

**BRECKLAND COUNCIL PROFORMA B**  
(CAPITAL AND REVENUE BUDGETS)

FROM: Alison Chubbock (Accountancy Manager)

THIS PROFORMA PROVIDES THE FINANCIAL IMPLICATIONS  
IN RESPECT OF THE ATTACHED REPORT

**REPORT:** Proposal for Joint Management Arrangements  
**REPORT DATE:** Full Council - 16 December 2010

	Joint Councils	Breckland
<b>Set Up Costs</b>		
Project management	£42,000	
Recruitment and training	£30,000	
Redundancy (higher range)	£669,000	
Video conferencing	£25,000	
Contingency	£34,000	
<b>Total set up costs</b>	<b>£800,000</b>	<b>£400,000</b>

**Ongoing Savings**

Savings to be included in budget	£700,000	£350,000
Contribution to capacity reserve	£375,800	£187,900

**Financial Services Comments**

The report brings forward proposals for a joint shared management structure between Breckland and South Holland Councils. This Proforma B gives the financial comments from a Breckland Council perspective only.

Appendix J to the report gives the overall financial costs and savings of the project, along with the assumptions made when calculating these costs. The tables above show a summary of the costs and savings relating to the Council's jointly and to Breckland alone. There is a significant range of costs (particularly in the set up costs) and these ranges show the level of sensitivity which are included in the forecasts.

Breckland currently has an efficiency requirement to meet in order to balance its budget for 2011/12 and future years (subject to confirmation of the final Government Settlement figure). The forecast saving of £350,000 would go some way to meeting this requirement for 2011/12 and future years.

Once the backfill and capacity costs are known, there is potential for the saving figure to increase in future years, dependent on the level of backfill and capacity required, however at this stage the saving estimates will be entered in Breckland's budgets at £350,000 for all years.

In addition, there are potential efficiencies as a result of a further phase of developing joint service delivery between the Councils. No estimate has been included for these savings in this Proforma B.

The one off set up costs of £400,000 can be met from the Organisational Development Reserve (leaving an unallocated balance of £1.5m remaining in the reserve).

The redundancy costs will vary, so the £400,000 represents the expected worse case scenario for Breckland's share of the costs, if the costs are lower than forecast, the

This PB is valid for 3 months from PB date	If this PB is not longer required please advise Finance	If there are changes to the original report it may invalidate this document, it must be reviewed by Finance.
09/12/2010	Page 1 of 3	D:\moderngov\data\published\Intranet\C00000117\M00002418\AI00012005\5xl11syt3.doc

remaining funds should be moved back to the unallocated balance in the Organisational Development Reserve.

For simplicity, it is recommended that each Council controls their own reserve rather than creating a joint reserve. Each council would then reimburse the other as necessary for these joint costs.

Assuming joint savings of £700,000 per year and joint one off costs of £800,000, this project will pay back between months 13 and 14.

On occasions it is possible to capitalise redundancy costs, based on a number of 'tests'. For this project one of the tests was failed and therefore, unless regulations change in some way, we will not be able to capitalise these costs.

### Financial Risks

In addition to the risks highlighted on the risk register, the following financial risks have been identified.

It is clear from the assumptions that the actual costs/savings generated from this proposal will vary from the figures shown above, as actual costs will not be known until recruitment has been completed. In addition the costs for protected pay or payment for notice periods has not been included in the figures above. The higher costs estimate shows the expected worse case scenario for costs and still shows a saving of £350,000 to each Council with a total of £187,443 contributed to the capacity reserve.

However, there still remains a small risk that costs such as protected pay, backfill and capacity, etc will exceed forecasts and therefore a risk that the savings of £350,000 per Council will not be reached.

It is likely that capacity and backfill requirements will vary at each Council and therefore for reasons of equity, it is suggested that each Council controls their own capacity reserve and uses this funding to cover their own capacity and backfill requirements.

The overall proposed management structure saving does not include the expected additional costs relating to travel and video conferencing, **therefore these costs would reduce the contribution to the capacity reserve**. The joint costs are estimated in appendix J at around £32,000 per year.

With any project of this nature, there is always a risk of legal challenges or appeals (etc). There is currently no allowance for potential costs in this area, therefore any emerging costs would be in addition to those shown above and would be shared equally by each council.

There are currently no detailed plans or forecast costs for the ICT integration. **These costs could potentially be significant and therefore extend the payback period for the project**. Any delay in this integration may also place additional strain on the joint manager posts. Whilst an overall contingency of £34,000 has been allowed in the set up costs, this remains a high risk area and should be addressed as soon as possible.

The sharing basis for the different costs has been agreed by the project board. The approach has also been discussed with the Audit Commission, who have not raised any objections. However Members should satisfy themselves that they believe this approach is the best for both Breckland and the Councils jointly.

This PB is valid for 3 months from PB date	If this PB is not longer required please advise Finance	If there are changes to the original report it may invalidate this document, it must be reviewed by Finance.
09/12/2010	Page 2 of 3	D:\moderngov\data\published\Intranet\C00000117\M00002418\AI00012005\5xl11syt3.doc

The redundancy cost range assumes that all posts are recruited to from within the current establishment of the Councils. There will be additional financial implications if posts are recruited to from outside the establishment of the Councils.

Following a recent Actuary review of the Council's pension scheme, they are proposing a change in approach to deal with the funding of the pension deficit with more certainty. They have proposed a lower employers' contribution percentage of pensionable pay, plus a lump sum. The contribution percentage covers the current costs of ongoing pension provision, whereas the lump sum covers the recovery of the pension fund deficit. The advantage of the lump sum contribution to the scheme is that it recovers the deficit on past liabilities brought about by previous decisions (such as outsourcing). The lower contribution percentage reflects the ongoing service contribution to the scheme. It seems sensible if the two councils agree to keep the lump sum contribution out of the shared management arrangement, so that each bears its own costs of past council decisions and pension fund performance

These proposals for joint management arrangements have been developed by the project board and there has been a consultation process. However Members should satisfy themselves that;

- Consultation comments and results have been sufficiently taken into account within the final structure; and
- Alternative solutions have been adequately explored

### Summary

In summary, if approval is given to the report, it is recommended that the following items are also recommended;

- I. Savings of £350,000 are included in Breckland budgets for 2011/12 and future years.
- II. £400,000 is earmarked within the Breckland Organisational Development (OD) Reserve for set up costs, with any remaining funding returned to the un-allocated Breckland OD reserve amount at the end of the project implementation.
- III. Breckland's share of the remaining saving (forecast £187,900) be contributed to their own capacity reserve and used to fund Breckland capacity and backfill requirements.
- IV. A detailed plan and budget for the ICT integration is put together by the project board as soon as possible and any additional funding requirements are reported to Council as necessary.
- V. The memorandum of understanding is updated to take account of the pension deficit recovery as suggested by the Councils actuary.

This PB is valid for 3 months from PB date	If this PB is not longer required please advise Finance	If there are changes to the original report it may invalidate this document, it must be reviewed by Finance.
09/12/2010	Page 3 of 3	D:\moderngov\data\published\Intranet\C00000117\M00002418\AI00012005\sl11syt3.doc