement** - a comprehensive Stakeholder Engagement strategy and plan for the duration or the transition period
- **Risk Management** – an approach to identify and mitigate risks as early as possible

The actions would also need to take account of the key milestones for progressing with a merger:

- each council to agree whether or not to proceed with business case – 22nd March 2017
- Secretary of State approval - Autumn 2017
- new council legally takes effect (Vesting Day) – April 2019
- elections to the new council – May 2019

Summary

In summary, creating a single new council is an ambitious but logical next step of the type that central government been supportive of elsewhere, and has the potential to provide a stable and sustainable long-term solution for East Kent.

INTRODUCTION

This business case explores the opportunities and challenges of establishing a single new council in East Kent comprising the current five individual districts – Ashford Borough Council, Canterbury City Council, Dover District Council, Shepway District Council and Thanet District Council.

The approach adopted is an adaptation of the HM Treasury 'Green Book' Guidance for Business Cases, which is made up of five separate elements. In each section, the opportunities and challenges of a single new council are considered against the current position of the five individual districts. The five elements are:

1. the strategic case: covering the vision and strategic ambitions for the area
2. the economic case: covering growth, regeneration and wider economic renewal
3. the commercial case: setting out the rationale for the values modelled within the financial case
4. the financial case: establishing the value for money and affordability of the proposals
5. the management case: exploring the way in which the new council might be delivered.

1. STRATEGIC CASE

1.1 Introduction

This section of the business case considers the strategic aspects of establishing a single district council and whether the opportunities offered are greater than those available to the five individual districts continuing to remain separate. It explores the implications and opportunities for better delivery of the desired ambitions of the five councils.

1.2 Background and Options Considered

Local government is under significant pressure; resources are scarce, yet demand is rising through population growth and demographic changes. Many councils are considering options they have not looked at previously, to help with reducing finances and to increase capacity: all councils are struggling to some extent and in different ways. The East Kent districts are no exception to this general rule and, in response to earlier financial challenges, believe that the status quo is not an option.

The East Kent districts already have a well-established track record of collaboration and sharing services, which reflects a similar approach to delivery; for example:

- East Kent Services (EKS) provides ICT, HR, payroll, customer contact and revenues and benefits services (Canterbury, Dover and Thanet)
- East Kent Housing (EKH), an arm's length organisation, provides housing services to Canterbury, Dover, Shepway and Thanet
- East Kent Audit Partnership, supports Canterbury, Dover, Shepway and Thanet
- The East Kent Engineering Partnership involving Canterbury, Thanet, Dover and Shepway
- East Kent Spatial Development Company (EKSDC), which was set up as an infrastructure, delivery and regeneration organisation to bring forward employment land where viability was an issue and/or there was a lack of private sector interest

In response to the significant challenges that they face, the five East Kent districts - Ashford, Canterbury, Dover, Shepway and Thanet – have been considering options that can provide a long-term, sustainable solution. Two options have been explored; further extending the current shared services approach and a full merger of the five districts into a single new (district) council.

In the process of developing this business case, a range of stakeholders have been engaged across the East Kent area and it is clear that there is broad support for the principle of creating a single new council subject to further detail being provided in due course.

1.2.1 Potential to Extend the Current Arrangements

A high level analysis of the possibility of deepening and extending the current arrangements into a single shared management arrangement serving the five councils has been considered. There would be some advantages of such an arrangement; for example:

- the scale of the change needed is far less significant than a full merger and is therefore simpler to implement
- many of the transition costs identified in the case for full merger would not be incurred (for example on communication, member induction etc.)

Indeed, further sharing of services remains a viable option if this business case for a merger is not taken forward. Options could include one council delivering a function on behalf of the others, or EKS providing a wider range of shared services on behalf of all five councils. As an alternative a single staffing structure could be established to serve all the councils. These are fundamentally different approaches, but both are credible alternatives to a merger. However, when compared to the option of a formal merger these options are considered to be sub-optimal for a number of reasons:

- the projected staffing savings for one council delivering a function on behalf of the others, or an extension of EKS, would be considerably less than could be achieved through a merger, as the current senior management costs for each council would not be significantly impacted
- if a single staffing structure could be established to serve all the councils there would still be the significant resource requirement to support the political machinery of five autonomous councils. No other council has attempted this to date
- senior management would, therefore, have insufficient time to devote to the strategic support that is needed to achieve the significant, strategic ambitions for East Kent
- the benefits of speaking with one voice on important issues, if a single council were not created, would be more difficult to achieve. Officers and Members would, rightly, put the needs of their own communities and residents first. Therefore the collective will for all parties to act in the common interests of East Kent would be constrained
- any shared arrangement carries inherent uncertainty because shared services are always reversible with the risk of partners pulling out following a change of administration or as a result of serious disagreements. This could present significant challenges in relation to long-term planning and investment for the districts, and consequently would not give potential investors and partners the reassurance or certainty they would be seeking

For these reasons, the districts are exploring whether the creation of a new council provides the preferred route to long-term stability and sustainability.

1.2.2 The Strategic Advantages of Creating a New Council

The creation of a new council comprising the five East Kent districts is an ambitious but logical next step, building on the success and momentum of the current shared service arrangements. A merger also goes with the grain of central government public pronouncements and can provide a stable and sustainable long-term solution for the locality. A merged district would cover a large geographical area and in this case size matters; for example, providing economies of scale and a (single) strategic voice for East Kent, better able to put the case for the area with partners such as the South East Local Enterprise Partnership (SELEP), Kent County Council, Central Government and national agencies such as Highways England (HE), Network Rail (NR) and the Homes and Communities Agency (HCA).

A larger, more resilient district also provides opportunities for transformation of service delivery because of the greater scale and shared resources, providing lower cost, higher quality services for citizens.

The remainder of this business case therefore considers the merger of the five districts in detail.

1.3 Strategic Context

East Kent is increasingly being recognised as a distinctive, cohesive geographical and economic area. The leaders recognise the opportunity to build on that strength by exploring uniting as one district, recognising that this also has the potential to allow them to control their destiny. Their vision for the future is for:

A vibrant East Kent region that balances regeneration and growth with the many rural and cultural jewels within the area. Our residents will enjoy a good quality of life, with support available for those who most need it. We will maximise the potential of our built and natural environment and develop a diverse and thriving economy whilst being financially self-reliant.

This vision will be achieved through:

- improving economic development and growth
- stronger local leadership (and addressing the 'democratic deficit')
- building resilience and capability to meet growing service and quality expectations
- a constant focus on delivering value for money

1.4 Improving Economic Development and Growth (see also section 2 – Economic Case)

All East Kent districts have identified significant common challenges:

- an ageing population: for example, in Canterbury, compared to the rest of England, the district has fewer people in their 30s, 40s, and 50s but a higher proportion of people over the age of 65. In 2013 about one in five residents were over 65; this is estimated to increase to one in four by 2031. All five districts face similar challenges
- areas of multiple deprivation: for example, Thanet remains Kent's most deprived local authority district in the Index of Multiple Deprivation (IMD) 2015. Nationally, Thanet is ranked at 21 out of 326 authorities, placing it within England's 10% most deprived authorities. There are similar issues in other coastal towns such as Folkestone and Dover, and Canterbury district has ten areas that rank in the top 20% most deprived areas in England
- a need to improve economic performance, as measured through Gross Value Added (GVA), which is currently mixed across the sub-region and below that of the best districts in both Kent and the South East
- declining budgets and the need to operate more efficiently
- responding to increasing housing demand and costs
- the need for investment in growth and infrastructure projects
- improving education, skills and employment opportunities

- aligning and integrating across the wider public sector to collaborate more effectively with other public sector partners to better deliver desired strategic outcomes
- using technology more effectively
- responding to ongoing welfare reform

In summary, a new council would potentially be well placed to ensure that East Kent is in a favourable position to positively respond to all these challenges. For example, experience elsewhere indicates that merging delivery models brings increased resilience and enables more resource to be devoted to services/ functions which are judged to be strategically more important (see section 1.5 below for further consideration of the opportunities for increasing resilience).

In addition, the corporate plans for the East Kent districts identify a number of key high level priorities, many of which are common. These are summarised in Table 1 below, with a more detailed analysis included as Appendix A.

Driver	Focus	Councils
Economy	**Building the range and skill level of the borough's job offer**	**All**
Economy	**Growing business**	**All**
Economy	Town Centre Improvements	ABC / CCC / DDC / SDC
Economy	Increasing tourism spending	ABC / CCC / DDC / SDC
Economy	Supporting or pursuing Infrastructure developments	ABC / CCC / DDC
Economy	Attracting inward investment	ABC / DDC / TDC
Economy	Boosting the rural economy	ABC / CCC
Housing	**Meeting the needs of residents**	**All**
Housing	Housing supply	ABC / CCC / DDC / SDC
Housing	Planning process	ABC / CCC / DDC / SDC
Housing	Expanding home ownership	ABC / CCC / SDC / TDC
Place	**Open spaces**	**All**
Place	**District presentation**	**All**
Place	Leisure Offer	ABC / CCC / DDC
Place	Cultural Focus	ABC / CCC
Place	Heritage and Wildlife	CCC
People	Health and wellbeing	ABC / CCC / DDC / TDC
People	Community protection	CCC / DDC / SDC / TDC
Council governance	**Service standards**	**All**

Council governance	Grant funding plans	ABC / CCC / DDC / SDC
Council governance	Income generation	ABC / CCC / DDC / SDC
Council governance	Collaboration with other bodies	ABC / CCC / DDC / TDC
Council governance	Making savings	ABC / DDC / SDC
Council governance	Devolution/Community Engagement	DDC / SDC

(NOTE: ABC = Ashford Borough Council; DDC = Dover District Council; CCC = Canterbury City Council; SDC = Shepway District Council; and TDC = Thanet District Council)

Table 1: Summary of key common challenges across the East Kent districts

The bigger delivery area footprint would also offer a wider range of commercial opportunities; for example a merged building control function is likely to have the necessary scale to be able to be more commercially competitive. Commercialisation opportunities such as income generation are covered in more detail in section 2 – Economic Case.

1.5 Stronger Local Leadership

There is potential for East Kent to achieve an optimum balance of strong, strategic leadership through a single voice and local responsiveness through mechanisms such as devolution of services and decision making to local councils and areas. Devolution from Kent County Council to a merged East Kent Council and then from East Kent Council to Town and Parish Councils would facilitate decision-making and service delivery at the optimum level.

Furthermore, a larger organisation offers a greater opportunity to plan at a more strategic level and take advantage of growth opportunities at the East Kent scale, making linkages and collaborations more effectively. For example, such linkages might be on:

- a more integrated approach to transport and planning (with Kent County Council)
- education and employment opportunities across a wider area (with KCC, HE/FE partners, businesses etc.)
- strategies that would provide benefit to the whole East Kent area (for example, in relation to Housing Strategy, an East Kent Strategic Housing Market Assessment would fully reflect the local housing market)

Early engagement with the business community in the region (including the FE sector) indicates support for a single East Kent local plan, able to capitalise and leverage the greater scale of the new council. The coherence of the East Kent economic region (discussed further in section 2) should allow the elimination of any overlaps / duplication in current plans and a clear sense of where the sub-regional priorities lie.

The business community also strongly recognises the ability of a single district to take a strategic lead for the whole region, speaking with a louder voice on issues such as transport and planning (engaging with SELEP, HE, NR and others) and skills (engaging with DfE, BEIS etc.). The new – larger – council should create opportunities to have greater influence with organisations such as SELEP, securing more funding from both private and public sector sources.

It also offers the opportunity to develop a more strategic approach to areas such as external funding and communications. For example, a single integrated communications and marketing team could deliver campaigns more effectively on subjects that are universal across all the existing council district areas such as inward investment, litter, waste, council tax / benefits, getting online and community safety.

A larger single new council would be able to offer greater consistency of approach, particularly for customers operating across different districts for example in the areas of planning, licensing and environmental health requests.

Whilst the new council would not be a unitary authority, in considering the option(s), Leaders and Chief Executives are keen to explore the possibility of devolution at two levels:

- Firstly, from the County to the new district. Engagement with Kent CC is ongoing, exploring areas such as aspects of operational highways maintenance (for example, street furniture and verge cutting), public health and community safety.
- Secondly, from the new district to town and parish councils. For example, aspects of services that are best dealt with at a local level such as public conveniences, open spaces and local assets such as community centres.

Again, consideration of the extent and nature of 'downward' devolution is ongoing, including the potential for such an approach to undermine the economies of scale which can be derived from creating a new council.

While a new council will bring many opportunities in relation to stronger leadership, the East Kent councils have also recognised a need to ensure that decisions are taken at the right level to maximise engagement and empowerment of local communities.

There are 123 parish and town councils in East Kent. The districts of Ashford, Canterbury and Thanet are, however, not fully 'parished'. In Canterbury, the council engages with residents' associations and community organisations in unparished areas. These vary in their size and capacity from one area to another. A community governance review in Canterbury district is now overdue, although no date has yet been fixed. There are community forums in the unparished (urban) parts of Ashford which help facilitate community engagement and involvement. A recent community governance review concluded that two of the five community forum areas would be parished by 2019.

Discussions have commenced with representatives of parish and town councils across the area to seek their views on a potential merger, and to consider whether there may be opportunities to devolve functions and services from district to parish councils. A meeting convened by the Campaign for Democracy in Canterbury and the Canterbury Society also considered these matters. Feedback from both has informed the development of this section of the business case.

There are various approaches that East Kent could take if a new, merged council was formed, to seek to provide stronger, more effective local leadership, none of which are mutually exclusive: indeed, the more, the better. These options are informed by consideration of relevant experience from other councils in England. It is not the role of the LGA or Local Partnerships to recommend any individual approach to addressing these challenges, but to present a range of options for consideration. These are as follows:

a) **Support and develop members of the new council to understand and carry out their roles to the full, both as local community leaders and, where relevant, as strategic leaders for the whole place.**
Both the community and strategic leadership roles are essential to the council. For a new East Kent council to achieve the additional impact for the area in terms of economic growth that is envisaged, it would be critical that those members taking strategic leadership roles are appropriately supported. There is potential, discussed below, for enhanced mechanisms for engagement in local communities: whatever form this takes, it would be essential to support members to understand and fully implement their roles within these and in support of the council's wider objectives. Being a councillor in the new council may involve ways of working which are different from the status quo.

b) **Through engagement with parish and town councils, offer opportunities for local councils to:**
- **Build their capacity and capability**
- **Receive devolved functions and services and asset transfers, by mutual agreement: this includes the potential for local councils to request powers/ functions, and not simply to receive them**

It is important to stress that it is envisaged that any such devolution would take place on a voluntary basis: no local council would be forced to take on any services they did not wish to.

If this is done in a planned, supported way, it is to be expected that over time, a greater number and range of services could be devolved to local level - even more so if the council acts effectively and proactively as place-shaper. It would be beneficial to share the learning from local councils as and when services are devolved, for the benefit and encouragement of the remaining councils.

The new council would need to consider what support to offer to local councils to ensure the success of this approach. The council could either provide this direct or commission others (for example, KALC) to provide this support. The approach being proposed in Buckinghamshire in relation to the transfer of services and assets, with associated support, is a useful model. Support could also include promotion of the role of the local councillor, to encourage the involvement of a more diverse range of people.

c) **Encourage local councils to cluster together to build capacity and take more devolved responsibilities, by mutual agreement.**
This may aid the spread of devolution in areas where local councils are too small to be able to consider it alone.

d) **Subject to community governance reviews, support the establishment of parish/ town councils in areas currently unparished.**
Given the significant change involved in a move to a merged district council, the councils may wish to consider revisiting community governance reviews in places where they have already been held, to enable consideration of the changed circumstances.

e) **Identify and/or establish local councils which can play a strategic role in each area.**
There are examples from other areas where this has been identified as a useful way of building local capacity and focus. For example, Wiltshire have devolved significant responsibilities to Salisbury City Council, which did not exist prior to establishing the unitary authority in 2009. Salisbury currently employs 60 staff and delivers a range of services not far removed from the scale of a district council. Similarly, a town council is being established in Lowestoft following a community governance review, and in parallel

with consideration of plans for a merger between Suffolk Coastal and Waveney district councils.

f) **Establish Area Boards to provide a framework for decision making at local level.** This is an approach adopted in a number of recently established unitary councils, in order to 'bridge the gap' between the new council and local communities and ensure responsive, local governance. It aims to ensure a consistent approach across the whole place, irrespective of the strength or engagement of local councils (but seeking to involve them throughout). Meetings are held in local communities within each Area, and locations may vary to maximise public engagement.

Councillors serving a larger area than was previously the case are supported to engage with their local communities and with parish and town councils: there is also the potential for the county councillor(s) to engage with their local Area Board. The approach can also support the development of community capacity and resilience.

Wiltshire has been recognised[5] as a good example of putting locality governance into practice in a large (unitary) council (see Appendix E).

g) **Consider the potential for community hubs**
These act as an impetus for joining up public services in local communities (most likely in larger towns, potentially in conjunction with e), above). Discussions underway with the County Council in West Kent, and the One Public Estate programme, have the potential to contribute to this thinking.

h) **Ensure the new council employs best practice in relation to community and stakeholder engagement, including, but not limited to:**

- forms of public decision-making meetings which encourage participation
- use of social media
- strategic use of consultation and engagement to ensure communities experience meaningful and consistent engagement

1.6 Building Resilience and Capability

Alongside the rest of local government, the East Kent districts are under considerable financial pressure. In response, all have reduced staff numbers, which has inevitably led to loss of both capacity, capability and resilience, with some areas affected more than others (in order to preserve front-line services as far as possible).

Recent research[6] into local government reorganisations has concluded that larger councils are most likely to generate economies of scale and be resilient in the context of continued budget pressures. A larger, merged district provides opportunities to build resilience and capability:

- Resilience: a new, merged authority would have a larger pool of resources in all functional areas, providing the ability to move work around when there are pressures

[5] *Independent analysis of governance scenarios and public service reform in county areas*: EY, 2016
[6] "Learning lessons from local government reorganisation: an independent study" *Phil Swann, Shared Intelligence*

in particular geographical areas. In providing service-based submissions to support this business case, officers from all five councils referenced the need for increased resilience across a range of service areas including Regulatory Services, Electoral Services, Planning, Regeneration, Finance and Waste. A new entity also offers the potential to build increased resilience around corporate duties such as Equalities, Emergency Planning, Policy and Strategy development, Risk Management and Business Continuity as well as providing capacity to support customer insight, data analysis, and research

- Staff retention: a larger single authority would also be able to create a structure that offers more career opportunities and offers greater appeal in the jobs market and so is able to recruit and retain high calibre staff. Officers consistently made reference to difficulties in attracting and recruiting to specialist roles and to the fact that the small staff numbers in certain functional areas means that capacity to respond to service needs is often impacted by factors such as long term absence and unusual service demand
- Capability: increasingly, smaller local authorities have used external resources for support in specialist technical areas such as procurement advice. A larger merged district offers the possibility of employing specialist resources, providing cost savings

Other key capability-related benefits from establishing a new entity include:

- The wider knowledge base which would exist in relation to highly specialist areas (such as Contaminated Land or Air Quality Monitoring) as well as the potential to have a wider ranging skill set in house, such as Town Planners, Transport Planners, Ecologist and Urban Designers, are difficult to sustain at the existing district level
- Greater capacity to undertake Digitalisation and Transformation activity. Lack of capacity in this area is currently a barrier to driving through efficiencies and delivery improvements across service areas
- The scale and capacity to take on more responsibility for delivering services from Kent County Council, if agreed and appropriate, and to ensure that services can be more effectively delivered at a local level to better meet community needs

In addition, as indicated above, by bringing services together, business processes would have to be reviewed in order to harmonise approaches. This provides the opportunity to adopt the best performing practices, raising the quality of delivery and customer service. Again, East Kent Services (EKS) has demonstrated this in practice.

Ultimately, these improvements to both resilience and capability would mean a better, more consistent service for citizens and a more stable work environment for staff and councillors.

1.7 Value for Money and Innovation

The Financial Case details the potential savings that might be made if the five districts were to merge. In summary, these are estimated at £8.8 million per annum, largely derived from reductions in staff / posts as result of rationalising the management and administrative teams. Significant savings include:

- senior management posts
- support roles

- middle management of administrative and back office functions
- some savings through early consolidation by bringing services together (five into one)
- savings through the integration of political and governance arrangements (for example there would only be one of each of the following; Leader, set of governance arrangements, constitution, set of elections, performance reporting, strategies, policies and procedures, membership of regional bodies)

These savings are largely structural and a relatively conservative view has been taken. These should be considered the minimum savings that can be delivered. Further savings and benefits are likely to be derived post-merger, for example from:

- further service consolidation and sharing best practice, raising the performance of all current districts to that of the highest performer in any service area
- prioritisation of resources across potentially overlapping projects and programmes
- greater economies of scale in procurement: by including larger sums or greater numbers of contracts into contract renegotiation, leverage can be applied to reduce the suppliers' costs
- streamlined and simplified partnership(s) arrangements with other public and private bodies. For example, early feedback from engagement with health partners suggests an appetite to explore new ways to collaborate to deliver services

From experience of councils who have reorganised elsewhere, the process often involves two stages. The first delivers immediate savings from structural changes; the second allows more radical transformation once the new council is established. Whilst the details will be an issue for the leadership of the new council, examples might include:

- to improve services for citizens by reducing demand (for example, such as clients chasing the progress of delayed service applications) and, using new technology solutions to improve the quality of services for citizens, and their efficiency (such as moving citizens to 'self-serve' and electronic transactions)

- to better support members and officers to deliver their roles in communities; for example, through access to information/data including ward profiles and partners / organisations working in their area and mobile access to information / services to respond to citizen enquiries

- to provide opportunities for staff: although new ways of working will require behaviour and culture change from staff, there would be greater career opportunities as part of a larger council that is able to achieve more than individual councils can

It would be for the new council to develop a programme to deliver the second stage of transformation from April 2019 onwards.

1.8 Initial Responses from Stakeholders at a Strategic Level

Early soundings have been taken across a number of key stakeholder groups to gauge their attitude to, and potential support for, a single merged East Kent district. It is clear there is broad support for the principle of creating a single new council. The views of various bodies and groups are summarised below:

- Kent County Council: the council is supportive of the sub-county devolution work and they have confirmed their ongoing co-operation with the investigations into a merger of the five East Kent districts into a single district council
- Kent Association of Local Councils: keen to continue to discuss potential for devolution to local council level and for the benefits for the area of a new, larger council to be well understood; some concerns relating to the perceived challenge of managing a very large organisation and the need to demonstrate that local identity would not be lost
- MPs: the majority were very supportive, the remainder neutral
- business community understand the reasons for a merger and can see there is great potential. They strongly recognise the ability of a single district to take a strategic lead for the whole region, speaking with a louder voice on issues such as transport and planning (engaging with SELEP, HE, NR and others) and skills (engaging with DfE, BEIS etc.). Again, keen to have more details and to ensure that the quality of services does not deteriorate and that there is clear access to decision-makers.
- other public sector organisations, such as health, further education, who attended a breakfast briefing, and police (local divisional commander) who have expressed support in principle. They also pointed to the benefits of the greater co-terminosity between the various public sector organisations' operating boundaries.

1.9 CONCLUSION OF THE STRATEGIC CASE

Strategically, a single East Kent district makes sense. It enables the development of strong, strategic leadership at all levels throughout East Kent, offers economies of scale, greater resilience and the capacity and capability to further enhance and improve the value for money and quality of the services delivered.

2. ECONOMIC CASE

2.1 Introduction

This section of the business case considers the potential economic impact of a single district council relative to the current five districts. It explores the implications and opportunities for growth and regeneration that the new council offers compared to the status quo.

2.2 Context

The five East Kent districts of Ashford, Canterbury, Dover, Shepway and Thanet are home to a little over a third of Kent's total population; some 635,669 people. The five councils are contiguous, occupying around a third of the eastern portion of the county, with four of the five being coastal – a sea frontage that stretches from Whitstable on the Thames Estuary in the north, Margate / Broadstairs / Ramsgate to the east round to Dover, Folkestone and onto Dungeness, Hythe, Romney Marsh and Lydd in the south.

Recent work undertaken by Nathaniel Litchfield Partners (NLP) as a part of the ongoing development of an East Kent Growth Framework (EKGF), has provided some up to date (post credit crunch) data on the position in East Kent. A brief summary of key points is provided below under three headings – Economy, People and Place – with more detailed information available in Appendix B.

Economy

Overall, the East Kent economy has performed relatively well compared to the rest of Kent and the South East, with particularly strong performances in Ashford and Canterbury and Dover showing the least strong. Forecasts indicate significant growth potential over the next 20 years, though not as high as the predicted SE average.

People

Overall, in common with much of the rest of the South East, East Kent has seen population growth, particularly of working age people. East Kent exports significant labour outside the region, particularly to London. Notably, there is also a relatively high degree of 'self-containment', with Ashford and Canterbury providing employment to the population of the coastal districts.

Place

In terms of housing, completion rates have started to recover after the 2008 credit crunch, with particular pressure points in Ashford and Canterbury (council areas) in terms of affordability. Key infrastructure routes include high-speed rail links to St Pancras International (HS1) and a number of strategic roads such as the M20 and A2/M2. Current usage suggests that HS1 in particular, offers further opportunities for passenger growth.

Overall the current data suggests that:

- there is a degree of economic cohesion to the sub-region, evidenced by the relatively high rates of self-containment

- Ashford and Canterbury act as 'attractors' to the sub-region for both housing and employment
- the types of employment currently available across the five districts are slightly different and complementary. For example, Ashford has more information / communications, wholesale retail and transport than the East Kent average, whereas, Dover has more accommodation, food services and recreation (see Appendix B for more details)
- there are opportunities to further enhance the links between the strong FE and Higher Education (HE) sectors in Canterbury with the wider sector specialisms of the other districts; for example advanced manufacturing in Thanet; creative industries in Thanet and Shepway (see Appendix B for more details of current sector specialisations across the five districts)

2.3 The Opportunity – Economic Development and Regeneration

It is recognised by members and officers alike that future funding of local government will be increasingly dependent on economic performance. It therefore makes sense to create a new council that fits with the underlying functional economic geography of the area. This would also mean the new council would have greater opportunity to demonstrate its contribution to a regional/sub-regional industrial strategy. As such, a single new council would be better able to fulfil its economic potential than individual councils collaborating. This would be delivered through a single political vision and greater capacity and capability (a single team) delivering refreshed sub-regional spatial priorities in a more coordinated way.

As outlined in the strategic case, the five districts face similar problems and, as a single authority, can direct resources to areas of greatest need, rather than competing with each other. A single district can take a broader perspective, exploiting the links and complementarities identified above and explored in more detail below. In addition, a larger authority is likely to have greater scale to borrow and increase investment in priority areas.

As outlined in paragraph 2.2, work is currently underway on a new East Kent Growth Framework (EKGF) that will replace the East Kent Growth Plan (EKGP) published in 2013. The emerging analysis, undertaken by NLP, has identified four themes at an East Kent level:

- place-making and shaping: creating attractive places to live and work through revitalising the existing built environment and creating new spaces. Within East Kent, town / city centres, providing a key focus for place making activity, with significant scope to enhance the quality of urban spaces and the public realm
- unlocking development through infrastructure: funding key pieces of infrastructure to unlock sites and development opportunities as well as alleviating pressure and addressing constraints within East Kent's existing infrastructure networks. This covers a range of infrastructure provision including highways, rail, air, ports, broadband and utilities
- delivery of business space: delivering high quality enterprise, innovation and incubator space to support existing businesses to grow and to enable East Kent to compete for inward investment and attract high value, knowledge-based activity and jobs

- supporting productivity within business: upskilling existing residents and attracting high skilled workers to drive innovation and productivity within East Kent's business base, and helping businesses to access the support and finance they need to grow

The next stage of the work involves looking at suggested priority projects from all five districts and categorising them as 'strategically significant (for East Kent as a whole)' or 'locally significant' (clearly some projects might be both), mapped against the four strategic objectives above. This will provide a platform to take a view of future investment priorities for the sub-region as a whole and feed into the refreshed strategic plan being developed by the SELEP. As stated elsewhere, speaking as a single voice for East Kent, the new council is likely to carry greater influence than five individual districts, with an increased chance of securing funding and delivering the strategically significant projects. The NLP work is due to complete in early 2017.

At this stage, what can be said at a very high ('macro') level, is that there appears to be a spectrum of possibilities in terms of future policy and investment, ranging from:

- concentrating on Ashford and Canterbury and relying on 'trickle down' growth in coastal areas – through to…..
- allowing Ashford and Canterbury to continue 'as is' and focusing on the coastal strip to directly stimulate growth and regeneration.

In reality, the new district is likely to pick somewhere along this spectrum, aiming to directly stimulate growth across the whole sub-region, as well as capitalising on the stronger areas to attract investment for the new council area as a whole. Specific areas of opportunity are explored in more detail below

Housing growth

In provision of housing, some areas already exceed locally generated need; for example, Ashford, Dover and Folkestone.

The award of garden town status to an area of Shepway creates the justification for a well-resourced delivery unit, which can then also be capitalised upon by the new council as a whole.

This provides opportunities to:

- scale-up as a single team with greater capacity and capability to increase the quantity of new housing and the speed of delivery
- share services and prioritise to better achieve strategic outcomes
- directly deliver housing and infrastructure more efficiently
- develop a more strategic relationship with the LEP (and access to LEP funding)
- improve the area's reputation with the private sector
- engage more broadly with the market and supply chain to procure at greater scale and secure better value financially

With pressure on affordable housing in Ashford and Canterbury, there may be opportunities to look more broadly across the sub-region to invest in neighbouring areas (in both housing and transport infrastructure to provide the necessary connectivity) to relieve that pressure.

A recent analysis / evaluation of Barratt Developments' socio-economic impact[7] of housing estimates the economic multiplier effect of new housing to be 2.41 while an economic study conducted by L.E.K. Consulting[8] estimate this at 2.84. The results of both studies indicate a significant wider economic benefit of increasing housing supply through new development.

Infrastructure – nationally important with international links

Existing assets include the Ports of Dover and Ramsgate; rail, including HS1 and Ashford International station with links across Europe; Eurotunnel; roads such as the M20 and A2. A single district would be able to:

- take a more strategic approach to infrastructure providers, such as SELEP, Network Rail and Highways England, as well Kent County Council and national government., speaking with a single (louder) voice
- communicate at a strategic level rather than a project level
- ensure that individual initiatives are considered in a more effective way and at a more strategic level

Although there are some examples elsewhere in England of cross border working to develop shared local plans, these have not yet been done across five individual districts (though there is an example of four councils doing so). Ultimately, a single new council would allow the authority to 'scale-up', combining five individual teams into one, to develop a sub-region-wide single local plan, providing strong strategic leadership across the whole area. Early engagement with the business community recognised, and were attracted to, the potential in this area.

The existence of a single local plan, supported by a coherent and costed infrastructure plan would provide increased certainty for potential developers of housing, retail and commercial properties that their schemes would be supported and clarity as to how planning gain would be taxed and spent by the authority. This creates a productive investment environment which should feed through over time into increasing local revenue sources for the new council, particularly via business rates. This is supported by research such as work undertaken by the CEBR[9] in 2013, they calculate the long term multiplier effect of infrastructure investment on economic output as 2.84, identical to the value attributed to housebuilding by the aforementioned LEK report but acknowledged as purely a coincidence.

Coastal communities

The sub-region enjoys an extensive coastline with existing attraction / tourist destinations of Herne Bay; Whitstable; Deal; Sandwich; Folkestone; Hythe; Margate; Ramsgate and Broadstairs. There are opportunities to further exploit these to increase visitor footfall from both within and outside the sub-region. In 2013, Visit Britain commissioned Deloitte and Oxford Economics to analyse the economic contribution of the tourism economy in the UK. They concluded that for every £1 spent on tourism, the overall impact was £2.80 and that for every 1% increase in tourism expenditure, tourism employment increased by 0.89%.

Visit Kent undertook an economic impact assessment of tourism across authority areas in 2015 and the results for the five districts are summarised below.

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[7] NLP, (2014), Barratt Developments' Socio-Economic Footprint FY2014
[8] L.E.K. Consulting, (2009), Construction in the UK Economy: The Benefits of Investment
[9] CEBR Securing our economy: The case for infrastructure (2013)

	Ashford		Canterbury		Dover		Shepway		Thanet	
	2013	2015	2013	2015	2013	2015	2013	2015	2013	2015
Day trips										
Day trips volume (000s)	3,810	3,924	6,380	6,571	3,650	3,889	3,980	4,099	2,900	3,387
Day trips value (£'000s)	133,000	133,878	213,794	215,205	111,410	116,009	122,067	122,872	106,430	119,391
Overnight trips										
Number of trips (000s)	384	392	635	649	385	424	440	473	458	494
Number of nights (000s)	1,203	1,228	2,610	2,671	1,345	1,397	1,341	1,398	1,667	2,059
Trip value (£'000s)	71,381	71,835	142,589	145,983	79,775	88,745	75,550	81,714	95,001	122,087
Total Value (£'000)	204,381	205,713	356,383	361,188	191,185	204,754	197,617	204,586	201,431	241,478
Actual Jobs	5,296	5,482	8,833	9,378	5,140	5,562	4,509	4,796	5,932	7,312
Increase in spend		1%		1%		7%		4%		20%
Increase in jobs		4%		6%		8%		6%		23%

Table 2: Economic value of tourism in East Kent

The table shows the economic value of increasing tourism across East Kent, particularly in respect of employment which increased proportionally more than spend across all five districts between 2013 and 2015, reflecting a higher employment multiple than the national average calculated within the Visit Britain report.

Cultural development at sub-region level

East Kent has considerable existing assets and attractions including: Margate – Turner Contemporary and the creative quarter; Folkestone – Creative foundation; Canterbury – a UNESCO world heritage site with over 50 scheduled monuments and the Marlowe theatre; Dover – the castle (English Heritage's most popular visitor destination). There may be an opportunity to develop a sub-regional 'offer' that leverages more of these strengths in combination and encourages longer stays in the area rather than day trips, thus increasing the spend per visit to include, for example, accommodation, evening meals and entertainment.

In addition, there are opportunities to improve the links between tourism, economic development and housing growth across the area. As set out in the Strategic Economic Plan (SEP) for the SELEP, increasing employment in relatively low value areas such as the service industries can provide a first step / escalator to broader job opportunities, if considered as a part of an overall approach to economic development. A sub-regional approach for East Kent could unlock further funding from the LEP through providing a coherent strategy for the area.

Income generation

There are a number of existing areas / mechanisms which the new council could exploit more effectively as a single voice to achieve more, rather than (potentially) competing, including:

- renewable energy: further exploitation and development of off-shore capability
- a commercial approach to property investment and direct housing delivery
- the East Kent Spatial Development Company (EKSDC), mentioned in the introduction to this section

Specialisation

As demonstrated through the economic analysis outlined above, the new council has the opportunity to promote complementary specialisms in different areas. For example:

- higher Education – focused on Canterbury with its three existing universities and opportunities to provide 'satellite' hubs – for example an Engineering faculty hub in Thanet / Manston Business park
- raising the current under-representation of high value office based sectors (such as professional services)
- economic and housing growth – focused on Ashford then Dover (when markets improve)
- economic growth; for example, Discovery park Dover, Dover Harbour expansion
- cultural growth; for example, Folkestone (underpinned by Roger de Haan's Creative Foundation), Canterbury (Marlowe Theatre) and Margate (Turner Contemporary)

2.4 A Joint Response to External Challenges

A number of the key features of East Kent as a sub-region could be impacted by the uncertainty in the lead-up to and negotiation of Brexit. The new council could help to better mitigate those risks and ensure the East Kent area is better placed to seize new opportunities as they arise. Examples of impacts include:

- key pieces of infrastructure depend upon European trade and tourism for income (HS1, Ashford IPS, Dover Harbour). Changes to operations, security and immigration associated with Brexit could have an impact on this infrastructure – as well as a knock on impact on local transport across East Kent (hence operation Stack). The impact, and potential response is a cross authority issue
- key elements of the economy are dependent directly and indirectly upon the European connection – in addition to the direct transport infrastructure. For example:
    - Discovery Park (the Enterprise Zone in Sandwich) is aimed at attracting international investment from English speaking countries who also require good continental connections
    - University of Kent, which brands itself as the UK's European University, (and other Canterbury HE organisations) offer a number of European focused courses. It is attractive to international students (including those from beyond the EU) because of these courses and the close European ties
- past economic growth across the area (particularly in Ashford) has been underpinned by European companies wanting to benefit from UK flexibilities as well as international firms wanting a UK location with easy access to the EU market
- tourism – all of the districts depend to some extent on tourism. The perception that potential visitors have of the area remaining open and welcoming during and following Brexit will have an impact on the contribution of tourism to the economy

2.5 CONCLUSION OF THE ECONOMIC CASE

As for the strategic case, the economic case makes sense. A single larger district has the scale to operate and deliver economic outcomes more effectively and East Kent has a growing coherence as an economic unit. There is scope to better exploit the synergies between the different constituent areas and this can be better achieved through merger than through collaboration between existing districts.

3. COMMERCIAL CASE

A new council comprising the current five district councils presents a number of commercial opportunities as well as challenges.

3.1 Opportunities

3.1.1 Benefits from Scale

The first set of opportunities are a function of the increased size of the new council. It would represent the biggest district council in the country with estimated net revenue expenditure almost three times that of the current biggest district council, Northampton, and is also the biggest merger currently under consideration.

This scale should enable reductions to be made in the combined staffing budget of the present authorities in two stages through:

- Stage 1 - the removal of duplicate posts, particularly at a management level, and also through service consolidation and process harmonisation. These savings (equating to approximately 10% of overall expenditure) have been detailed in the Financial Case in section 4
- Stage 2 – service transformation (and associated additional savings) achieved through, for example:
    - Sharing best practice,
    - Raising the performance of all current districts to that of the highest performer in any service area,
    - Streamlining procurement and contract management arrangements,
    - Finding innovative ways to streamline partnerships and collaboration with other public and private sector partners,
    - Automating processes, rationalising ICT systems and exploiting digital technology.

Stage 2 is likely to happen after the districts have been merged – post April 2019. At this stage no savings have been included in the Financial Case for transformation. However, based on experience from elsewhere, it should be possible to achieve additional savings over and above those achieved in stage 1. For some mergers, stage 2 has resulted in similar levels of savings to those delivered by the structural savings from merger. However, in some cases the Stage 2 savings were delivered following the creation of unitary authorities in 2009; clearly the new council for East Kent would not be a unitary authority. In addition, local authorities have made significant efficiency savings in the austerity period since 2009. Therefore, the likelihood is that any transformation savings for the new council would be somewhat less.

That said, the new council would want to transform the services it inherits, once they have been brought together, and an indicative level of up to 5% of overall expenditure should be achievable based on research of other merger authorities. **This would equate to between £4m and £5m savings per annum over and above those outlined in the financial**

case[10]. Many of these savings, such as adoption of best practice business processes and rationalising procurement arrangements should be achievable at a relatively low cost. Other areas, such as exploitation of digital technology, will require some investment in order to deliver savings.

Secondly, the scale of the new council should allow the new authority to assemble and maintain the necessary capacity and capability to deliver the objectives that are common across the area, particularly with respect to economic development, as highlighted in the economic case.

Thirdly, with Government policy on local government funding placing increasing dependency upon the local business rate tax base, there is, undoubtedly, greater ability to absorb the impact of local economic shocks, replicating the concept of a business rate pool.

With the exception of the transformation savings, these benefits are assessed and quantified within the financial case along with the additional savings opportunities that are less a function of size but more a result of collapsing five organisations into one as set out below.

3.1.2 Additional Savings

Democratic Services

The creation of a merged single district should mean a reduction in the number of councillors and the costs of managing and maintaining the democratic aspect of local government in terms of meetings and election administration. The actual number of councillors will be a matter for the Boundary Commission to decide: choices about the form of governance and how councillors in the new council engage with local communities would be a matter for the new council to decide. The level of potential savings would be reduced by the proposed devolution to Town and Parish Councils and possible creation of Area Boards to negate any democratic deficit.

Property

At present, there are five civic offices, housing the administrative functions of each council. A new council would enable a new property model to be developed, building its transformation programme to establish more flexible and remote based working, and reducing the requirement for office space. Rationalisation of the property portfolio may range from the freeing up of a second civic office (in addition to the one civic office which is already assumed in the core business case) through to the disposal of all existing civic offices and consolidation on one site for the new council's civic headquarters.

Audit

The creation of a new council would mean there would only be one set of financial statements requiring auditing, rather than five. The consolidation of systems, processes and controls is likely to increase the internal audit resource requirement in the first three years but this would be offset by the audit savings from needing just one external audit appointment rather than five.

[10] Examples of the scale of savings achieved by local government restructuring elsewhere are provided in Table 18 within section 4.4.4.

Service Consolidation

Each council is responsible for a set of core services which, although featuring some local differences, have fundamentally the same requirements across the following areas:

Service Area	**Opportunity**
Revenues and Benefits	A shared service (East Kent Services (EKS)) delivers the Revenues and Benefits service for three of the five councils and it is anticipated that by bringing the remaining two into this arrangement, savings can be generated from hardware and software contracts and improvements made in operational resilience.
Housing	East Kent Housing (EKH) an arms-length management organisation (ALMO), was set up by four of the five authorities to manage and maintain their respective social housing stock. A merged single district would enable the fifth housing service to be either consolidated within the ALMO or a combined function to be brought back in-house within the new authority, realising management and administrative cost savings.
Planning	The existence of a single authority should enable greater resilience (particularly of specialised resources) some savings to be found in aspects of Planning, particularly planning strategy and policy. However, the realisation of the strategic case for a new single district is likely to lead to greater demands on the planning service over the medium to longer term. In addition the possible creation of Area Boards may place additional demands on those planning resources
Waste Collection	The creation of a new council creates the ability to harmonise collections and benefit from economies of scale in the acquisition, management and operation of staff, plant, vehicles and equipment and roll out and management of recycling initiatives. (See Footnote 11) As with Planning, an increase in economic activity, as targeted by the merger would feed through as an increased demand on this service.

Table 3: Summary of service areas and opportunities

Contract Management

Overall, the increased purchasing power and opportunity to homogenise contract specifications and contract management approaches should permeate through to savings across major areas of third party spend, particularly in respect of ICT, housing repairs and waste collection. At present, four of the five councils have externalised waste collection and, under a single district, these contracts would novate to the new organisation and involve operating through the initial years with three suppliers (Biffa, Serco and Veolia) until the contracts were either terminated or expired. Similarly, three of the four owners of EKH hold housing repair contracts with Mears, featuring different specifications and payment mechanisms.[11]

3.3 Implementation Challenges

As well as the concerns raised through the engagement exercises, i.e. balancing the strategic with local responsiveness, there are other practical features of a merger that would need to be addressed.

3.3.1 Approvals Process

The approach to approvals and governance is covered in section 5 – Management Case.

3.3.2 Transition Costs

The cost of operating these interim and shadow arrangements prior to April 2019, as well as the costs of transitioning the operations of the five councils into a single authority need to be assessed and set against the savings outlined above.

The reduction in staff would be through a mix of churn and redundancy and the cost of this is expected to represent the largest single element of the transition cost estimate. The cost of redundancy payments and any associated pension entitlements have been assessed as part of the Financial Case.

There would also be costs incurred in the following areas;

Implementation Activity	**Observations**
ICT	Although there is a good degree of commonality across the five authorities in terms of platforms and applications, action would be required to ensure business as usual service can be maintained, involving implementation of certain 'workarounds', upgrades, extensions and staff training.
Planning, pre-launch, set up and implementation	Work involved in planning, logistics, relocation, closing down systems and accounts, establishing the physical and virtual infrastructure for a new organisation, budgets, recruitment etc.
Professional support	Specialist external advice required for particular matters e.g. TUPE, novating existing contracts
Communications and engagement	Stakeholder engagement and communications e.g. staff, residents and businesses. Creation of a new brand and associated signage, stationery etc.

Table 4: Implementation activity and observations

[11] It should be noted that for both waste collection and housing repairs, it is uncertain whether savings could be achieved on existing price levels through a re-tender, due to inflationary pressures and new EU waste directives that have affected both these areas since they were originally procured. The potential savings would be relative to the prices expected if new contracts are let under the existing structural arrangements.

3.3.3 Council Tax Harmonisation

A merged single district council would need to determine its own funding requirements and calculate its council tax rate accordingly. Ideally, a rate would be calculated and applied that ensures the value of council tax income generated is the same as the value that would have been generated had the five councils remained separate. Table 5, below, shows what this would mean in terms of an annual change for residents across each of the five districts in the proposed merger year 2019/20.

Council	2016/17 Band D Equivalent Rate (£)	2018/19 rate* (£)	2019/20 rate (£)	Annual increase %
Ashford	150.00	160.00	207.08	29.4%
Canterbury	194.31	204.31	207.08	1.4%
Dover	172.44	182.44	207.08	13.5%
Shepway	232.56	242.56	207.08	-14.6%
Thanet	214.92	224.92	207.08	-7.9%

*Assumes rates increase at the greater of £5 or 1.99%

Table 5: Single council tax rate required to maintain income level as now

As can be seen, with the exception of residents in Canterbury, the move to a harmonised rate in the first year of operation of the new council would result in large percentage movements in council tax rates, dependent upon location. For residents in Shepway and Thanet, they would experience a high percentage reduction in their council tax whereas residents in Ashford and Dover would bear high percentage increases. In general, there is a limit on the increase that can be applied to a household's council tax charge in any one year and this would be exceeded for Ashford and Dover residents. (The limit is the greater of £5 or 1.99%). A higher increase can be levied but only if this is as a result of creating a new Authority, as in the case, or it is agreed by residents through a referendum. DCLG have stated there are a variety of ways that the tax rate can be harmonised within the limits which could mean the single merged district operating with differential rates for a significant period of time. This creates an administrative burden and could also be perceived as inequitable and unfair for residents.

A number of options for harmonising rates are assessed within the financial case but all involve a loss of income compared to what would be billed if the councils stayed as they were. This is because:

a) the harmonisation process assumes the increase of prevailing predecessor council rates will be moderated to allow lower rate areas to catch up to a harmonised rate; and
b) the annual increases in the new rate deliver a lower cash sum until the rate exceeds the threshold at which a 1.99% increase becomes greater than £5.

3.3.4 Merging of Balance Sheets

The process of merging the five districts into a new council would create a set of logistical risks that would need to be managed (see management case). There are also financial risks represented in each authority's balance sheet as a function of normal business which would be inherited by the new authority. A high level, desk top assessment, of the balance sheet of each council as at 31 March 2016, based on published financial statements, has been undertaken along with a review of forthcoming capital expenditure. A summary of the review is contained in Appendix C. It should be noted that a decision to proceed with a merger proposal would require a more detailed analysis of the respective financial risks and liabilities that are carried by each organisation than has been possible within the time and information available for this exercise.

3.4 CONCLUSION OF THE COMMERCIAL CASE

On the basis of the evidence provided, the commercial opportunities offered by establishing a single new council from the five East Kent districts outweigh the challenges. However, those challenges would need to be carefully managed through the transition (see section 5 - Management Case - for more details on the transition arrangements).

4. FINANCIAL CASE

4.1 Introduction

This section of the business case considers the budgetary impact of a single district council relative to the combined projections for the current five districts. It also assesses the cost of transitioning the five districts into a single district council and the implications of risk and optimism bias for the estimates. The overall aim is to determine whether a single district council is likely to deliver a better financial outcome than the existing as-is position and that the journey for achieving such change can be funded.

4.2 Current Baseline Position

The table below shows the projected income and expenditure for the five districts over the period 2017/18 to 2024/25 and the level of annual savings that will be required to balance the budgets in each of those years. This shows the five districts would need to collectively eliminate c.£4.9m of spending prior to merging and that a further £16.1m of cost pressure would be inherited by a new single district for the period to 2024/25. These projections are based on each council's latest draft of the Medium Term Financial Plan (MTFP) forecasts, extended out, as applicable, on the basis of the following assumptions[12]:

- council tax rate increases at the greater of £5 or 1.99%
- council tax base increases at 1.5%
- business rate income increases at 2%
- net revenue expenditure increases at 2%
- New Homes Bonus phases out over four years from 2020/21

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Income (£'000s)								
Ashford	15,162	14,672	15,683	16,353	16,216	15,966	15,727	16,216
Canterbury	17,527	15,682	14,927	15,267	15,239	15,223	15,219	15,455
Dover	14,348	13,862	13,560	13,200	12,837	12,663	12,497	12,635
Shepway	15,645	15,109	14,833	14,811	15,157	15,511	15,874	16,244
Thanet	18,604	18,423	18,331	17,849	17,597	17,361	17,141	17,444
Total	81,287	77,748	77,334	77,481	77,047	76,724	76,457	77,995
Expenditure (£'000s)								
Ashford	15,217	14,869	14,758	16,268	18,041	18,402	18,770	19,145
Canterbury	17,527	17,344	18,559	20,424	20,833	21,249	21,674	22,108
Dover	14,355	14,886	15,452	15,947	16,266	16,591	16,923	17,261
Shepway	15,645	15,616	15,837	16,359	16,686	17,020	17,360	17,708
Thanet	18,604	19,921	20,689	21,103	21,587	22,090	22,359	22,807
Total	81,349	82,636	85,296	90,101	93,413	95,352	97,087	99,029
Net Position (£'000s)								
Ashford	(55)	(197)	925	85	(1,825)	(2,436)	(3,043)	(2,929)
Canterbury	0	(1,662)	(3,632)	(5,157)	(5,593)	(6,026)	(6,456)	(6,652)
Dover	(7)	(1,024)	(1,893)	(2,747)	(3,428)	(3,928)	(4,426)	(4,627)
Shepway	(0)	(507)	(1,005)	(1,548)	(1,529)	(1,509)	(1,487)	(1,463)
Thanet	0	(1,498)	(2,358)	(3,254)	(3,990)	(4,728)	(5,218)	(5,362)
Total	(62)	**(4,888)**	(7,962)	(12,620)	(16,366)	(18,628)	(20,629)	(21,034)
Net Position post merger	-	-	(3,073)	(7,732)	(11,478)	(13,740)	(15,741)	**(16,146)**
Additional year on year resource requirement	(62)	(4,826)	(3,073)	(4,658)	(3,746)	(2,262)	(2,001)	(405)
Cumulative resource requirement	(62)	(4,950)	(12,912)	(25,532)	(41,898)	(60,526)	(81,155)	(102,189)
Net Cumulative resource requirement post merger	-	-	(3,073)	(10,805)	(22,283)	(36,023)	(51,764)	(67,910)

Table 6: Baseline projections

[12] These assumptions have been agreed with each council's S151 officer

These assumptions have been agreed with each council's S151 officer.

4.3 Alternative Baseline

The current baseline position shown in Table 6 has been re-assessed in recognition that councils are operating in an era of unprecedented financial uncertainty for them. The local government sector is being subjected to a sustained period of budget reductions as part of the Government's strategy for reducing the Public Sector Borrowing Requirement (PSBR). The wider pressures on the PSBR from areas such as health spending demands could result in further cuts and pressures for local government. Consequently, an alternative baseline has been cast to reflect adverse movements in current forecast assumptions. This would increase the cost pressure for the new council from £16.1m, as per Table 6, to £25.5m over the six year period to 31 March 2025. The relevant changes to the previous assumptions are summarised below and the impact on respective council's baselines shown in the subsequent Table 7.

- Business rate income increases at 0%
- Net Revenue expenditure increases at 3%

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Income (£'000s)								
Ashford	15,162	14,672	15,565	16,087	15,814	15,427	15,048	15,395
Canterbury	17,527	15,682	14,836	15,087	14,966	14,855	14,754	14,892
Dover	14,348	13,862	13,461	13,004	12,548	12,269	11,996	12,027
Shepway	15,645	15,109	14,739	14,621	14,869	15,124	15,384	15,651
Thanet	18,604	18,423	18,206	17,596	17,214	16,845	16,489	16,654
Total	81,287	77,748	76,807	76,395	75,412	74,519	73,671	74,619
Expenditure (£'000s)								
Ashford	15,217	14,869	14,903	16,589	18,577	19,134	19,708	20,299
Canterbury	17,527	17,344	18,741	20,827	21,451	22,095	22,758	23,440
Dover	14,355	14,886	15,604	16,261	16,749	17,251	17,769	18,302
Shepway	15,645	15,616	15,993	16,682	17,182	17,697	18,228	18,775
Thanet	18,604	19,921	20,892	21,519	22,228	22,969	23,477	24,181
Total	81,349	82,636	86,132	91,876	96,187	99,146	101,940	104,998
Net Position (£'000s)								
Ashford	(55)	(197)	662	(502)	(2,762)	(3,707)	(4,660)	(4,905)
Canterbury	0	(1,662)	(3,905)	(5,740)	(6,486)	(7,240)	(8,004)	(8,549)
Dover	(7)	(1,024)	(2,142)	(3,257)	(4,201)	(4,982)	(5,773)	(6,275)
Shepway	(0)	(507)	(1,254)	(2,060)	(2,312)	(2,574)	(2,844)	(3,124)
Thanet	0	(1,498)	(2,686)	(3,923)	(5,014)	(6,124)	(6,988)	(7,527)
Total	(62)	**(4,888)**	(9,325)	(15,481)	(20,775)	(24,627)	(28,270)	(30,380)
Net Position post merger	-	-	(4,437)	(10,593)	(15,887)	(19,739)	(23,381)	**(25,492)**
Additional year on year resource requirement	(62)	(4,826)	(4,437)	(6,156)	(5,294)	(3,852)	(3,642)	(2,110)
Cumulative resource requirement	(62)	(4,950)	(14,275)	(29,756)	(50,531)	(75,159)	(103,428)	(133,808)
Net Cumulative resource requirement post merger	-	-	(4,437)	(15,030)	(30,917)	(50,656)	(74,037)	(99,529)

Table 7: Alternative baseline projections

4.4 Position for a Merged District

4.4.1 Savings

The commercial case outlines a range of saving opportunities that could arise from merging the five district councils. The valuation basis of these is set out below.

Staff

A 'span of control' approach has been applied to the assessment of savings from reducing senior officer numbers. The table below shows the number of staff assumed at each management tier, relative to the number that exist at present.

Span of control				
Tier	Salary (£'000s)	Current no.	Target no.	Post saving
1	> £99,999	6	1	5
2	> £95,000	6	4	2
3	> £73,000	18	16	2
4	> £50,000	105	64	41
Total				50
		Full cost saving (£'000s)		3,455

Table 8: Management savings

There would also be savings achievable from eliminating duplicated posts and consolidating roles at non-management level. A review of service descriptions and establishment role lists has led to an assumption that approximately 7% of staff costs could be saved from this aspect.

As a result of these two elements and discounting for charges to the HRA and staff savings planned for pre-2019/20, an annual staff cost saving of £6,848k, inclusive of on-costs[13], has been accounted for in the business case. It has been assumed that 75% of these savings will be made in the first year of the new council's operation, with the full value of savings being taken in Year 2 onwards.

Members

There are currently 213 councillors serving the five districts as shown in the table below.

Authority Name	Electors at 1/12/2015	Number of Wards	Council Size	Electors per Councillor
Ashford	88,505	35	43	2,058
Canterbury	102,393	21	39	2,625
Dover	85,488	21	45	1,900
Shepway	78,619	13	30	2,621
Thanet	98,856	23	56	1,765

Table 9: Member information

Each councillor receives an annual basic allowance which is enhanced for special responsibility roles such as, for example, being Leader or portfolio holder. The creation of a single district would lead to the costs of special responsibility allowances being

[13] Employer pension and National Insurance contributions

approximately a fifth of what they account for currently (c £0.5m). It is also anticipated that the total number of councillors would be less than the current figure of 213 and more likely to be in the range of 90 – 120 resulting in a saving of total basic allowance payments. For the purposes of the projections in this business case, it has been assumed that the new district would operate with 90 councillors in receipt of a basic allowance equivalent to the highest current prevailing rate. On the basis of these assumptions, an annual saving of £949k has been accounted for in the business case, with 100% of the savings being taken from Year 1 onwards. However, as considered in section 1.5 'Stronger Local Leadership', the new council would need to design a new form of governance[14] which may impact on this level of saving, dependent upon the approach taken. As a proxy indicator of the additional cost, a democratic function based on 120 councillors would result in an additional cost of c. £164k.

Addressing the Democratic Deficit

The Management Case highlights a number of risks with a new single district, one of which, (as referenced in Appendix D – initial Risk Log), Loss of Localism, has begun to be explored in the Strategic Case. Any approach adopted by the new council to address the 'democratic deficit' would be entirely on a voluntary basis. At one level, expanding the presence of Town and Parish Councils into areas, as yet 'un-parished' could be a chosen solution which could be cost neutral with the levy of an appropriate precept. At the other end of the cost range could be an enhanced area management model featuring area boards with democratic representation. These would need officer and administrative support that could, conservatively, add £600k to the operating budget of a new council. To reflect this, the business case at this stage has taken some account of the staffing implications (a smaller percentage reduction in Democratic Services and Planning staff) and has identified (see paragraph above) an additional cost of retaining 30 councillors. These assumptions must be considered further if the decision is taken to proceed with a merger and any additional cost burdens from an agreed enhanced democratic model will need to be accounted for in the final business case.

Property

Each council has a main corporate administrative building (CAB) which accommodates the bulk of its staff. Although the assumed staff reductions, 11% as a percentage of existing staff costs, would not realise significant additional space, it is unfeasible to assume that a new council would operate into the medium and long term with five CABs. An assumption has been made that revenue savings[15] would be achievable by reducing the number of CABs from five to four and a saving, equivalent to the average running costs of a current CAB, has been shown in the table below.

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[14] Through discussions with the Boundary Commission

[15] utilities (gas, electricity, water) insurance, routine repairs and maintenance, soft facilities management (cleaning, security, reception)

Authority	Administrative Centre	Site name	Value (£'000s)	Capacity (workstations)	Running costs per annum (£'000s)
Ashford	1. Ashford	Civic Centre, Tannery Lane	5,500	400	808
Canterbury	2. Canterbury	Military Road, Canterbury	5,512	450	715
Dover	3. Whitfield	Whitecliffs Business Park	5,656	388	375
Shepway	4. Folkestone	Civic Centre	2,200	230	202
Thanet	5. Margate	Cecil Street	2,400	355	351
		Total	21,268	1,623	2,451
		Average	4,254	365	490

Table 10: Property information

It has been assumed that the transition from five into four buildings would be undertaken over two years with half the achievable saving accounted for in Year 1, and the full saving coming through by Year 3.

ICT

The ICT service of three of the five councils is operated by a shared service initiative called East Kent Services (EKS). As a result of discussion with EKS, an annual saving of £250k has been assumed as the benefit achievable from bringing Shepway and Ashford into the EKS arrangement as a result of creating a single district council. This saving would principally arise from harmonising ICT contract management and contract specifications. It has been assumed that this saving would start to materialise in the second year of the new council's operation with the full saving being taken from Year 3 onwards.

External audit

The current combined core external audit fee for the five councils is approximately £340k per annum. A saving on this figure of £200k has been assumed for the audit fee of a new single district council.

The table below summarises the savings referenced above and accounted for in the business case.

Annual Savings (2016/17 prices)		%
	£'000s	
Staffing	6,848	78%
Members	949	11%
Property	490	6%
ICT	250	3%
External Audit	200	2%
Total	**8,737**	**100%**

Table 11: Annual savings

4.4.2 Transition Costs

There would also be costs incurred in transitioning the five councils into a single council in order to realise these savings. The modelling assumptions for these are set out below.

Staffing

The redundancy costs arising from rationalising management and consolidating roles have been estimated with reference to prevailing policy and the average age and length of service of staff. For those staff where the redundancy payment, including pension enhancement, could exceed £95k[16], the cost has been capped at £95k. A total sum of £3,084k has been assumed for the staffing element of transition costs and 50% of these are accounted for in the year prior to the new council being created and 50% in the year of the new council's creation.

ICT

An estimate for the costs of amalgamating the ICT requirements of Ashford and Shepway into the EKS operation has been included based on a review of ICT integration costs for other council merger business cases and discussion with EKS, taking into account the high degree of commonality across the five councils in terms their ICT Platforms and Applications. At this stage, it is necessary to attach a significant margin of error to the value assumed. This represents the mid-point of a necessary wide range of £0.5-2m with 50% of these accounted for in the year prior to the new council being created and 50% in the year of the new council's creation.

Planning and pre-launch

A value of £700k has been assumed to account for the cost of relocation planning and closedown planning. This has been accounted for in the year prior to the new council being established.

Implementation

A team of 10 FTEs at an average salary of £50k (including on costs for 2.5 years) has been assumed to commence in the year prior to merger (2018/19).

Professional support

A value of £500k has been assumed based on the average cost incurred by councils involved in recent mergers and re-structures, principally the creation of unitary councils in 2009. This value is to account for the costs of professional HR (TUPE) and legal (contract novation etc.) advice that would be required. The cost has been assumed to be incurred equally over the year prior to the new council being created and 50% in the year of the new council's creation.

Communications

These are the costs of communicating the change process, keeping stakeholders informed and changing signage, logos, websites and other physical and virtual media. A figure of £500k, based on referencing the costs incurred by previous re-structures, has been assumed. This has been accounted for equally over the year prior to the new council being created and the year of the new council's creation.

[16] The government has committed to introducing a cap on all public sector exit payments at £95,000 and expects proposals to be set out and agreed by the end of 2016/17.

Set Up

These are primarily the costs of inducting new Members and staff into the new single council. A figure of £250k, based on referencing the costs incurred by previous re-structures, has been assumed. This has been accounted for equally over the year prior to the new council being created and the year of the new council's creation.

Provision

A contingency provision of 10% has been applied to the quantum of transition costs set out above.

The table below summarises the transition costs referenced above and accounted for in the business case.

Total Transition Costs (2016/17 prices)	
	£'000s
Staffing	3,084
ICT	1,250
Planning and pre-launch	700
Implementation	1,250
Professional support	500
Communications	500
Set Up	250
Provision	753
	8,287

Table 12: Total transition costs[17]

4.4.3 Council Tax Harmonisation

A further cost is incurred as a result of the need for the new council to adopt a unified council tax rate. The concept of council tax harmonisation is explained in the commercial case with the financial implications set out below.

The current council tax rates for 2016/17 for each of the districts are

Council	2016/17 Band D Equivalent Rate (£)
Ashford	150.00
Canterbury	194.31
Dover	172.44
Shepway	232.56
Thanet	214.92

Table 13: Existing council tax rates

[17] This value differs from the value evident in Table 19 as a result of the impact of assumed inflation on the latter. The former is expressed as at 2016/17 price levels whereas the figures in Table 19 are expressed in nominal terms i.e. assumed inflation levels have been applied.

We have modelled a convergence period of five years from commencement of the new organisation and calculated the impact of converging to both:

A) the lowest prevailing rate and
B) the rate which would achieve the same level of income in the fifth year as would be achieved if the councils stayed as they currently are.

The tables below shows the loss incurred under both scenarios over the modelled period to 2024/25.

A) Harmonisation to the lowest rate over five years

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Council Tax Foregone (£'000s)								
Ashford	0	0	0	0	0	0	0	0
Canterbury	0	0	442	883	1,338	1,803	2,278	2,314
Dover	0	0	171	344	522	702	886	893
Shepway	0	0	693	1,362	2,018	2,660	3,291	3,335
Thanet	0	0	579	1,167	1,765	2,372	2,989	3,057
Total	0	0	1,885	3,756	5,642	7,537	9,444	9,599

Table 14: Annual lost council tax income

This would involve the following annual rate changes for residents;

- Ashford – £5 per annum[18]
- Canterbury – 1.96% decrease
- Dover – 0.3% increase
- Shepway – 5.24% decrease
- Thanet – 3.81% decrease

B) Harmonisation to the average rate over five years

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Council Tax Foregone (£'000s)								
Ashford	0	0	(290)	(620)	(999)	(1,435)	(1,932)	(1,985)
Canterbury	0	0	37	69	99	124	146	97
Dover	0	0	(122)	(260)	(416)	(591)	(786)	(797)
Shepway	0	0	313	624	941	1,264	1,593	1,633
Thanet	0	0	194	396	605	823	1,049	1,057
Total	0	0	132	209	230	185	69	5

Table 15: Annual lost council tax income

This would involve the following annual rate changes for residents;

- Ashford – 7.24% increase
- Canterbury – 2.1% increase
- Dover – 4.5% increase
- Shepway – 1.24% decrease

[18] Councils are permitted to raise their council tax rate by the maximum of £5 or 1.99%, whichever is the greater. Any rise in excess of this requires a majority vote in favour via a referendum process.

- Thanet – 0.2% increase

We have also modelled the position if the new council adopted a rate which generated the same value of council Tax income in 2019/20 as would be generated if the five councils remained separate.

C) Harmonisation to the average rate in Year 1

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Council Tax Foregone (£'000s)								
Ashford	0	0	(1,859)	(1,877)	(1,898)	(1,927)	(1,955)	(1,985)
Canterbury	0	0	99	93	93	94	96	97
Dover	0	0	(741)	(764)	(773)	(781)	(789)	(797)
Shepway	0	0	1,564	1,575	1,582	1,595	1,612	1,633
Thanet	0	0	978	979	998	1,017	1,038	1,057
Total	0	0	40	6	3	(2)	2	5

Table 16: Annual lost council tax income

This would involve the following one off rate changes for residents;

- Ashford – 29.5% increase
- Canterbury – 1.4% increase
- Dover – 13.6% increase
- Shepway – 14.6% decrease
- Thanet – 7.9% decrease

4.4.4 Risk and Optimism Bias

The financial projections also need to take account of the costs of mitigating risks inherent in delivering a major organisational project, as outlined in the management case.

The key risks identified that could have a financial impact as a result of either their mitigation or realisation are summarised in the table below, reflecting concerns around the scale and timing of net saving realisation. An adjustment to reflect the estimated quantified impact has been accounted for in the financial projections.

The S151 officers have also expressed concern as to how the baseline funding requirement of a new council will be calculated and that the benefit projections are incumbent on central government not making compensating adjustments which erode or eliminate the merger benefit. This is to be raised in discussions with DCLG and appropriate assurances are to be sought by way of mitigation.

No.	Risk	Description	Pre-Mitigation Impact	Probability	Pre-Mitigation Impact	Probability	Risk Premium	Application
1	Changes in the expected costs and benefits of the merger	The merger may not achieve the identified savings, either through delayed benefit realisation or increased transition costs, with the risk that financial sustainability is not delivered after merger	M	M	M	L	5.25%	Value of savings
8	Lack of capacity to implement the merger	The uncertain environment created by a proposed merger may result in key staff leaving the existing councils before the new entity is created. The loss of capacity to manage the merger may result in delays in implementing the new council	M	M	M	L	5.25%	Savings profile

Table 17: Risk quantification

The concept of optimism bias also needs to be addressed to take account of the potential that costs may be under-estimated and savings over estimated. The merger of five districts would break new ground for local government organisation and as such there is no comparable evidence base against which the cost and saving estimates assumed within this business case can be assessed. However, some sense can be gauged from looking at previous examples of local government re-structure, particularly examples of district shared management and the creation of unitary councils. The table below highlights the savings and transition costs associated with a number of examples and compares these with the savings and transition costs[19] assumed in this business case.

Authority	Initiative	Annual Saving (£m)	Annual Saving per capita (£)	Transition Costs (£m)	Transition Costs per capita (£)
Cornwall	Unitarisation	20	37.41		
Durham	Unitarisation	26	50.22	14.65	28.53
Northumberland	Unitarisation	20	63.02	21.32	67.48
Shropshire	Unitarisation	23	49.44	14.55	30.70
Wiltshire	Unitarisation	21	30.83	20.35	29.75
East Kent	**District merger**	**9**	**13.74**	**8**	**13.04**
Breckland & South Holland	District shared management	1	7.06		
Bromsgrove and Redditch	District shared management	2	16.35	1	9.24
Cherwell and S Northants	District shared management	4	17.76		
Chiltern and S Bucks	District shared management	2	8.50		

Table 18: Savings and Transition Costs comparisons

This shows that the level of savings assumed within this business case is at the low end of what has been achieved from combining councils into unitaries elsewhere and that the transition costs, as a percentage of savings, are also lower too. Although the projected savings are greater than what has been achieved through shared management initiatives between two districts, this is to be expected as this case involves the merger of five councils and savings beyond purely management. Given this, a provision for optimism bias has not been included in the projections but a range of sensitivities have been modelled to illustrate the impact of the financial estimates experiencing optimism bias. The sensitivities are included as part of the following section which brings the component parts of the financial appraisal together.

4.5 Overall Position

The table below compares the projected as-is position with the new single council under all three council tax harmonisation approaches.

[19] Savings uplifted to 2016/17 price levels where applicable

	A		B		C	
	Harmonise to the lowest rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at Year 1 (2019/20)	
Period	(2017/18 - 2024/25)		(2017/18 - 2024/25)		(2017/18 - 2024/25)	
Option	**As-Is**	**Single District**	**As-Is**	**Single District**	**As-Is**	**Single District**
	Cumulative (£'000s)		Cumulative (£'000s)		Cumulative (£'000s)	
Value of cash to be saved by 31 March 2025	(102,189)	(102,189)	(102,189)	(102,189)	(102,189)	(102,189)
Less impact of savings to be made pre-merger	*34,279*	*34,279*	*34,279*	*34,279*	*34,279*	*34,279*
Cash to be saved post-merger	(67,910)	(67,910)	(67,910)	(67,910)	(67,910)	(67,910)
Savings generated by merging	0	55,946	0	55,946	0	55,946
Sub-Total	**(67,910)**	**(11,964)**	**(67,910)**	**(11,964)**	**(67,910)**	**(11,964)**
Merger savings as a % of total requirement	0%	82%	0%	82%	0%	82%
Add:						
Costs of merging						
Transition Costs	0	(8,704)	0	(8,704)	0	(8,704)
Council Tax Loss	0	(37,863)	0	(830)	0	(54)
Risk adjustment	0	(3,475)	0	(3,475)	0	(3,475)
	0	**(50,041)**	**0**	**(13,008)**	**0**	**(12,232)**
Balance of savings to be identified	**(67,910)**	**(62,005)**	**(67,910)**	**(24,972)**	**(67,910)**	**(24,196)**
Balance of savings to be identified (%)	100%	91%	100%	37%	100%	36%
Balance of savings identified (%)	0%	9%	0%	63%	0%	64%

Table 19: Financial Summary over eight years

As noted in section 4.2, irrespective of whether a decision is taken to proceed with a merger, the councils will need to eliminate £4.9m of expenditure from their budgets in 2018/19 and find a further £16.1m over the following six years to 31 March 2025. The cumulative value of these required savings is £102m as shown in Table 19 above. The table compares the cumulative impact of the savings, transition costs and lost council tax income as a result of merging the five districts against the projected position if no changes occurred at all. The table highlights that a merger would deliver only 9% of the savings required between 2019/20 and 2024/25 if council tax rates were harmonised under the approach described as Option A per section 4.4.3 above. However, harmonisation under Option B or C results in a much lower value of income loss and consequently a merger, under either of these approaches, is projected to contribute between 63-64% to the savings requirement over the period to 31 March 2025.

This calculation also takes into account the transition costs, which equate to approximately one year's worth of savings[20], and a provision for the impact of the risks highlighted in section 4.4.4. As the table identifies, in the absence of such costs and risks, the gross savings projected from merging would deliver approximately 82% of the savings estimated as required between 1 April 2019 and 31 March 2025.

4.6 Sensitivity Testing

As explained in section 4.4.4, rather than adjust for optimism bias, a series of sensitivities have been performed on the projections set out in Table 19 above. The table below sets out

[20] The transition costs will start to be incurred prior to the creation of the new council and will therefore fall on the individual districts to finance. Consequently, a protocol will need to be agreed by all districts which agrees the process by which the costs will be funded and, if necessary, governs the use of cash reserves to ensure that sufficient financing ability is available.

the results of two sensitivity tests. The first illustrates the percentage reduction in saving estimates that would need to occur before the net benefit of merging districts is nil and, similarly, the second illustrates the percentage increase in transition costs that would need to occur for the net benefit of merging to be nil.

Harmonisation Option	A	B	C
Costs of merging	(50,041)	(13,008)	(12,232)
Savings generated by merging	55,946	55,946	55,946
Net benefit of merging	5,905	42,938	43,714
% change in Savings for the Net Benefit to be zero	**-11%**	**-77%**	**-78%**
Transition Costs	(8,704)	(8,704)	(8,704)
Additional Transition Costs for the Net Benefit to be zero	(5,905)	(42,938)	(43,714)
% change in Transition Costs for the Net Benefit to be zero	**68%**	**493%**	**502%**

Table 20: Sensitivity scenarios

The table above shows that savings would need to come in over 75% less than assumed, under harmonisation options B and C, for the as-is Case to be financially preferable. This margin of error is a lot lower under harmonisation option A where a fall in expected savings of more than 11% would result in the as-is case to be financially preferable.

The table also shows that transition costs would need to be approximately six times greater than currently modelled under harmonisations options B and C, for the cumulative benefit of merging to be eliminated over the modelled period. Under option A, however, a 68% increase on modelled transition costs would eliminate the net benefit.

4.7 CONCLUSION OF THE FINANCIAL CASE

The merger of the five district councils is an action that has the potential to make a significant contribution to the savings that will be required to be made over the six year period to 2024/25. It would involve relatively substantial one-off costs that account for just under one year's worth of projected savings and there are choices to be explored further as to how such costs would be financed. Once the merger is implemented and the reductions in operating costs achieved, the changes will have eliminated £8.7m, in 2016/17 prices, of annual expenditure from budgets which represents c. 11% of the current combined net revenue expenditure of the five districts. The extent to which this saving benefit resides within the council or is transferred to residents, depends upon the choice of approach to harmonising council tax rates.

5. MANAGEMENT CASE

5.1 Introduction

This section of the business case addresses the 'achievability' of the proposed option. Its purpose therefore, is to set out the actions that would be required to ensure the successful delivery of the proposal in accordance with best practice.

5.2 Programme and Project Management (PPM) Methodology and Governance

Moving five districts into one represents a major programme of change, not only the structure and operation of the organisation but also the culture. Research of previous major re-organisations has shown that dedicated resources are required to deliver change of this magnitude and that resourcing this change using officers on a part- time basis who have another 'day job' is not a viable option.

The districts currently use programme and project management methodologies based on (respectively) Managing Successful Programmes (MSP)[21] and PRINCE2[22]. As these are well-recognised approaches, we assume the new programme would adopt these (in the form they have been implemented in the districts).

The proposed Governance structure of the programme is set out in the schematic and subsequent paragraphs below.

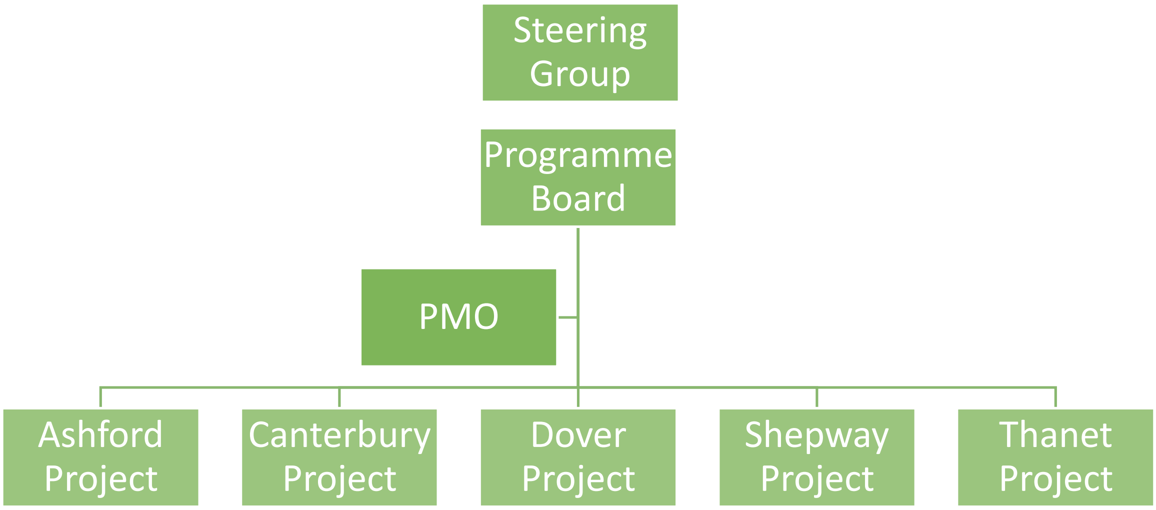


Figure 1: Proposed governance structure for implementation programme

[21] MSP is a methodology which supports the management of multiple projects that typically aim to deliver strategic organisational benefits in a complex business environment

[22] PRINCE2 (an acronym for **PR**ojects **IN** **C**ontrolled **E**nvironments) is a process-based method for effective project management.

Steering Group

The Steering Group would provide strategic and political leadership for the overall programme to create a new council and is responsible for:

- agreeing the scope of the programme
- appointing the programme board
- appointing the programme director
- providing decisions and steers as required on the scope and strategic issues
- monitoring progress on delivery
- managing risks that have been escalated from the programme board

The Steering Group would comprise the leaders from each council or their designated substitute. In addition, other councillors may be involved (e.g. portfolio holders). It would be good practice to ensure that Member representation on the Steering Group reflects the current political balance of the existing councils.

If Secretary of State approval is granted for the new council to be established then an Implementation Executive would be established as the decision making body for the new council until Members of the new authority are elected. It is assumed that at this point the Steering Group would fold into the Implementation Executive (with the same membership).

The Steering Group (Implementation Executive) would meet monthly (more frequently when required). It would be chaired by one of the leaders on an agreed rotating basis. The programme director would report to the Steering Group.

Programme Board

The Programme Board is responsible for delivery of the programme benefits. The Programme Director is the Senior Responsible Owner for the programme to create a new council and accountable to the Steering Group for delivery of the programme.

The Programme Board would:

- review the scope of the programme and make recommendations to the Steering Group
- provide decisions and steers as required by the constituent projects
- monitor progress on delivery
- manage risks that have been escalated from the projects

The Programme Board would be chaired by the Programme Director and comprise the Chief Executives from the five districts, a nominated S151 officer to act as the finance director for the programme, a nominated legal representative and a nominated HR lead (both of the latter to act on behalf of the five districts).

Programme Management Office (PMO)

The Programme Management Office (PMO) would provide administrative support to the programme and project managers, as well as act as the secretariat for the Steering Group and Programme Board.

Projects

Each district would appoint a project manager to lead the work-streams to create a new council for their authority. The aim of each project would be to ensure that all aspects of the change required in their district to give effect to the new combined district are delivered by 31st March 2019 within budget and to agreed quality levels.

5.3 PPM Management Plans

As indicated above, the programme would be managed using a combination of MSP and PRINCE2 (as implemented within the districts). As a minimum this would include:

- a Programme Initiation Document (PID)
- Project Initiation Documents (PIDs) for each of the underlying projects
- project plans / GANTT charts setting out the activities at project level
- a Programme plan capturing key activities milestones and dependencies (drawn from the project plans and including programme-level activities)
- a Risk Management strategy and approach for the programme, expected to include a programme-level risk register and risk registers for each project (see also section 5.6 below)

5.4 Transition Arrangements

It is anticipated that a detailed transition plan would be developed if there is agreement to proceed by the council in March 2017. The key transitional activities are described at a high level below:

5.4.1 Governance

- Establishing Member and Officer led governance arrangements (see sections above regarding Steering Group and Programme Board). These bodies would need to articulate a clear overall vision, constitution, structure and required outcomes for the programme and new council
- Developing a benefits management approach which allocates clear responsibility for the delivery of benefits, which would be tracked at both the Steering Group and Programme Board level. Milestones against the delivery of key benefits would need to be incorporated into the detailed transition plan.
- Agreeing transition ground-rules which all the councils can sign-up to. As an example these may include:
    - agreeing the reserves that each authority has committed and the balances forecast at vesting day

    - no major actions taking place to change the position on reserves, assets, debts and risks without prior disclosure with partners
    - no senior staff recruitment without prior disclosure / discussion with partners

5.4.2 Finance

- developing comprehensive data sets regarding staff, assets and current contracts
- planning staff, assets, and liabilities transfer to the new entity (see commercial case)
- budget amalgamation and setting a budget structure for the new council, including agreeing a process for council tax harmonisation (see commercial case)
- planning contract novation / rationalisation and re-tendering as appropriate
- asset planning – this business case assumes that there would be some asset rationalisation. There is also likely to be a need to invest in those assets that would be retained

5.4.3 People

- recruiting the Programme Management Team and other lead officers to support the establishment of the new council
- developing a communications strategy to engage staff, members and other stakeholders, keeping them up to date on progress and articulating the benefits of the new council
- developing HR guidance and processes to minimise external recruitment, retain expertise (e.g. through 'ring-fencing' of posts), ensuring a smooth redeployment of staff and supporting effective collaborative working during the transition period.
- recruiting senior posts (advertised openly)
- preparing new staffing structures
- planning for pay and conditions harmonisation, including role descriptions and pay structures
- planning (voluntary) redundancy activity - it will be important to commence this work as early as possible in order to achieve savings as profiled (i.e. 75% of savings achieved in year one of the new council , the majority of which are staffing savings)
- planning the induction of staff and Members

5.4.4 Stakeholder Engagement

As discussed in the Strategic Case, the programme would need to develop a Stakeholder Engagement strategy and plan. This should cover

- Identification of all key stakeholders and interested parties regarding transition plans (including staff, Unions, MPs, Kent County Council, Parish and Town Councils, partnerships, the business community, the voluntary sector and other local public bodies)
- Developing appropriate engagement mechanisms for each stakeholder or stakeholder group and using those to inform a comprehensive communications plan

- Engaging DCLG on plans to create a new council and other relevant issues (e.g. plans to maintain City status for Canterbury)

5.4.5 Localism - Options for Consideration by the East Kent Councils

Considering proposals to provide stronger, more effective local leadership as described in section 1.8 of this business case and implementation of the agreed approach.

5.5 Costs

The costs of the initial programme to establish the new council (from April 2017 to October 2019) have been included within the transition costs in section 4 – the Financial Case.

5.6 Next Steps – Timetable

An indicative timetable for progressing with a merger has been set out below.

Activity	Indicative Timings
Engagement with DCLG on draft business case	Early 2017
Each council to agree to proceed with business case subject to any engagement required / agreed	22 March 2017
Possible engagement period	Spring 2017
Executive decision by cabinet of each council to proceed with project for a new East Kent Council	July 2017
Proposals to merger submitted to DCLG (demonstrating clear political commitment from districts involved)	July 2017
Government – agree to implementation	Autumn 2017
District councils invited to make representations (optional)	Autumn 2017
Final Decisions	Autumn 2017
DCLG to prepare necessary statutory instruments modifying existing merger legislation where required (in order to establish new organisation, wind up the old ones and make transitional arrangements)	Autumn 2017
Each council invited to give formal consent to merger / new entity	Autumn 2017
New entity considered by Houses of Parliament	Autumn 2017
Secretary of state decision	Autumn 2017
Boundary commission undertake electoral review (NB this is optional but preferred approach of DCLG – alternative is an Order that creates a new council, using temporary wards as basis for the first election, and subsequent election boundaries considered by Boundary Commission).	Autumn 2017 to Autumn 2018
Establish Implementation Executive (decision making body until members of the new authority are elected)	Nov / Dec 2017
Agree initial structure for the new council	Dec 2017
Likely TUPE consultation period commences (to be confirmed on the basis of legal advice)	Dec 2017 / Jan 2018

Activity	Indicative Timings
Implementation Executive commences recruitment of senior posts (externally advertised)	Early 2018
Implementation Executive agrees Council tax harmonisation discretionary order with DCLG	2018
Implementation Executive sets first year budget for the new authority and council tax rate	Late 2018/ early 2019
First year budget for the new authority and council tax rate confirmed by all Councillors	Late 2018/ early 2019
New council legally takes effect (Vesting Day)	April 2019
Elections to new council	May 2019

Table 21: Indicative time-line for implementation

5.7 Risk Management

In addition to the benefits which the creation of a new council can deliver, and the additional opportunities for growth, there are also significant risks. By providing key stakeholders with visibility and clarity about the risks in creating the new entity, there is the opportunity to understand and appreciate their impact and develop mitigating actions.

Appendix D contains a table that provides an initial list of key risks in relation to the creation of a new council. An exhaustive list of risks should be maintained and monitored as part of the ongoing Governance process in order to put in place the steps to mitigate risks as early as possible, in accordance with the risk management strategy developed and implemented by the programme.

5.8 CONCLUSION OF THE MANAGEMENT CASE

The merger of five districts into a single new council is a major change programme that would require dedicated resource and effort. In addition, the delivery date for the new arrangements is challenging. Whilst further detailed planning is required to establish a firmer set of programme milestones, if the approach set out in this section of the business case is adopted in accordance with the proposed timescale, implementation on time appears feasible.

APPENDIX A – Detailed analysis of strategic objectives set out in the East Kent districts Corporate Plans

Driver	Focus area	Auth	Methods to deliver growth
Economy	Attracting investment	ABC	Seek inward investment in new projects using council resources as trigger where needed
		DDC	Work with SELEP and partners to stimulate investment
			Promote existing enterprise zone
			Branding to drive investment
		TDC	Actively seek inward investment with exploration of enterprise zones
	Town centre	ABC	Elwick Place development (Ashford)
			Attract occupiers (incl. independent retailers) to Park Mall
		CCC	Establish sustainable town centre management activity (Herne Bay)
			Development of activity on Pier (Herne Bay)
			Town centre developments and improvements (Canterbury, Whitstable, Herne Bay)
		DDC	Continuation of district regeneration programme
			Support delivery of Coastal Communities Fund
		SDC	Support town centres
	Range and skill level of job offer in area	ABC	Delivery of Ashford college
			Invest in new space for 'high tech' companies
			Support development of apprenticeship schemes.
		CCC	Create hi-tech work spaces via a business hub and planning
			Encourage retention of graduates with suitable jobs (Canterbury)
			Work with education providers to develop relevant local skills to enable job growth
			Use procurement to secure jobs and apprenticeships for local people
		DDC	Work with employers and training providers to identify skill shortages
			Improve access to local job opportunities through annual job fair
			Support Discovery park enterprise zone to attract new businesses into district
		SDC	Work to ensure the retention of a further education offer in Folkestone
			Provision of apprenticeship scheme
		TDC	Work with partners to develop skills agenda

	Encouraging and enabling business	ABC	Focus on business space delivery in local plan
			Commercial Quarter development (Ashford)
			Incubator units for entrepreneurs
		CCC	Support diversification through business development (Whitstable)
			Deliver business start-up space
		DDC	Betteshanger sustainable business parks development (inc. business incubation hub)
			White Cliffs business park phases 2,3,4 development
		SDC	20 hectare development of office/industrial development by 2031
			Increase supply of business incubation units
		TDC	Maximise commercial opportunities for key assets
		TDC	Write local plan in support for growing the economy
	Infrastructure improvements	ABC	M20 J10a
			A28 dualling
			Eurostar signalling
		CCC	A2 junctions (Canterbury)
			New park and ride services (Canterbury, Whitstable)
			Herne and Sturry relief roads
			Car park improvements – accessibility and presentation
			Tackle congestion
		DDC	Support solution to operation Stack
			Support third thames crossing
			Support rail accessibility and Thanet Parkway
			A2 dualling
			Improvements to parking
			Improvements to access – North Deal (A258)
			Bus Rapid Transport system and Cable Car (Dover)
	Boost rural economy	ABC	Encourage rural business projects
			Encourage projects to boost tourism
			High speed broadband improvements
		CCC	Support new business ideas

		DDC	Improved digital connectivity (across district)
	Tourism	ABC	Encourage projects to boost tourism
			Build on success of Tourism Symposium
			Provide modern visitor information service
		CCC	Increase amount of overnight and holiday accommodation
			Marketing and visitor signage improvements (Herne Bay)
			New hotels (Canterbury)
			Complete Kingsmead regeneration (Canterbury)
		DDC	Work to bring the Open Golf Championship back to Sandwich
			Tourism developments across the district
			Continue to support the White Cliffs Country Tourism Alliance
		SDC	Targeted projects to increase number of visitors and improve reputation
			Ensure community benefits from attractive coastline
Housing	Housing supply	ABC	Local plan to meet need for market housing – growth over 5, 10, 15 years
		CCC	Deliver 16,000 homes and infrastructure by 2031
		DDC	District regeneration programmed development
			Address five-year land supply deficit
			Review SHLAA and identify sites previously ruled out as floor risk now to be included for housing
		SDC	Average 350-400 new houses built per year by 2018
			Reduce number of long-term empty homes in the district
			Identify suitable land for housing development
			2000-2500 new affordable dwellings by 2031
	Expanding home ownership	ABC	Develop a staircase to ownership & support right to buy extension
			Deliver more affordable housing in rural and urban areas
		CCC	Build housing for those struggling to afford market prices
		SDC	100 new affordable homes built each year to 2018, 32 of which to be low cost ownership
		TDC	Ensure access to affordable housing for residents
	Meeting the needs of residents	ABC	Increase in housing choices for older people
			Encourage new purpose built rental accommodation for commuters
		CCC	Reduce homelessness

			Encourage purpose-built student accommodation
			Intervene to improve the quality of private rented accommodation
			Enable independent living
		DDC	Increase no. of homes benefitting from Warm Homes and Energy Switch initiatives
			Review disabled facilities grant to improve efficiency
			Update Housing strategy to meet local need, increase choice
		SDC	Reduce homelessness and support families at risk of losing a home
			Intervene to improve the quality of private rented accommodation
			Maintain average SAP rating in council homes
		TDC	Ensure local residents have access to good quality housing
	Planning process	ABC	Include space and quality standards as development requirements
			Strengthen approach to planning enforcement
			Housing management companies managed by local residents where possible
		CCC	Insist on high quality design for new developments
			Take enforcement action against planning breaches
		DDC	Support town and parish councils in developing neighbourhood plans
		SDC	Introduce CIL charging to contribute to local infrastructure
			Support town and parish councils in introducing neighbourhood plans
Place	Open spaces	ABC	Develop best mix of new and existing parks and green spaces
			Incorporate public art and cutting edge design
			Create Landscape Action Team
			Bring forward green corridor action plan to improve presentation, signage, planting and water quality
			Masterplan future development at Conningbrook
			Planned improvement to key public space and parks
		CCC	Maintain Purple Flags accreditation
			Environmental improvements in Herne and Sturry to complement new relief roads
			Implement a street tree replacement programme (Canterbury)
			Investigate extending pedestrian area in city centre (Canterbury)
			Create and maintain high-quality open spaces
			Make parks, play areas and open spaces people want to use

			Retain blue flags and In Bloom awards
		DDC	Increase number of projects that directly involve local communities in improving green spaces
			Deliver improved grounds maintenance service from March 2017
		SDC	Transfer parks, open spaces and assets to town and parish councils where appropriate
			Provide public spaces which are clean and well maintained
			Achieve Blue Flag status for Sandgate
			Retain existing Green Flag status and expand to other parks
		TDC	Keep parks and open spaces clean for residents and visitors
	Leisure Offer	ABC	Develop cycle town strategy linking green spaces
			Invest in new and refurbished sports, culture and leisure facilities
			Extend recreational offer at key sites (Conningbrook, JRS)
			Strengthen sport through the Local Plan and master planning
			Work with the private sector on leisure provision
			Support Tenterden's leisure offer
		CCC	Ensure affordable, varied and locally accessible leisure facilities
			Rebuild or refurbish Kingsmead
			New leisure facility in Whitstable
			Promote walking trails and cycling routes
			Enable improvement of cycle routes
		DDC	Develop proposals for a new leisure centre
	Cultural focus	ABC	Deliver town centre cinema and associated attractions
			Continue support for Revelation St Mary's
			Develop Create and exploit its brand
			Attract cultural industries
			Strengthen culture through the Local Plan and master planning
			Work with the private sector on cultural provision
			Support Tenterden's cultural offer
		CCC	Offer broad programme at the Marlowe Theatre
			Develop multi-screen cinema at Kingsmead
			Educate and interest public through museums programmes and collections

			Develop a fascination for theatre through youth work
			Encourage and produce range of festivals, markets and events
			Support and publicise venues with youth appeal
			Facilitate local entertainment and community venues
	District presentation	ABC	Improve presentation through green corridor action plan
		CCC	Work with residents, universities and businesses to keep district clean
			Regular street cleaning
			Efficient waste and recycling collections
			Remove flyposting and graffiti
			Prevent littering through awareness campaign and rigorous enforcement
			Enforce rigorously against fly-tipping
			Explore options to improve KCC owned verges and roundabouts
		DDC	Deliver a recycling and waste service that customers are satisfied with & that DDC are proud of
			Provide a simple, effective and reliable street cleaning service
			Enforcement and education on ‘enviro-crime’ such as littering and dog fouling
		SDC	Review and improve enforcement activity relating to dog fouling, littering, flytipping and flyposting
		TDC	Continue to improve waste and recycling services, reduce waste and increase recycling
			Maintain zero tolerance approach to encourage positive behaviour to help environment
	Heritage and Wildlife	CCC	Manage and invest in heritage sites across the district
			Enable expansion of Duncan Down
			Implement Reculver management plan
			Extend and enhance Canterbury’s riverside network
			Deliver Seasalter levels environmental restoration project (in partnership with RSPB)
People	Health and wellbeing	ABC	Support best solutions for healthy and active communities in new developments
			New approach to activities for growing elderly population
		CCC	Rigorously apply standards to food safety
			Tackle health inequalities through work with specific target groups
			Focus early intervention work on target groups
			Focus community support resources on individuals and families most in need
			Provide Lifeline service for vulnerable people

			Work with others to tackle isolation and financial hardship
			Raise staff awareness on how to meet needs of vulnerable groups (e.g. dementia sufferers)
			Sign-post individuals in need to other organisations that can provide support
		DDC	Maintain standards of food safety
			Support delivery of an Integrated Care Organisation for the South Kent Coast Area
			Work to address wider determinants of health – improving housing, promoting healthy lifestyles
			Manage effective prevention through Council services inc. Licensing, environmental protection
			Reduce health inequalities focussing on particular target groups and neighbourhoods
		TDC	Support people to make better lifestyle choices
			Work to reduce health inequalities
	Community protection	CCC	'Design out crime' through urban planning
			Enforce action against ASB
			Work with communities and police on crime prevention and detection including effective use of CCTV
			Limit the impact of dangerous flooding
		DDC	Deliver community safety initiatives to reduce levels and impact of crime and ASB across district
			Work with communities to improve resilience and preparedness for extreme weather (e.g. flooding)
			Promote improved understanding of equality and diversity
		SDC	Support people into work through the Troubled Families Programme
			Deliver a risk-based approach to tackling anti-social behaviour
		TDC	Work with partners to improve community safety
Council governance	Grant funding plans	ABC	Achieve and maintain independence from central government funding
			Housing growth to deliver NHB
		CCC	Be financially self-reliant (without needs based grant) by 2019
		DDC	Recognition of forecast reduction of grant to almost nil by 2020, no explicit plan
		SDC	Maximise income and alternative funding schemes
			Maximise return on ICT innovation fund
	Income generation	ABC	Develop trading companies to generate income
			Find and exploit new funding opportunities
			Invest in borough
		CCC	Commercial approach where possible with aim of being self-financing

			Make the most of ability to attract additional funding and investment
		DDC	Expand property portfolio
			Generate additional income and best return from own assets
		SDC	Establish a regeneration and housing company
	Making savings	ABC	Manage costs and inflation
		DDC	Focus on ‘Spend and save’
			Maximise use of technology and digital services
			Keep tight control of spend, robust management of assets, procurement and income
		SDC	Redesign service models – commercial approach to procurement
			Reduce office accommodation costs
			5% overall operational savings per year
	Service standards	ABC	Handling complaints effectively, fairly and in a timely manner
			Avoid unnecessary contact
			Use consultation to inform actions
		CCC	Only consult where there is a genuine opportunity to influence the decision
			Fulfil duties under Equalities Act 2010 in service delivery
			Maximise service accessibility to local people and businesses
		DDC	Improve public communication (both digital and traditional)
			Support and develop workforce
			Maintain transparency, openness and accountability in decision making and information provision
		SDC	Improve customer service standards
			Widen times and means to contact the Council
			Retain Customer Service Excellence Accreditation
			Develop and promote range of training opportunities
		TDC	Operate in an open, honest and accountable manner
			Provide clear, meaningful and timely communications
			High performance standards for staff
			Recruit and retain skilled, committed and motivated people
	Collaboration with other bodies	ABC	Consider closer collaboration with public sector (in borough or neighbouring) to save costs
		CCC	Work in partnership ‘where it makes sense’

		DDC	Explore sharing resources and staff with other councils to reduce costs
			Collaborate to achieve efficiencies and 'protect services that matter'
		TDC	Work with partners to improve community safety
			Collaborative partnership to reduce health inequalities
	Devolution/ Community engagement	DDC	Support communities using Right to Bid, Right to Challenge etc.
			Support ward Councillors in developing community leadership role
			Increase voter registration through targeting unregistered households
		SDC	Transfer of assets to Town/Parish Councils
			Provide a community participation and empowerment strategy to develop Ward Councillor role

APPENDIX B – More Detailed Analysis of Economic Context of East Kent

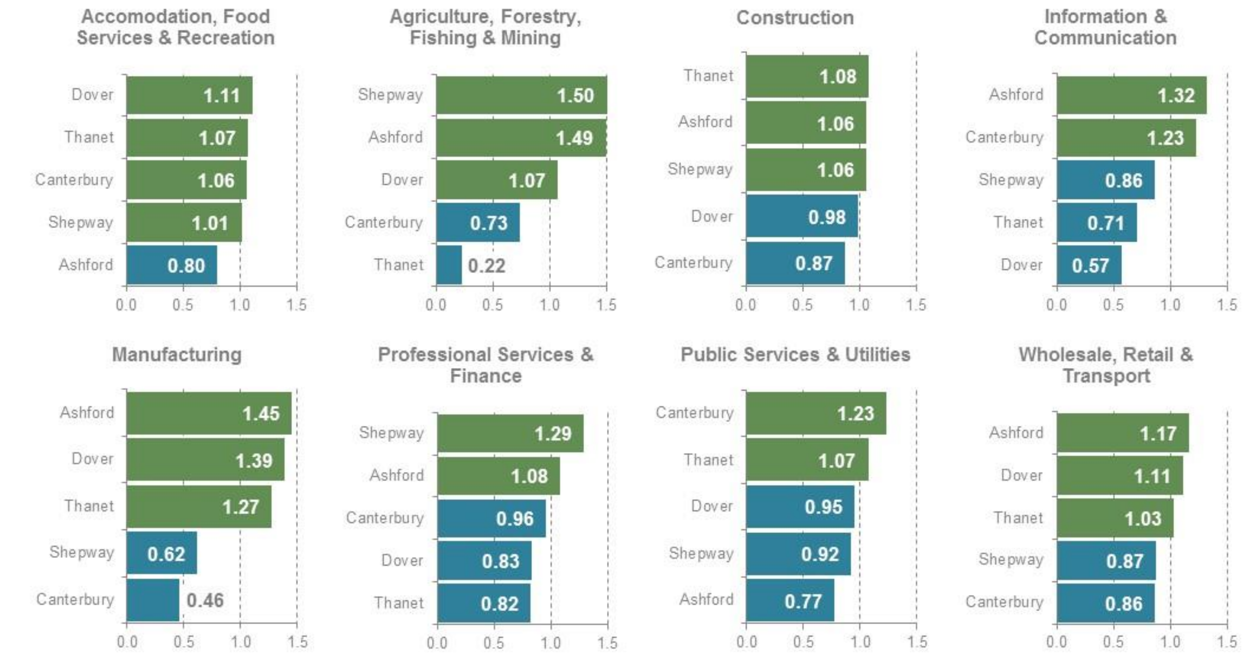
Economy

- Kent as a whole has registered the second highest level of job growth out of the South East Counties since 1997. In terms of the total workforce jobs, the East Kent economy is about a third of the total for Kent (c270,000 out of c820,000) and the level of job growth is comparable at 22%

- Ashford and Canterbury provide more than half the jobs in East Kent, with only Dover recording a reduction in jobs since 1997

- Whilst EK does have a greater share of public sector jobs and a smaller share of higher value sector jobs, recent job growth has been relatively strong in several of the latter; for example professional services and finance; information and communication

- The five districts complement each other in terms of the particular sector specialisation they support relative to the overall East Kent pattern – see Figure 2 and paragraphs below. This provides opportunities to capitalise upon those specialisms without competing with different areas within the sub-region



Source: Experian (September 2016) / NLP analysis

Figure 2: sector specialisation across East Kent (showing the relative strength of a sector compared to the rest of East Kent)

- Ashford – information and communications; wholesale retail and transport; manufacturing

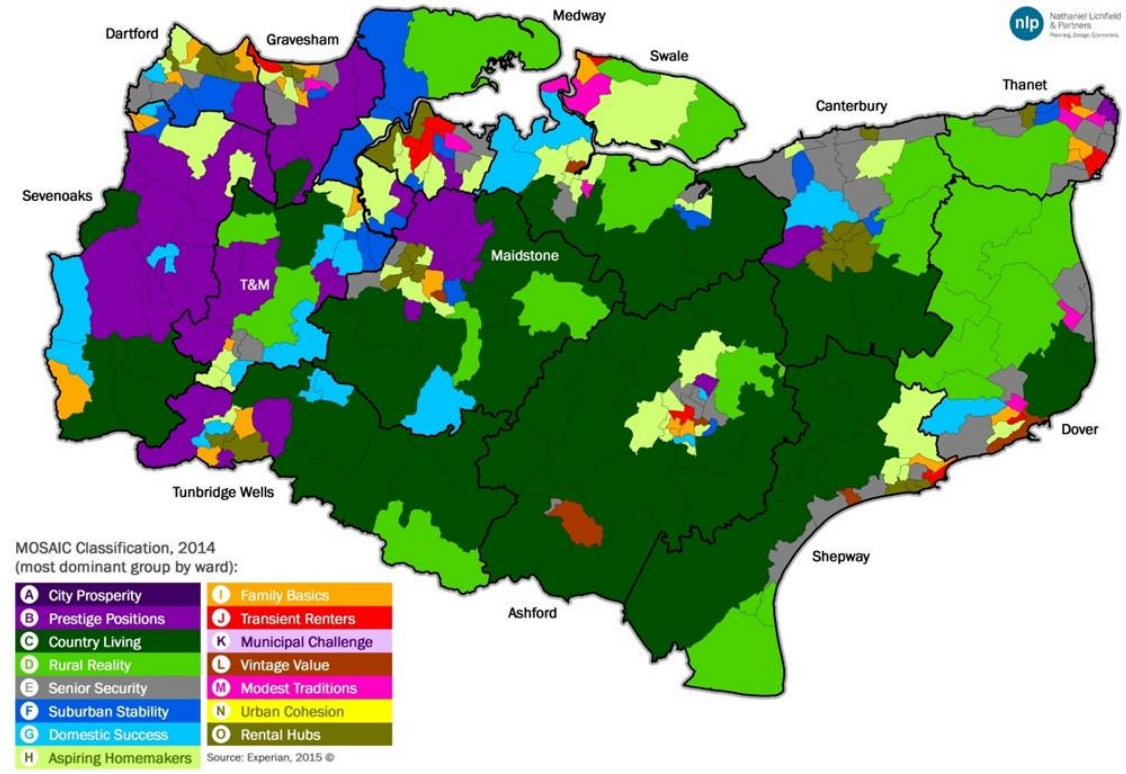
- Canterbury – information and communications; public service and utilities

- Dover – accommodation, food services and recreation; wholesale, retail and transport
- Shepway – agriculture, forestry, fishing and mining; professional services and finance
- Thanet – construction; manufacturing

- Productivity within both Kent and East Kent has improved, but less than for the South East as a whole and the gap is widening
- More than 60% of the economic output growth in East Kent since 1997, was delivered by Canterbury and Ashford
- Business start-up rates in East Kent have generally been low, but the growth in enterprises has been stronger.

People

- East Kent has recorded significant working-age population growth over the last 20 years and this trend is expected to continue in most areas; the share of working-age population is very similar to the rest of Kent and the South East
- East Kent is a strong net importer of people, particularly to Canterbury. Internal migration within East Kent also indicates that there is a strong net outflow from Canterbury to other parts of the sub-region.
- There is a high degree of self-containment within East Kent – most people who move house do so either within the same local authority or within the sub-region (between 72% and 82% for the latter). Taken together with the previous bullet point, this suggests that Canterbury acts as an 'attractor' for the region as a whole.
- The 'mosaic' classification undertaken by Experian indicates an interesting pattern of dominant groups across the sub-region (see Figure 3 below). The majority of East Kent is either 'Country Living' or 'Rural Reality' compared to significant areas of 'Prestige Positions' in west Kent, where commuting to London predominates. However, there are notable areas of retired populations ('Senior Security') around the East Kent coastal stretches and a diversification of group types around Ashford and Canterbury. Looking forward the opportunity for East Kent as a whole could be to spread that diversification whilst retaining the character of the sub-region as a sought after rural location.



Source: Experian Mosaic / NLP analysis

Figure 3: Mosaic Classification 2014 for Kent

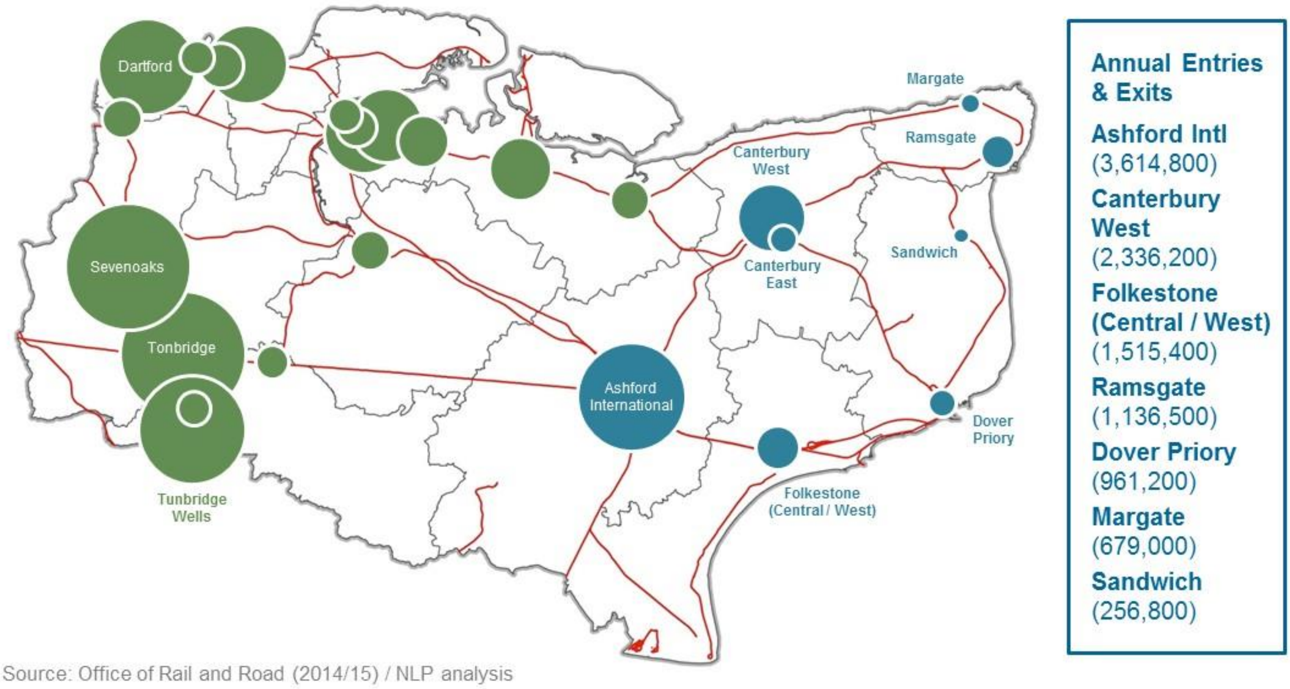
- There has been a decrease across the whole of East Kent in the number of people with no qualifications. However, qualification attainment is highest at all levels within Canterbury and lowest in Thanet

- East Kent is a considerable net exporter of labour, with a substantial number of workers commuting to London. Commuting patterns within the sub-region indicate that both Canterbury and Ashford support the employment needs of a large share of the residents of the area as a whole. However, 'self-containment' in terms of jobs is highest for the most eastern authorities

<u>Place</u>

- Housing completion rates have started to recover after the credit crunch and associated down-turn. Ashford and Canterbury have the greatest proportion of detached and semi-detached stock of the East Kent districts and also both face the greatest challenges in terms of affordability

- Station usage in East Kent is lower than the rest of Kent, reflecting London commuter belts (see Figure 4 below). However, there are noticeable 'hot spots in Canterbury and even more so in Ashford. Overall rail station usage has increased across the sub-region since the introduction of high speed rail services.



Source: Office of Rail and Road (2014/15) / NLP analysis

Figure 4: Rail Station usage in East Kent compared to the rest of Kent

- Road infrastructure includes key local and strategic links such as the M20, A2/M2, A21 and A229
- Employment floor-space in East Kent as a whole is dominated by the industrial foot-print in Ashford and Dover, whereas office space growth in Thanet and Ashford has been offset by losses elsewhere.

APPENDIX C – Balance Sheet Review

The table below shows a summary of the balance sheet position of each Authority per their latest published financial statements as at 31 March 2016.

	As at 31 March 2016								
	£'000s								
Council	Long Term Assets	Current Assets	Current Liabilities	Long Term Liabilities	**Net Assets**	General Reserves	HRA Reserves	Unusable Reserves	**Total Reserves**
Ashford	359,337	15,580	(16,886)	(207,708)	**150,323**	25,841	7,868	116,614	**150,323**
Canterbury	505,119	40,465	(25,080)	(190,359)	**330,145**	33,985	6,726	289,434	**330,145**
Dover	282,847	58,396	(20,109)	(165,647)	**155,487**	36,111	9,402	109,974	**155,487**
Shepway	207,409	25,918	(14,015)	(119,966)	**99,346**	26,583	5,864	66,899	**99,346**
Thanet	237,647	38,276	(26,109)	(132,907)	**116,907**	24,860	5,296	86,751	**116,907**
Total	1,592,359	178,635	(102,199)	(816,587)	**852,208**	147,380	35,156	669,672	**852,208**

Table 22: net asset value of each of the five East Kent Districts

Net Asset Value

As the table demonstrates, the net asset value represents the difference between the total value of assets held by each local authority and the total value of their liabilities.

The typical assets are a mix of large, long term items such as land and property, and shorter term, lower value items such as cash balances and money due to it, as at the year end.

The liabilities are also split into larger, long term items such as pension fund deficits and money borrowed for capital investment as well as shorter term items such as money owned by the council at the year end.

A desk top review of the assets and liabilities of each council has been undertaken, which has highlighted the following notable features.

Notable assets and liabilities		
Ashford		
		Leading the development of land at Elwick Road to enable the Elwick Place development consisting of a multiplex cinema, hotel and restaurants.
		Hold investment properties generating £1.6m pa
		PFI housing assets of £14m contracted until 2037
		Has two wholly owned subsidiaries, A Better Choice for Property Limited and A Better Choice for Building Consultancy Limited
		Guarantor for the Pension Liabilities of Ashford Leisure Trust
		Provision for the repayment of Regional Infrastructure Funding (RIF), used to pay for works to the Drovers Roundabout and the M20 junction 9 and footbridge. RIF funding was paid to KCC for the schemes by SEEDA. A condition of these agreements is that, money collected from developers in respect of these works through the planning process by Ashford Borough Council will be paid to HCA. However, the Council's liability is limited to the total amount received in each case.
Canterbury		
		Generates £4.7m of income from £76m of commercial and industrial property;
		Recently incurred £74m of debt to fund the purchase of a stake in the Whitefriars shopping centre, with borrowing costs to be covered by rental income;
		Responsible for maintaining a number of heritage assets such as city walls and the Westgate;
		£3.6m outstanding of a £5.5m loan to Kent County Cricket club;
		Accountable for a share of the pension liability of East Kent Housing (EKH) along with other EKH partners
Dover		
		£300k pa from investment income on assets valued at £2.2m. This income is from investment properties, which are shown on the balance sheet based on the capitalisation of rental income
		Dover has a pension fund liability of £77m. However, this is a technical accounting liability. The level of annual contributions is determined by the pension fund actuaries who are content that the pension fund is sustainable and is being properly funded.
		Accountable for a share of the pension liability of East Kent Housing (EKH) along with other EKH partners
		Enterprise Zone Relief is granted to businesses in the Discovery Park, Sandwich, which is a designated Enterprise Zone. This practice is in common with all Enterprise Zones. The Enterprise Zone will not be affected by the proposed merger and does not have a material bearing on the business case
Shepway		
		The Council has set up a wholly owned subsidiary entity to generate additional income streams for the Council and to provide residential housing in the district (Oportunitas Ltd)
		Generates £90k pa from investment income on assets valued at £6.8m, 80% of which is agricultural holdings
		Accountable for a share of the pension liability of East Kent Housing
Thanet		
		The Council now owns the Dreamland site in Margate. This site comprises land that is used as an amusement park/fairground and a cinema complex with associated facilities.
		Receives £1.3m of Investment income pa on property valued at £25m
		Council acts as Guarantor for £0.5m loans to Your Leisure
		Accountable for a share of the pension liability of East Kent Housing (EKH) along with other EKH partners
		Responsible for the Port of Ramsgate

Table 23: notes on assets and liabilities of each district

Further "due diligence" work is now required by the s151 officers to consider whether there are significant risks or issues within or outside of the balance sheets that should be shared with, and understood by, the councils.

Total Reserves

The net asset value of each local authority equates in value to what it holds as Reserves. A significant proportion of the Total Reserves value is classified as unusable whereby they are simply a result of accounting transactions rather than a resource that can be used e.g. a record of how much the value of assets have increased. Of the usable element i.e. can be applied to new activity and investment, these have been split between those that are ring fenced under legislation for social housing i.e. Housing Revenue Account (HRA) and those that can be applied for general use.

The value of general usable reserves available to each local authority is a useful measure of their relative worth and when adjusted for size, by comparing the value on a per household basis, highlights that broadly each council has usable reserves of between £6-700 per household. This is with the exception of Dover which has a figure that is almost 66% higher at c. £1000 per household.

	Ashford	Canterbury	Dover	Shepway	Thanet
Total usable reserves per property (£)	633	684	972	722	594

Table 24: value of useable reserves

Dover is holding £12.5m in reserve for the town's regeneration and economic development with their capital programme identifying spend of £11m which includes £8.5m over the next two years on a new leisure facility and major town hall refurbishment.

Canterbury is also planning to invest in a new leisure facility in 2018/19 and invest £5m in a decked car park.

Shepway has set up a company to operate commercially in property development and management and is intending to make a loan of £2m to its company for property acquisition.

Thanet's capital programme is configured around its' ports and seaside facilities, mainly involving repairs and renewal type spend e.g. sea walls and specialist vehicle replacement. Its reserves also include £5.5m to expand its social housing stock within its Housing Revenue Account through both acquisition and new build.

All five local authorities operate a Housing Revenue Account, featuring a combined portfolio of approximately 21,000 dwellings. Table 25 below provides some summary metrics in relation to each of these accounts.

Year to 31 March 2016					
	Ashford	Canterbury	Dover	Shepway	Thanet
			£'000s		
Income					
Dwelling rents	23,985	23,857	19,767	14,921	13,030
Other	4,532	2,152	1,402	1,331	932
Sub-total	28,517	26,009	21,169	16,252	13,962
Expenditure					
R&M	3,708	6,137	2,732	2,935	3,275
Management	5,178	5,915	3,905	4,049	3,392
Depreciation	5,400	3,511	1,730	8,168	3,322
Share of corporate costs	864	121	466	187	149
Interest payable	3,745	2,368	2,843	1,753	811
Sub-total	18,895	18,052	11,676	17,092	10,949
Net	9,622	7,957	9,493	(840)	3,013
Other*	(7,275)	(7,021)	16,625	19,658	(1,318)
Total	2,347	936	26,118	18,818	1,695
Reserves (£'000s)	7,868	6,726	9,402	5,864	5,296
No. of dwellings	5,030	5,165	4,374	3,370	3,031
Annual Rental per dwelling (£)	4,768	4,619	4,519	4,428	4,299
Asset value	234,047	272,065	183,498	145,459	114,926
Asset value per dwelling (£)	46,530	52,675	41,952	43,163	37,917
Yield per dwelling	10.2%	8.8%	10.8%	10.3%	11.3%
Reserves per dwelling (£)	1,564	1,302	2,150	1,740	1,747

Table 25: summary metrics of HRA accounts for each district

It is inadvisable to draw conclusions as to the relative financial strength of each HRA upon a single year's set of figures[23]. The annual rental per dwelling shows little variation between councils, which would be expected, given the basis of rent calculation. It indicates a relatively homogenous type of offering although Ashford appears to feature proportionally more, larger, properties than Thanet at the other end of that scale.

There is variation in the value of reserves per dwelling but these will be a function of the 30 year viable business plans that councils had to produce four years ago as part of the self-financing HRA policy implementation. The recent Government decision to cap rent rises will impact on the income assumed within the plans while other policy changes are in the

[23] The "Net" figure shows the accounting position of each councils' account based upon typical income and expenditure elements. The accounting requirement to assess changes in asset valuations means that the account can be subject to disproportionate movements as a result of reflecting increases or decreases in asset value and these are shown within the subsequent line - 'Other*'.

pipeline e.g. high value housing disposal which will, if implemented, also impact on the resource levels assumed within the projections.

APPENDIX D - Risk Log

The table below describes key risks and mitigating actions relating to the creation of a new council

Risk	Description	Mitigation
1. Changes in the expected costs and benefits of the merger	The merger may not achieve the identified savings, either through delayed benefit realisation or increased transition costs, with the risk that financial sustainability is not delivered after merger	• Establish a clearly defined benefits management process to enable the rapid identification of benefits which are unlikely to be realised. • Establish a comprehensive change programme – with strands dealing with people change, process change, technology change and asset rationalisation • Programme management resource to forecast and track both benefits and transition / investment costs and report regularly to the Steering Group and Programme Board
2. Adverse impact on Business-As-Usual	The implementation of the new entity will involve a high degree of change. Maintenance (and improvement) of service delivery in this uncertain environment will be a challenge. There is a risk of a 'dip' in service performance whilst the transition to the new entity is completed	• Establish a clearly defined implementation and change management approach (see above – Risk 1) to support the transition to the new entity • Develop a communications strategy to help articulate how service levels may change during the transition period and support expectation management.
3. Loss of localism	A merged district would cover a large geographical area with the potential for a perceived reduction in local leadership and representation	• Actively consider options laid out in Appendix x of this business case which describes approaches to seek to provide stronger, more effective local leadership
4. Merger not approved	The proposals to merger are not supported by DCLG and / or by the Secretary of State	• Steering Group and Programme Board to take responsibility for active ongoing engagement with DCLG in relation to the process and to take account of government expectations / requirements • Steering Group and Programme Board to articulate clear overall vision, structure and outcomes for the new council • Active ongoing engagement with all key stakeholders including DCLG, MPs, Ministers, Boundary Commission, County Council as well as other locally based bodies

Risk	Description	Mitigation
5. National / regional issues impacting on feasibility of merger	The position of the current government in relation to local government reorganisation is still emerging. Moreover, the national political landscape is unusually volatile, due largely to issues relating to Brexit. It is possible that a general election may be held in the near future - all which could impact, directly or indirectly, on the proposed merger. Furthermore, It is possible that at a regional level other developments may take place (e.g. instigated by the County) which may impact adversely on the feasibility of a merger	• Ongoing monitoring of national / regional developments, taking appropriate steps to respond at a Steering Group and Programme Board level • See also mitigations in relation to (Risk 4 above)
6. Insufficient clarity about vision, structure and operating processes	Members are unable to agree a clear overall vision, structure and outcomes for the new entity due to differences in political, operational and investment priorities	• Establish governance arrangements as described in Management Case (section x), with the aim of embedding senior political and management sponsorship • A key aim of the Steering Group / Implementation Executive will be to agree a long term, strategic vision with clear outcomes. • Establish ongoing reporting of progress in delivering the outcomes
7. Resistance to change	Issues of merging organisational cultures; concerns about loss of control and influence; as well as issues such as harmonisation of working practices and harmonisation of local terms and conditions, could all lead to staff and Member resistance and lack of buy-in to the new arrangements	• See mitigations in relation to (Risk 6 above) • Undertake stakeholder mapping • Utilise a communications strategy to engage staff, members and other stakeholders, keeping them up to date on progress and articulating the benefits of the merger • Plan induction of staff and Members to the new entity, underpinned by effective HR policies and transitional arrangements.
8. Lack of capacity to implement the merger	The uncertain environment created by a proposed merger may result in key staff leaving the existing councils before the new entity is created. The loss of capacity to manage the merger may result in delays in implementing the new council	• Establish dedicated Programme Team and systematic approach to Project and Programme Management as described in Management Case (section x), • Establish suitable succession arrangements, implement effective documentation standards to ensure continuity and promote open communication among the programme team

APPENDIX E – Key elements of Wiltshire's Unitary Council approach to local governance, for consideration in East Kent

- Board area boundaries were established after extensive engagement with local councils and other stakeholders, and data mapping. Boundaries reflect actual communities and the way people live their lives, not administrative convenience – even if this means there are uneven numbers of council members attending each Board.
- Boards are chaired by a Wiltshire councillor from the local area: other councillors from the area also attend, as do senior members and officers from the council.
- Very clear roles and responsibilities for the Boards have been identified and set out in the council's constitution, with specific delegated powers and budgets. Topics delegated are issues with real relevance to the local area – such as road repairs, traffic problems and speeding in villages, litter, facilities for young people and affordable housing.
- Board meetings do not follow traditional decision-making formats, for example they may begin with networking, use a coffee house style, and allow the whole forum to vote whenever possible, in order to encourage wider engagement. Wider community engagement events also increase local dialogue and capacity building
- In addition to their delegated powers, the Boards also have a role as fora for engagement on issues affecting the local area but with wider significance, such as the development of Local Plan policies.
- Wider partners and stakeholders such as health and police attend, so that representatives of all public services in the area come together.
- Local people can come along to each meeting, raise and discuss issues with the councillors. The councillors take these views into account when making final decisions.
- Community Engagement Managers support the chair and local councillors in their role, providing a link between the board, local people and organisations in the local community to tackle local issues and help people get involved in the work of the Area Board in the area. The community engagement work which goes on outside meetings is as important as the content of the meetings.
- Parish and town councillors attend each Area Board meeting to represent the views and interests of their local communities.