D: BENEFITS OF CREATING ONE COUNCIL TO REPLACE BABERGH & MID SUFFOLK DISTRICT COUNCILS

45. We are committed to ensuring that the two districts are in the best possible position to respond to these challenges and to grasp new opportunities. We believe, for the reasons described below, that this will be best achieved by becoming one district council in the centre of Suffolk.

46. A single district council to replace the existing Babergh and Mid Suffolk District Councils would support the Ministry for Housing, Communities and Local Government's ('MHCLG') broad, non-statutory principles for local government reorganisation. These principles have been adopted for considering proposals for changes in local governance, in advance of their being submitted to the Secretary of State for approval. It should be noted that these benefits, indeed the business case as a whole, remain the same in the event that for reasons beyond the Councils' control, implementation of a single council was not able to take place in May 2019 and was delayed to May 2020.

47. Babergh and Mid Suffolk District Councils are further advanced in our 'Working Together' transformation journey than many other district councils. As such, several of the criteria have already been achieved in the context of our shared services and wider transformation programme as described in Section C. In allowing the Councils to further develop and pursue an ambitious agenda around inclusive growth and supporting communities, the creation of a single council would allow us to go above and beyond the criteria set by MHCLG as follows, thereby achieving national, sub-regional and local objectives:

Greater value for money and significant cost savings

i) As set out in more detail in the financial business case below, becoming a single council is estimated to generate a further £0.6 million of annual cashable savings, £0.4m non-cashable savings and protect the annual shared services savings of £2 million that we have already achieved by 'Working Together'.

ii) Becoming a single council would also mean releasing some capacity that is currently absorbed by serving two organisations, for example, through requiring two Committee meetings to independently make the same decisions. This would enable us to focus more on enhancing business areas to generate new income to support services and invest in communities. It would also mean doing the best for residents in terms of maximising the resources directed towards achieving outcomes, rather than spending time on complex or duplicated processes.

iii) New income opportunities and savings will continue to be realised when contracts and system requirements come up for review, and dual arrangements can be replaced with a simpler, cheaper, single contractual relationship.

iv) Achievement of i) – iii) above would provide a stronger basis from which to build a more financially self-sufficient organisation.

Better local/public services

v) Becoming a single council could be seen as a natural continuation of the shared service journey. By removing the remaining red tape and complexities inherent in serving two bodies, the organisation would be simpler to run and manage, especially when considering new delivery models, investment and commercial opportunities. Financial systems would be simpler, with single reporting requirements, removal of ring-fences and the need for reconciliation between different council budgets when running a shared operational service. Working in these more efficient ways would provide the councils with more capacity and would protect funding so as to allow greater focus on high quality service delivery to our families and communities.

vi) Specific examples of where becoming a single council would directly improve service delivery can be found in our approach to providing homes for our communities. On the one hand, a single local plan would give a broader view of infrastructure and housing need; while on the other hand, individuals in housing need would be offered a wider range of potential accommodation without having to apply to neighbouring councils.

vii) Becoming a single council would also have benefits for our partnership working. Having seen the benefits that collaboration and clear leadership can bring to communities, some of our key service delivery partners have also joined together, so a single council would mean a simplification of the decision making and service delivery relationships operating within partnership relationships in local government and associated sectors.

viii) Delivery of services within local government and associated sectors has become increasingly fluid, with partners transferring responsibilities or working together more closely to deliver services. With increased fluidity, a single democratic decision-making structure would support other systems established to support fast and efficient service delivery, meaning this proposal should be to the benefit of our key delivery partners.

Stronger and more accountable local leadership

ix) A single council would mean the retention of a democratically sound model, but with an end to the need for joint decisions by the Councils. Continuing with joint, but separate, decision-making could over time create a perceived 'democratic deficit', as joint decisions may be seen as blurring accountability, especially as financial pressures will differ over time. Residents would also benefit from a renewed democratic relationship with a new body. This would complement the opportunity of forging new relationships with communities, an issue that was raised as a priority during the public engagement in autumn / winter 2017.

x) A larger council, with a bigger population, local economy and GVA (Gross Value Added) would allow us more influence on the regional or national stage. The new district council would have a population of over 189,512 (using 2015 estimates), rising to 209,000 in 2039. This would take the Councils from being 120th and 144th largest non-metropolitan district/borough councils in England (out of 201) to one of the top 5 largest when combined – with a bigger voice among our peers, funders, infrastructure providers and central Government.

xi) In particular, a larger council would be a more significant organisation to support our partners in delivery, when pursuing integrated working. This would be especially important when it comes to services such as health and social care where, as a council small enough to have strong local working relationships and knowledge, but large enough to deliver complex services competently, we could have a real impact on the lives of our residents and families.

xii) By creating a single council, we would be keeping pace with other areas where similar activities are taking place, such as East Suffolk and West Suffolk, thereby allowing us to take advantage of being in the vanguard of transformation and reform.

Sustainability in the medium to long term

xiii) A single council will be a more resilient organisation than two smaller councils and therefore better able to face the significant changes and challenges that local government will experience in the remainder of this decade and into the next. The current governance arrangements, which date back to 1974, are likely to come under challenge in the longer term, particularly from the point of view of the potential for each individual Council's financial strategies to diverge in the future, in light of some of the different financial pressures and opportunities facing each one. These pressures relate especially to those arising from changes to local government funding, such as the cut in government grants, 2017 business rates valuations, as well as significant changes expected around New Homes Bonus and 75% Business Rates Retention from 2019-20. All of these changes will put pressure on shared service delivery and therefore the cost-sharing model that supports them. This is explored further in the financial section later in this document. The small size and rural nature of the Councils, also raises questions about vulnerability in the medium term.

xiv) The financial assessment of both Councils, as set out in Section F, shows that the Councils have some differences in their finances that could impact on their individual long-term sustainability. Babergh District Council has challenges in relation to the General Fund balance (which funds most council services) but has a strong Housing Revenue Account (which supports council housing). By contrast Mid Suffolk District Council has challenges in relation to its Housing Revenue Account but a healthy General Fund. Combining these positions as one council would achieve a stable financial position and allow for investment in much needed affordable housing, higher quality services and allow the council to capitalise more on commercial opportunities.

xv) Our engagement work confirmed our view that a clear priority for local residents is providing long term financial stability to be able to protect the services that are most important to residents. Becoming a single council would give us the financial stability, savings, efficiencies, and resilience to help protect and improve our existing services across the area, and make sure we continue to design future services tailored to residents' needs.

E: THE ROLE AND VISION OF A NEW COUNCIL

Building on our success – shared ambitions

48. At the heart of the proposal to create a new, single council is a desire to continue to deliver against our Joint Strategic Plan priorities and to make a difference for our residents, communities and businesses - to create the environment where, and ensure that, individuals, families, communities, and businesses continue to thrive and flourish – meeting their full potential.

49. Our joint priorities are:

- Housing
- The Economy and our Environment
- Strong and Healthy Communities
- The Councils are committed to achieving this through a focus on delivering:

- More of the right type of homes, of the right tenure, in the right places.
- A strong and growing economy, with increasing investment in skills, infrastructure, innovation and productivity.
- Strong, healthy, active, safe, and self-sufficient communities.
- Respecting, protecting and enhancing our environment.
- Financially self-sufficient and resilient local government.
- Using our commercial approach to invest back into our communities.
- Efficient, effective services, offering value for money.

Looking ahead

50. As we look towards the next decade, we want to build on the Councils' successes so far, by driving forward progress. The heart of Suffolk is a thriving and dynamic part of the world, with vibrant market towns, strong village communities and beautiful countryside as well as being a significant 'keystone' to unlocking the future prosperity for the whole of Suffolk. It has a broad-based economy, with a diverse range of small and medium sized enterprises, significant food and agricultural sectors and enterprise zones, as well as some major employers. Tourism is a major asset, and new businesses are attracted to the area due to our relatively affordable housing (compared to other regions), safe local areas, and good strategic and international transport links.

51. However, we remain aware that some people in our communities can be left behind and do not enjoy these benefits. We therefore want to bring about inclusive growth and support our communities in making sure everyone has the opportunity to fulfil their potential and overcome challenges to their social, financial and physical wellbeing. In doing so, we will be reflecting the priorities of the Government's industrial strategy, by for example, developing skills, upgrading infrastructure, supporting businesses to start and grow, and cultivating world-leading sectors.

Our vision for a new council

52. When a new single council, fundamentally different from our existing councils (which have diligently served their communities for the past 40 years), becomes a reality then we would expect it to build its own vision through engagement with its councillors and, through them, its communities and local businesses.

53. In addition, a new single council would present an opportunity to put in place many of the new ways of working and constitutional and corporate changes that Babergh and Mid Suffolk District Councils have been moving towards in recent years, and do the best possible job in terms of supporting residents. From the outset, the new organisation could develop these ways of working further, for example:

- place-shaping on a wider scale than we do now, championing our localities and shaping them for the future;
- having the capacity to grow our own economy further, and reinvesting the benefits into supporting our local area;
- putting families and communities at the heart of everything that we do by engaging them in service delivery and reducing the need for some services;
- making sure things are done at the right level (subsidiarity), including a greater role for town and parish councils in truly local matters;
- using our community links to support our customers to access services in the best way;
- investing in prevention, not crisis interventions;
- integrating with the rest of the public-sector system;
- maximising our assets;
- behaving more commercially; and
- ensuring financial stability.

Council Governance

54. Critical to the success of a single council would be the leadership role of ward Councillors, who would be at the frontline of our engagement with communities and integral to our ways of working, championing their localities, and providing local leadership, including liaising with town or parish councils.

55. Both Councils are already subject to Electoral Reviews by the Local Government Boundary Commission for England (‘LGBCE’) before the 2019 elections, as a result of historic growth in different areas that has unbalanced the existing wards. So, whatever happens, the make-up of the two councils will be changing in the coming years to reflect growth in the districts that has happened and the further changes that are anticipated in the next 6 years. These will also reflect changes in how local government works, including both Councils’ decisions in May 2017 to change to a Leader / Cabinet model of governance.

56. Should the Councils proceed with the creation of a single council, Councillors from both authorities would need to submit a proposal to the Secretary of State for the size and governance arrangements for the new council. As with the existing planned reviews, this would need to include the number of councillors needed for effective representation of our communities and strategic decision-making, but in relation to a single council rather than two separate ones. The proposal would then inform the work of the LGBCE who would carry out an Electoral Review of the new council following the agreement of the Secretary of State to the proposal. The proposals for the size of the new council would need to reflect the guidance from the LGBCE on how many councillors are needed in 21st century councils.

57. If the Councils do proceed with the creation of a single council a steering group of Councillors from both councils will review the potential role, governance arrangements and size of a future council, and make recommendations to full Council. This group’s considerations will include the need for local leadership, for the council to effectively appraise the way it works to ensure fairness across the different rural and

urban areas a new council represents, for local members to have a strong, powerful role in a single council, and for the governance arrangements to support the executive in influencing on a broader scale.

58. Whilst it is recognised that there may be scope for efficiencies in the way Councillors work as a result of creating a single council (for example, having one Cabinet rather than two), it is vitally important to ensure future Councillors have the capacity to deliver the “21st Century” role – being strong local members, and knowledgeable and empowered decision makers. With this in mind, it is a working assumption in this Business Case that creating a new council will not result in a reduction in the total number of Councillors for the new council following the current Electoral Reviews.

F. THE FINANCIAL BUSINESS CASE

Executive Summary

59. The projected direct financial savings to the Councils of creating a new council are approximately £600k per annum. These would be generated in full, following a one-year transition period. In addition, further 'non-cashable' savings of approximately £400k per annum are anticipated from an increase in officer capacity.

60. These are prudent financial assumptions and as such the Councils can expect these to be the minimum level of cashable and non-cashable savings that would be delivered. It is anticipated that the actual total savings will exceed £1m per annum.

61. The one-off costs required to achieve the change and the level of cashable savings indicated have been assessed over a two-year period at £610k and include an allowance for redundancy costs. From these figures the pay-back period, of investing the one-off costs, from cashable savings would be in the middle of year 2 of the new arrangements. If reductions in staffing were managed without the need to incur redundancy costs, then the pay-back period would be right at the end of year 1. Both scenarios are strong business cases for this type and level of change.

62. More significantly, however, this change would also provide the new council with a stronger and much more sustainable combined financial position for both the General Fund and Housing Revenue Account. This would reduce the financial risk to the Councils from a range of 6-9 to 4 and ensure that the projected combined budget gaps in the Medium Term Financial Plan (as at February 2018) reduce from a combined total of £2,100k to £1,500k.

Background

63. Through 'Working Together' the Councils have already achieved a high degree of integration and savings in the management and delivery of services. Further actions are also underway through the Enabled and Efficient strand of the Joint Strategic Plan that will deliver additional savings.

64. The Councils originally considered proposals to establish one new council in 2011. These were not taken forward at that time but the Councils did proceed with a programme of sharing officers and integrating services. This resulted in total savings of over £2m per annum across the two councils being achieved by 2014/15. 'Working Together' has therefore delivered many of the same savings that would otherwise have been made through establishing one new council.

65. 'Working Together' also includes several other ongoing transformation projects e.g. the current electoral review, which will reduce the number of councillors across the two councils; the move to a single headquarters; and the public access transformation. Savings from these activities are therefore excluded from this assessment, but will add further to the cashable savings of approximately £600k resulting from one new council, as described below.

Financial Savings

66. The further savings that could be generated arise from removing the costs associated with operating as two councils rather than as one. No assumptions have been included for either additional costs or savings resulting from resolution of current policy differences between the two councils e.g. locality budgets and short-term car parking charges. Table 1 below is an assessment of the Ongoing Savings / Costs and One-off Transition Costs with the creation of a new authority. The sections below provide further details of these estimates, which are predominantly based on 2018/19 budgets.

Table 1

Babergh District Council and Mid Suffolk District Council - Indicative Costs and Savings

	Implementation Costs £'000	Year 1 £'000	Year 2 £'000	Year 3 £'000	Year 4 £'000	Year 5 £'000
Ongoing Costs / Savings (-)						
Members Allowances		-60	-60	-60	-60	-60
External Audit & Treasury Management Adviser		-60	-60	-60	-60	-60
Subscriptions		-35	-35	-35	-35	-35
Leadership & Support Service Savings						
- Leadership Team		-50	-120	-120	-120	-120
- Finance		-35	-70	-70	-70	-70
- Commissioning & Procurement		-10	-20	-20	-20	-20
- HR, OD and H & S		-25	-50	-50	-50	-50
- Information Management & ICT		-30	-60	-60	-60	-60
- Internal Audit & Risk Management		-5	-15	-15	-15	-15
- Democratic Services		-30	-60	-60	-60	-60
- Business Improvement		-10	-20	-20	-20	-20
Sub-total Leadership & Support Service Savings		-195	-415	-415	-415	-415
Total Ongoing Costs / Savings (-)		**-350**	**-570**	**-570**	**-570**	**-570**
One-Off Transition Costs						
Contract Novation	20					
Branding / Signage etc	80					
Advisory costs		20				
Shadow Authority	10					
ICT & Systems	75	25				
Direct Service Costs / Project Management	70	30				
Termination Costs		280				
Total One-Off Transition Costs	**255**	**355**	**0**	**0**	**0**	**0**
Total Costs / Savings (-)	**255**	**5**	**-570**	**-570**	**-570**	**-570**

67. In addition to the direct financial savings set out above and described below, an extremely important element of any new council, would be the gain in efficiency and capacity that would be released. Particularly at Senior Leadership Team level, serving two authorities generates a considerable level of diseconomy, especially in attending committee meetings, briefing members, report writing, etc. In these areas, a new council would create a high-level of efficiency savings that, whilst not immediately cashable, would create “headspace” for management and increased effectiveness. This is prudently anticipated to generate a 20% efficiency gain for Senior Leadership Team (SLT), and a 10% efficiency gain for other Extended Leadership Team (ELT) Corporate Managers. In financial terms this is equivalent to around £400k per annum (approximately £210k at SLT and £190k at ELT.

Members Allowances

68. As outlined above the current electoral review will create some savings from a reduction in the total number of councillors from the elections in May 2019. The anticipated reduction of councillors from 83 to 66 would result in a reduction of Basic Allowances of approximately £70k. At this stage it is not possible to provide a firm financial figure for this as the Councils will carry out a further Independent Remuneration Panel review of the Member Allowance Scheme prior to 2019 which could reduce such savings. Any such savings have therefore been excluded from this assessment.

69. Dissolving the current Councils to form a new single council would also result in a reduction in the total number of Councillors with Special Responsibility Allowances, as there will only be one Cabinet, set of Portfolio Holders, and Chairman and Vice-Chairman of the various committees. Although, as described above, there may be a small increase in these allowances to reflect the additional responsibility of a larger council, it is not anticipated that this would remove all of these savings in allowances. The figure in Table 1 is therefore a prudent assessment (based on a current average between the two councils - £45k for BDC and £75k for MSDC in 2017/18) of the minimum reduction in Special Responsibility Allowances that can safely be assumed from establishing one new council.

External Audit and Treasury Management Adviser

70. Savings can be anticipated on external audit fees because of the need to only audit one set of accounts, statements, etc. and it would only be necessary to have one contract with an external treasury management adviser. The figure shown is an average between the two councils' current costs (£68k for BDC and £56k for MSDC).

Subscriptions

71. The Councils have annual subscriptions to a number of bodies as individual authorities e.g. the Local Government Association (and East of England), District Councils Network, Rural Services Network, New Anglia LEP, National Fraud Initiative, New Local Government Network, Local Government Information Unit etc. Whilst deals have been done with some organisations, when both Councils have signed up, there would be further savings from only subscribing once.

Further Service Integration / Savings

72. A very cautious approach has been taken to estimates of further savings generated specifically because of becoming one council. These have been confined to those support service areas where the authorities being separate bodies and running substantially separate committee systems generates a degree of additional work, plus a reduction of posts in the leadership team

73. In practice, in the event of establishing one new council and full integration, some further savings might also reasonably be expected in the management and delivery of direct services. In Table 1 above, a savings level of 10% on direct staff expenditure has been assumed from the key support services, with these savings coming on stream in the middle of year 1. Public access has not been included in this because of the separate work already in place to transform the Councils' approach.

74. We expect that staff efficiencies could be seen in the following areas and these could be driven out as cashable savings by reducing the number of staff employed:

- Officer support to multiple Council meetings, preparation of reports, briefings and meeting attendance;
- Simplified invoicing / charging / billing arrangements with only one budget and statement of accounts and no recharges between the two authorities;
- Opportunities to further review and streamline operating practices.

<u>Transition Costs</u>

75. Estimates of one-off transition costs have been developed, largely based on the business case that was prepared by the two councils in 2011, but also considering other potential transition costs as set out below.

76. Contract Novation - Allowance has been made for contract novation costs of £20k, but this could be minimised if most of the affected contracts are identified within the Order that the Secretary of State would lay to establish the new council.

77. Branding / Signage - Costs will be incurred by changing the identity of the existing two councils to one new council including signs, notices, staff uniforms, vehicles, Civic office and insignia, the website and intranet etc, but these could be phased to coincide with renewals rather than incurring additional costs for all aspects. An allowance of £80k has been included to cover these costs.

78. Advisory Costs - There could be some advisory costs that are incurred, for example the external auditor needing to undertake additional work to audit the closing balances of the old Councils and review the opening balances of the new council. £20k has been included for these costs.

79. Shadow Authority Costs – In the year before commencement of the new council a shadow authority would be established and would incur some costs associated with administration and meeting expenses. An estimate of £10k has been included for this.

80. ICT and Systems – Whilst significant work has been done in recent years to move the Councils on to the same software in each service area, there is likely to be further one-off costs associated with setting up new databases for the new council. An estimate of £100k has been included.

81. Direct Service Costs (including Project Management) – There is a range of work that will need to be undertaken internally to prepare for the establishment of a new council. This will cover:

- Modifications to systems and processes;
- Communication to external parties including suppliers, customers and partners;
- Project and programme management of the transition;
- Specific advice from HR, finance, ICT, legal and procurement;
- Leadership and programme oversight.

82. Whilst it is likely that the majority of this will be managed within existing staff resources, there could be some need for staff time to be back-filled, so an allowance of £100k additional costs has been included.

83. Termination Costs - Most of the savings in leadership and support services relate to reductions in staffing. To achieve staffing savings of £415k this would require a reduction of approximately 10 fte (2 in the Leadership Team and 8 in Support Services) at a current average cost of £38k per fte. within the support services. Any termination costs could reasonably be estimated using a flat rate of £28k per member of staff covering both redundancy and pension costs. Implementation would not take place however until the new council is established and would be managed carefully to maximise natural wastage and finding suitable alternative employment. The figure in Table 1 of £280k therefore represents the worst-case position.

Financial Strength

84. The Councils have some differences and some similarities in their financial profiles that have an impact on their financial sustainability going forward. The current Medium Term Financial Strategy (MTFS) figures and reserve levels show that BDC has challenges in relation to the General Fund (GF) and MSDC in relation to the Housing Revenue Account (HRA). Combining these positions therefore presents the best opportunity to achieve a stable medium term financial position for the residents in both areas.

85. The Joint MTFS document, approved in February 2018 shows the projected cumulative budget gaps for the two Councils up until 2021/22 for three different financial scenarios around New Homes Bonus. One new council would benefit from the savings shown in Table 1 above. Table 2 below shows the effect of such a combined position using the minimum New Homes Bonus figure if the new council came into operation from April 2020.

Table 2

Medium Term Financial Position

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Shortfall in funding (-) / Surplus funds - cumulative			
Babergh	-838	-1,136	-1,169
Mid Suffolk	-9	-318	-888
Total both Councils	-847	-1,454	-2,057
New Council (if from 2020/21)		-1,459	-1,482

Source: MTFS figures 2018/19 Budget reports

86. With the change to how New Homes Bonus was allocated from 2017/18 and the likelihood that further changes will be made as outlined below, both Councils, beyond 2018/19, are facing the position of having a significant shortfall in funding to support their core budget activities. This is a change for Mid Suffolk District Council particularly, where budget surpluses have been achieved in recent years.

87. A risk assessment has been undertaken of the current and projected financial position for the GF and HRA for each Council and a projected one for the new council, to understand the potential benefit of combining the positions. If the Councils remain as two separate bodies, then they will need to make tough decisions as to how they individually set balanced budgets in 2021/22 for both the GF and HRA. If they combine their resources into one new council, then the savings identified in Table 1 will result

in a lower impact on direct service delivery. This is supported by the information presented in Tables 2 and 4. The risk assessment scores are shown in Table 3 below:

Table 3

Financial Risk Assessment

	Likelihood	Impact	Total
Mid Suffolk - GF	2	3	6
Babergh - GF	3	3	9
New Council - GF	**2**	**2**	**4**
Mid Suffolk - HRA	3	3	9
Babergh - HRA	2	3	6
New Council - HRA	**2**	**2**	**4**

88. It is currently unknown if or when councils may move into a 100% retention of business rates system, although it has recently been announced that a 75% retention scheme will be introduced from 2020/21, but even at the current 50% retention this is, along with council tax, a main source of income for the Councils. Currently the income from this source is not significantly different, £3.0m for MSDC and £2.9m for BDC in 2018/19 (baseline figure plus grants), but the revised assessment of need for the two Councils (or one new council) will be crucial in the level of income to be retained in future. This cannot currently be predicted with the information that has been shared by MHCLG to date.

89. By contrast, BDC currently has slightly higher Revenue Support Grant (RSG), but the MTFS allows for this to have disappeared by the time that establishing one new council might take place.

90. To date, MSDC has attracted a higher level of New Homes Bonus (NHB) payments by having greater growth in housing numbers and this is one of the factors that has contributed to the more favourable GF position and higher GF reserves. In 2018/19 Mid Suffolk is receiving £1.5m and Babergh £0.9m. Government's changes to the NHB regime (primarily designed to shift more financial support into social care) will significantly reduce the amount of NHB received by both districts (regardless of the future levels of housing growth).

91. For the HRAs, BDC has significantly more headroom within its borrowing cap as at 31 March 2017 of £13m, compared with £4m in MSDC; and therefore, more capacity to develop new social housing as part of the 30-year business plan. The level of reserves is also higher for BDC than MSDC with the figures as at 31 March 2017 standing at £13.1m and £5.4m respectively.

92. A new single authority would therefore have a significantly different profile to the two current districts, being more sustainable in terms of the GF and HRA. Based on 2019/20 MTFS forecasts, Table 4 below illustrates the comparative net GF budget and reserves and balances position of the new authority compared with the existing position. We also anticipate that combining the two HRAs will require re-basing of the existing borrowing caps, creating the opportunity for additional headroom capacity for the new council to build even more council houses.

Table 4

Babergh and Mid Suffolk District Councils
Net Budget Requirement and Reserves 2019/20

	Babergh	Mid Suffolk	New Council
Net Budget Requirement			
	£'000	£'000	£'000
Council Tax	5,460	6,032	11,492
New Homes Bonus / Other	1,700	1,431	3,131
Business Rates Baseline	2,148	2,322	4,469
Business Rates S31 Grant	797	764	1,561
Rural Services Delivery Grant	182	347	529
	10,287	10,895	21,182
	%	%	%
Council Tax	53%	55%	54%
New Homes Bonus / Other	17%	13%	15%
Business Rates Baseline	21%	21%	21%
Business Rates S31 Grant	8%	7%	7%
Rural Services Delivery Grant	2%	3%	2%
	100%	100%	100%
Reserves			
	£'000	£'000	£'000
General	1,200	1,050	2,250
Earmarked	1,321	10,584	11,905
Total	2,521	11,634	14,155
Reserves as % of Net Budget	25%	107%	67%

Source: MTFS figures 2018/19 Budget reports

93. Table 5 below presents a summary merged balance sheet for a new single authority based on the published 2016/17 Statement of Accounts. In broad terms, a new single authority would benefit from increased financial resilience and opportunities as the combined balance sheet is stronger when looking across both the General Fund and Housing Revenue Account.

Table 5

Combined Balance Sheet as at 31 March 2017

	BDC £'000	MSDC £'000	Combined £'000
Long Term Assets	238,305	237,492	475,797
Current Assets	18,545	19,173	37,718
Current Liabilities	-12,676	-29,131	-41,807
Long Term Liabilities	-110,388	-106,595	-216,983
Net Assets	133,786	120,939	254,725
Usable Reserves	-22,254	-22,723	-44,977
Unusable Reserves	-111,532	-98,216	-209,748
Total Reserves	-133,786	-120,939	-254,725

Other Financial Considerations

Capital finance considerations

94. There could be some potential to reduce the external borrowing requirements that would normally be projected if a single treasury management function, with access to greater volumes of cash and varying profiles, was available under a new council. There could also in the short term be some potential reduction in the Minimum Revenue Provision (MRP - annual allowance for the repayment of borrowing) requirement as the single council would have access to a single capital receipt budget. Based on an estimated borrowing of around £1 million a year, which results in a MRP of around £40k (assuming a rate of 4%), with the use of capital receipts this revenue impact could effectively be reduced. The cumulative effect of adopting this approach would obviously be dependent on the availability of capital receipts or other non-borrowing resources.

95. Further options that could be available to the new authority would be to undertake repayment of, or not refinance, existing debt. However, this course of action would also be dependent on the availability of resources and consideration of other priorities. The option of making premature repayments of debt would also need to consider any penalties associated with this.

96. No allowance has been made at this stage in this financial summary for any revenue savings arising from these possible revisions to capital financing policy. The new council would need to fundamentally review its capital programme priorities and funding and how this is financed would form an element of this.

Status Quo Costs

97. One of the risks of 'status quo' is the Councils could begin to diverge in their financial strategies as they face different pressures due to their revenue profiles. This could then begin to unravel the considerable financial and service delivery benefits of shared services and so likely to add cost back into the system through additional staffing capacity to deliver the diverging agendas. It is difficult to quantify this, but an estimated £200k is expected to be saved under a single council model as this additional capacity would not be required. Split between the two councils 50:50, this equates to a council tax rise of approximately 2% for each Council.

98. If there is a significant divergence of views between the Councils about whether to proceed with one single council or not, then it could jeopardise the current partnership and integration arrangements. If the Councils decided to discontinue these arrangements, then both Councils would incur significant additional costs to ensure that they each have a sustainable management structure. At present all management costs are shared 50:50 with a saving of over £2m per annum having been achieved from this arrangement. A significant sum would have to be reinvested by each Council, which would reduce the resources available for front line services.

Council Tax Equalisation

99. As part of creating a new single council it would be necessary to adopt the same Band D council tax figure across all households within the boundaries of the new council. The Band D figures for 2018/19 as approved in the Budget reports, are £158.86 for Babergh and £162.78 for Mid Suffolk, a difference of £3.92. Work towards reducing the difference between Band D figures is already underway, as the difference was reduced by £4.19 in 2018/19.

100. Babergh's tax base (number of Band D equivalent properties) is 32,822.09, and Mid Suffolk's is 36,337.39. The total council tax requirement of the two councils in 2018/19 is shown below.

	Tax Base	Band D £	Council Tax Income £'000
Babergh	32.822.09	158.86	5214
Mid Suffolk	36,337.39	162.78	5915
Total	69,159.48		11,129

101. A new council would need to decide at what level it wishes to set council tax, but the current average level across the two councils (to achieve the same level of income in 2018/19) is £160.92. The decision is likely to be based upon a combination of the cost, what is deemed to be acceptable to the residents of the new council and projections over the medium-term period.

102. A factor which may have an impact upon the level at which council tax is equalised is the principle for local referendums for excessive council tax rises, which is currently the higher of 3% or £5 for shire district councils. For the purposes of this note, it is assumed that this limit would still be in place when the new council was established.

103. The difference between the two council taxes is such that it does not create a significant financial risk around equalisation. Council tax equalisation does not have to be achieved in one year, but a strategy would need to be adopted to achieve it over a defined period. As part of the Suffolk Local Government Review work in 2008, it was generally proposed that equalisation would be achieved over a four-year period.

104. If the Councils take the decision to form a new council, it would be beneficial if they manage their council tax strategies over the next couple of years to achieve equalisation in council tax levels. The current projections for council tax levels up to 2021/22, as per the February 2018 MTFS documents, are set out in Table 6 below:

Table 6

MTFS Assumed Council Tax Levels	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£	**£**	**£**	**£**
Babergh	158.86	163.86	168.86	173.86
Mid Suffolk	162.78	163.85	165.74	168.64

105. If Babergh increases council tax by £5 in 2019/20 and Mid Suffolk increases by £1.06 in 2019/20, as per the current MTFS proposals, then equalisation is achieved in that year, but these decisions will be confirmed or changed as part of the budget setting process for 2019/20.

106. Looking at the years beyond 2019/20, if the new single council decides to set council tax at the projected Mid Suffolk level in 2020/21 and 2021/22 this will reflect a saving to the existing residents of Babergh compared to what they would have expected to pay under the approved MTFS.

107. The new council would have to decide whether this is affordable because the reductions in council tax for existing Babergh residents would result in losses in income in 2020/21 and 2021/22 of £102k and £171k respectively.