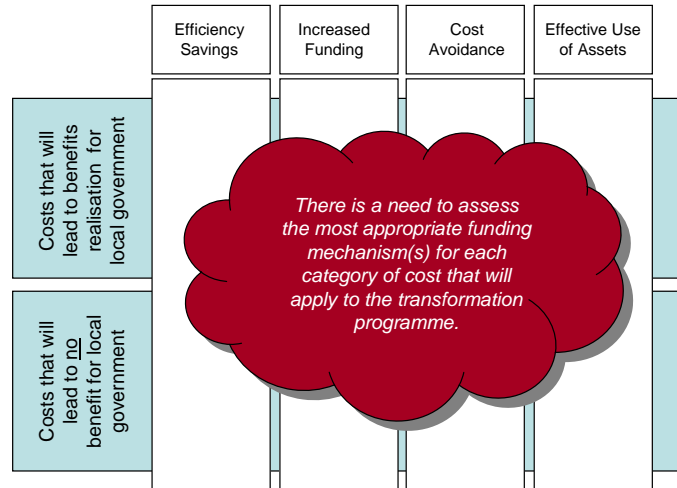


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shoots” of recovery, HMT will have a focus on repaying the largest public sector debt since the 1970s (taxation increases and spending cuts). In our opinion, this new fiscal climate mandates that Local Government will need to be seen to ‘be helping itself’ as well as asking Central Government for financial support.

- 9.4 We would suggest that each of these funding approaches needs to be deployed appropriately across the full range of costs that local government will incur as a result of the implementation of this Transformation programme. This approach will both support a robust funding model moving forward and facilitate a more favourable hearing from DFP when an application for central government funding is made.



- 9.5 Each of the specific options associated with these funding approaches (with the exception of Efficiency Savings which are identified in the previous sections) is explored in further detail below.

Central Government Funding

- 9.6 There are a number of mechanisms by which Central Government funding can be directly sourced:

1. Funding from Block Grant

Under this mechanism, Central Government would make funding available to councils without any requirement for payback by Local Government.

2. Loan from Block Grant

Under this mechanism, Central Government would make funding available to councils under the terms of a temporary loan i.e. central government would provide the initial funding for elements of the transformation programme and would agree to be repaid from the efficiencies arising from the transformation. Such loans are likely to have conditions associated with them around a range of areas including improvements in customer service and efficiency targets including specific reductions in overall cost of service delivery.

Such loans would have to be repaid, against agreed interest rates, over a specified period. There is a possibility that the availability of such loans could be linked into any restructuring of legacy debt (see below).

3. Grant from Source Departments

It is accepted by all key stakeholders that funding must follow the functions that transfer from central government departments i.e. the on-going resources for the delivery of the transferred services must be made available from central government to local government. Some central government departments envisage that this transfer of funding should be made through a grant allocation by them to Local Government in relation to the services transferred. The benefits of this approach include on-going input from central government to shaping of transferred functions (particularly over the initial period of the new councils).

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There is some aspect of control and governance that these central government departments see in allocating this grant funding to Local Government and such a mechanism is seen as a key way of mitigating the risks associated with the RPA process.

Some of the central government departments which are transferring functions to Local Government have indicated that they would envisage initially funding local councils to deliver these services through the allocation of a grant with a movement over time towards funding through the rates (see below).

Restructuring of Legacy Debt

- 9.7 This section of the Economic Appraisal considers the potential funding available to this change programme through the financial management of the existing capital structure (or "debt management"). However, while other parts of this review consider the mechanisms for setting service delivery levels and the income to recover the cost of delivering these services (Revenue funding), ultimately all of a council's cash receipts and outflows will need to be managed together through a consolidated Business Plan.
- 9.8 While the draft Local Government Finance Bill requires a council to "approve estimates, authorise expenditure and approve rates for the following year", in practice a number of aspects of a council's financial management will need to be planned and managed on a considerably longer time frame. Encouragingly, this already is the practice by many of the existing councils.
- 9.9 The Local Government Finance Bill suggests that relaxations in a council's ability to borrow prudently would enable such autonomous financial management if there were an accepted framework between the new councils' finance functions and their lender(s). The councils' traditional funders have been the Department of the Environment ("DoE"), whose financing role, alongside the Department of Finance ("DFP") has, to date been, focused around the economic appraisal of loan applications from the council – i.e. along lines of business case, return on investment, social need, etc. The DoE/DFP perform a regulatory role in ensuring an appropriate level of financial discipline and indebtedness is exercised through the reporting by the Local Government Auditor (to DFP and other stakeholders).
- 9.10 Post RPA, the DoE is drawing up guidelines to move the borrowing regime towards the Prudential Code of the Chartered Institute of Public Finance and Accountancy (currently in use in GB). This should provide more autonomy and move councils towards a less prescriptive, but arguably more effective framework for ensuring appropriate financial management of the balance sheet. Indeed, a number of financial controllers (who we have spoken with) are already availing of a high degree of freedom, and have moved local councils to borrowing from commercial banks, especially in cases where the banks provide favourable interest rates. Given this, it is; therefore, welcome to have clarity that prudence responsibilities will fall in the first instance on the councils themselves. However, we suggest that DFP and the Local Government Auditor also need to continue performing an oversight role to councils' gearing.
- 9.11 Clearly, whether borrowing from the commercial banks or the DFP (or both), the financial controls and wider financial management disciplines will need to be strong where a council chooses to take on a substantial level of debt. This is particularly the case where debt is funding a cash shortfall which results from revenue deficits, as opposed to bridging timing differences between in and outflows.

Legacy Gross Debt:

- 9.12 It can be seen, in the Table 9.1 below, that, at 31st March 2008, the 26 councils were carrying c. £414 million of gross debt (including £36.3 million of overdraft borrowings). This compares to c. £396 million at the start of that financial year.

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- 9.13 According to the audited accounts of each council the interest payable on these loans ranged between 2.5% and 16.25% pa, depending on when each loan was arranged. Based on an average gross debt balance of c. £405 million, the effective interest rate paid across the debt was c. 5.7%.
- 9.14 The gilt rate, a good indicator of government borrowing costs, would appear to be the benchmark rate for DFP lending to the councils. Based on the term profile of local council borrowing (see next table), an appropriate benchmark would be the 10-year gilt. At 20th August 2009, the 10-year gilt yield was 3.6%.

Table 9.1 – Summary of Council's Legacy Debt

(£ million) Group/Council	2008 Gross Debt	2007 Gross Debt	Increase/ (Decrease) in Gross Debt	Interest Payable 2008
Antrim	23.1	22.1	1.0	1.3
Newtownabbey	29.2	28.6	0.6	2.1
Belfast	38.6	29.6	9.0	-
Carrickfergus	13.8	11.4	2.4	0.6
Larne	6.2	6.5	-0.3	0.5
Ballymena	31.6	34.8	-3.4	1.8
Omagh	10.7	9.7	1.0	0.7
Fermanagh	3.3	4.1	-0.8	0.2
North Down	24.6	21.7	2.9	1.4
Ards	24.9	22.6	2.3	0.7
Newry & Mourne	22.9	22.6	0.3	1.4
Down	15.4	15.1	0.3	1.0
Moyle	9.0	8.4	0.6	0.5
Limavady	9.6	9.7	-0.1	0.6
Coleraine	30.4	29.1	1.3	1.5
Ballymoney	10.0	8.8	1.2	0.5
Magherafelt	-	-	-	0.3
Dungannon	2.1	2.0	0.1	0.2
Cookstown	1.7	1.8	-0.1	0.1
Lisburn	20.9	20.5	0.4	1.1
Castlereagh	19.4	21.5	-2.1	1.5
Craigavon	8.2	8.8	-0.6	0.8
Banbridge	13.2	12.9	0.3	0.8
Armagh	21.7	20.2	1.5	1.4
Derry	21.1	21.2	-0.1	1.7
Strabane	2.6	2.5	0.1	0.3
Total	414.2	396.2	17.8	23.0

Source: Council's Audited Financial Accounts

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- 9.15 This suggests that if the £414 million of gross debt was refinanced and interest was moved to today's borrowing cost of 3.6% then there would be savings of some £8 million per annum. We understand that the more expensive debt within this £414 million was taken on by the councils during the 1980s, in times of high interest rates; thus savings would be in excess of £8 million if there was a refinancing of this expensive debt (and leaving in place loans where interest rates are below the 3.6% market rate of interest).

Repayment Profile of Loans

- 9.16 The term (length) of each of the loans making up the £414 million of aggregate debt has generally been set to match the life of the asset per its depreciation policy (one council we talked to had over 40 individual loans). Accordingly, while there was a not unexpected slight bulge in the current portion at £66m (overdraft £36.3 million + term debt repayable within 1 year c£29 million), thereafter, there did not appear to be any major trend to front-end or back-end loading of the repayment profile. This would suggest that there is little pressure to re-profile the council debt to ease short-term cash constraints – nor is there a significant opportunity to prudently release cash up-front (although a refinancing could probably push back some element of the £414 million, if desired).

- 9.17 The aggregate term of the councils' long term debt (excluding a £36.3 million overdraft), totalling £377 million (at 31st March 2008) was disclosed as follows:

Table 9.2 – Aggregate Term of Council's Debt

Term of Debt	Amount (£ million)
0-1 yr	29.0
1-2 yrs	13.1
2-5 yrs	30.9
5-10 yrs	54.8
>10 yrs	249.2
TOTAL	377.0

Source: Council's Audited Financial Accounts

- 9.18 The above table clearly shows that cumulative recurring impact of refinancing debt is significant especially as a significant majority of long term debt is set to mature in greater than 10 years. A review of the debt repayment profile should be re-performed once 2009 accounts are available.

Legacy Net Debt

- 9.19 The level of net debt was substantially less than the gross debt - at c. £252 million; the difference – c. £162 million (see table below) - is held in cash and short and long-term investments by a number of councils. These balances appear to have been built up to avoid having to go into overdraft against unforeseen expenditure, towards specific capital projects (that are not covered by loans provided), for prudence (there are no statutory cash reserve requirements, but the Local Government Auditor recommends some cash float being held), and as a result of the significant penalties that would be incurred if surplus cash was to be used to refinance old, expensive debt. While understandable, this is an inefficient way of a council funding itself - interest received on cash balances was £6.5 million, on an average balance of £160 million, earning average interest of just above 4% (although current deposit rates would be lower than this).

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9.20 If a refinancing/restructuring of finances took place and the councils used debt facilities to meet short-term working capital needs and long-term capital projects (as the Local Government Finance Bill formally approves), this could, in theory, bring gross debt down by £162 million thus saving at least 2% across this amount, i.e. c. £3.2 million (being the difference between the interest earned vs. saved). Again if only the more expensive debt was repaid with the £162 million this saving could be even higher.

Table 9.3 – Summary of Council's Net Debt

(£ million) Group/Council	2008 Gross Debt	2008 Cash & Cash Equivalents	2008 Net Debt	2007 Gross Debt	2007 Cash & Cash Equivalents	2007 Net Debt	Increase/ (Decrease) in Net Debt	Interest Receivable 2008	Interest Receivable/ Cash and Cash Equivalents (%)
Antrim	23.1	1.4	21.7	22.1	2.9	19.2	2.5	0.2	9.30
Newtownabbey	29.2	1.9	27.3	28.6	5.2	23.4	3.9	0.2	5.63
Belfast	38.6	40.5	-1.9	29.6	37.4	-7.8	5.9	0.9	2.31
Carrickfergus	13.8	0.7	13.1	11.4	0.6	10.8	2.3	-	-
Larne	6.2	0.0	6.2	6.5	0.2	6.3	(0.1)	0.1	100.00
Ballymena	31.6	1.9	29.5	34.8	3.7	31.1	(1.6)	0.1	3.57
Omagh	10.7	0.4	10.3	9.7	0.2	9.5	0.8	-	-
Fermanagh	3.3	7.2	-3.9	4.1	5.0	-0.9	(3.0)	0.4	6.56
North Down	24.6	9.2	15.4	21.7	15.5	6.2	9.2	0.7	5.67
Ards	24.9	20.7	4.2	22.6	15.6	7.0	(2.8)	0.6	3.31
Newry & Mourne	22.9	4.2	18.7	22.6	0.0	22.6	(3.9)	0.1	4.76
Down	15.4	6.1	9.3	15.1	6.6	8.5	0.8	0.1	1.57
Moyle	9.0	1.9	7.1	8.4	0.8	7.6	(0.5)	0.1	7.41
Limavady	9.6	3.6	6.0	9.7	3.6	6.1	(0.1)	0.1	2.78
Coleraine	30.4	1.7	28.7	29.1	1.7	27.4	1.3	0.2	11.78
Ballymoney	10.0	1.6	8.4	8.8	1.8	7.1	1.4	0.1	5.97
Magherafelt	-	4.2	-4.2	-	5.0	-5.0	0.8	0.3	6.52
Dungannon	2.1	3.4	-1.3	2.0	3.9	-1.9	0.6	0.1	2.74
Cookstown	1.7	3.8	-2.1	1.8	3.2	-1.4	(0.7)	0.2	5.71
Lisburn	20.9	8.3	12.6	20.5	5.7	14.8	(2.2)	0.5	7.14
Castlereagh	19.4	6.9	12.5	21.5	6.8	14.7	(2.2)	0.3	4.38
Craigavon	8.2	3.0	5.2	8.8	1.6	7.2	(2.0)	0.6	26.09
Banbridge	13.2	2.0	11.2	12.9	3.8	9.1	2.1	0.2	6.90
Armagh	21.7	1.5	20.2	20.2	1.0	19.2	1.0	0.1	8.00
Derry	21.1	22.8	-1.7	21.2	23.2	-2.0	0.3	0.2	0.87
Strabane	2.6	3.3	-0.7	2.5	3.3	-0.8	0.1	0.1	3.03
Total	414.2	162.2	251.8	396.2	158.3	238.0	13.9	6.5	4.06

Source: Council's Audited Financial Accounts

9.21 Within the c£14 million movement between the 2008 and 2007 net debt balances (c£252 million vs £238 million), there was some £35.3 million of new term debt drawn down and £28.9 million repaid, while the total of overdrafts increased nearly £11 million (and cash and cash equivalents increased by c£4 million).

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9.22 As an alternative, the cash and cash equivalent balances in the councils today could be used to establish a form of Municipal Bank for Northern Ireland, along the lines of those operated currently by six of the Scottish local authorities, and as is under consideration by Birmingham City Council.

Legacy Net Debt by Old Council

9.23 Alongside "balance sheet" efficiency gains is the more difficult issue that consolidating the legacy debt positions of groups of councils could create balance sheet "winners and losers" both within amalgamating councils and between new councils.

9.24 The former is illustrated in the table below, where it can be seen that, with a simple debt aggregation a number of "old" councils will inherit significantly higher debt per ratepayer than they currently have. An extreme example would be the ratepayer of Limavady, where net debt per head would double, under the aggregation, from £176 of debt per capita to more than £364. The converse is true for the Armagh ratepayer, where net debt per capita would fall from £347 to £187.

9.25 In relation to this, we note the Minister of Finance's statement of 26 January 2009, that:

"...it would be unfair for councils that have been prudent to find their ratepayers burdened with debt from councils that have been on a spending binge".

9.26 Alongside the increase in debt for the ratepayers for certain old councils, are the questions of infrastructure spend and service delivery. Other aspects of this review deal with safeguards on ensuring the equality of service provision within the new councils.

9.27 In this part of the report, we have therefore ignored the disparities between merging councils in their community infrastructure (or balance sheet fixed assets), on the assumption that it will be a duty of the councillors of the new authorities to ensure that future investment by these authorities is directed to those parts of the authority with the greatest need. Therefore, over an agreed period of time, this should become equalised.

9.28 However, to the extent that service delivery requires investment for equalisation (with any consequent infrastructure spend), this needs to be affordable.

9.29 Accordingly, our review of "winners and losers" from balance sheet amalgamation is confined to the net debt burden between old councils and between new councils.

9.30 At a new council level, it can be seen, above, that net debt per capita varies from -£56 for the new Mid-Ulster council (i.e. this new council has net cash) to £364 per capita for the new Mid and East Antrim council and an NI-wide average of £142.

9.31 Consideration will need to be given as to whether, particularly at the higher level, this is an appropriate debt level per capita for the new councils given their forthcoming implementation costs and service delivery challenges.

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Table 9.4 – Summary of Existing Councils Legacy Debt

(£ million) Group/Council	2008 Gross Debt	2008 Cash & Cash Equivalents	2008 Net Debt	Population (m)	Pre –RPA _ Net Debt per capita (£)	Post – RPA Net Debt per capita (£)	Increase/ (Decrease) in Net Debt per capita (£)
Antrim	23.1	1.4	21.7	0.053	407.6	360.3	(47.2)
Newtownabbey	29.2	1.9	27.3	0.083	329.9	360.3	30.2
Belfast	38.6	40.5	-1.9	0.268	-7.1	-7.1	-
Carrickfergus	13.8	0.7	13.1	0.040	327.2	364.0	36.8
Larne	6.2	0.0	6.2	0.031	198.1	364.0	165.9
Ballymena	31.6	1.9	29.5	0.063	470.2	364.0	(106.2)
Omagh	10.7	0.4	10.3	0.052	197.6	56.1	(141.5)
Fermanagh	3.3	7.2	-3.9	0.062	-62.9	56.1	119.0
North Down	24.6	9.2	15.4	0.079	195.2	125.2	(70.0)
Ards	24.9	20.7	4.2	0.078	54.1	125.2	71.1
Newry & Mourne	22.9	4.2	18.7	0.097	192.2	167.6	(24.7)
Down	15.4	6.1	9.3	0.070	133.2	167.6	34.4
Moyle	9.0	1.9	7.1	0.017	420.7	363.5	(57.2)
Limavady	9.6	3.6	6.0	0.034	175.9	363.5	187.6
Coleraine	30.4	1.7	28.7	0.057	503.5	363.5	(140.0)
Ballymoney	10.0	1.6	8.4	0.030	279.0	363.5	84.5
Magherafelt	-	4.2	-4.2	0.044	-95.8	-56.2	39.6
Dungannon	2.1	3.4	-1.3	0.055	-23.5	-56.2	(32.8)
Cookstown	1.7	3.8	-2.1	0.036	-58.4	-56.2	2.2
Lisburn	20.9	8.3	12.6	0.115	109.8	138.7	28.9
Castlereagh	19.4	6.9	12.5	0.066	188.8	138.7	(50.1)
Craigavon	8.2	3.0	5.2	0.091	57.2	186.8	129.5
Banbridge	13.2	2.0	11.2	0.047	238.5	186.8	(51.7)
Armagh	21.7	1.5	20.2	0.058	347.2	186.8	(160.5)
Derry	21.1	22.8	-1.7	0.109	-15.6	-16.1	(0.6)
Strabane	2.6	3.3	-0.7	0.040	-17.7	-16.1	1.5
Total	414.2	162.2	251.8	1.775	141.9	141.9	0.0

Sources: Councils' Audited Financial Accounts, NISRA, PwC analysis

Rationalisation/Consolidation of Legacy Debt

- 9.32 Options that might be considered for achieving a lower debt level for certain (or all) of the new councils include:
1. Re-allocation of part of the total current (old council) debt, i.e. £414 million, across the new councils towards an average net debt (per pop) – this option is unlikely to be politically acceptable;
 2. Partial debt forgiveness by DFP/Loan Fund/HM Treasury for some or all of the councils;
 3. Allowing the new councils to re-finance their starting debt, either without a penalty or with a refinement of the penalty repayment profile – this option would be of particular benefit to those councils with higher debt burdens; or
 4. A combination of all of these.

Refinancing of Legacy Debt

- 9.33 As indicated above, a refinancing of the current debt, without a penalty, would provide all councils with a gain and, in particular, those with the higher debt burdens.
- 9.34 However, we understand that DFP/National Loan Fund is, itself, "back to back" on these same terms with HM Treasury, so would pass on to the councils any break penalties imposed on it by HM Treasury, in the event of a refinancing. We have been advised that the penalties would reflect DFP interest receivable that would be foregone if, in the future, DFP were only to receive interest at the market rate (as opposed to the current average 5.6%).
- 9.35 A benefit for DFP would be the up-front receipt of up to £400 million [we don't know the actual DFP debt vs what is owed to the commercial banks], at a time of significant local budgetary pressures – assuming that a 3rd party would take on the debt (as there would appear to be little benefit in DFP refinancing the loans themselves). There would need to be an evaluation of whether the local (or even UK-wide) banks would have the capacity, currently, to take on the councils' debt, or whether the UK's Public Works Loan Board/Debt Management Office would change its mandate to cover Northern Ireland councils (it has advised us that this is not currently envisaged). In the absence of the Public Works Loan Board or the banking sector absorbing this debt, a bond is the only other realistic source of finance, and HM Treasury permission would be required to issue a bond (it should be noted that Birmingham City Council did get this permission for its £215m bond issue in 2005).
- 9.36 Irrespective of whether a market-based penalty is applied by DFP, a refinancing of the legacy debt would still be of economic benefit to local councils as it would remove the inefficiency of holding surplus cash. However, DoE would need to allow councils to spread the refinancing penalties across a number of periods, in order to make these affordable through the district rate.

Summary

- 9.37 The key conclusions arising from our initial assessment are that:
- Ø Refinancing of existing gross debt (£414 million) could realise in excess of £8 million per annum for the new local councils and deliver upfront receipt of up to £400 million to DFP / HMT at a time of significant budgetary pressures;
 - Ø Use of debt facilities to meet capital project funding could save over £3 million per annum for the new local councils; and
 - Ø Even with a penalty the refinancing of the legacy should be beneficial.

Municipal Bank

- 9.38 As well as looking at the potential savings from long term council debt there is also potential to look at leveraging the benefits for local government from the cash or cash equivalent assets held by councils. Based on the latest councils' audited accounts this amounts to around £162m.
- 9.39 Throughout the RPA process there was a concern among councillors about the effect on rates of taking on debt from other amalgamating councils where their own long term debt was low or non-existent. Equally there was a conviction that assets gathered by councils for the benefit of their ratepayers should not go to other councils who were perceived as being in a less favourable position at amalgamation. Consequently the option of off-setting a proportion of council's long term debt with current assets would potentially be very difficult to achieve. However, the cash or cash equivalent assets when considered together is significant and could bring a significant benefit to the new councils' local investment and place shaping strategies.
- 9.40 As the recession has begun to bite and bank lending has been cut back, small businesses in particular are fighting to survive. This has been recognised by councils in Great Britain who have begun to consider the re-introduction of the local authority Municipal Bank first started in Birmingham in 1916 and ending in 1976 when the Birmingham Municipal Bank became the Trustee Savings Bank and moved from Local Authority ownership. The Bank provided a vehicle for local savings, and also enabled the Bank to borrow money against assets and to lend to business which, in turn, helped the development of the Council area. Birmingham is now reconsidering the Municipal Bank model as a way to once again attract small business and to provide an alternative source of lending to the High Street banks. Other local authorities in England and Scotland are also considering the model.
- 9.41 For Local Government in Northern Ireland the Municipal Bank approach provides a model for harnessing all of the cash assets of local government for the benefit of all councils. Such a model would allow a Bank operating for and on behalf of Local Government to raise money and lend to local communities, businesses and enterprises as part of the councils' remit to develop urban and rural regeneration. The model would also provide councils with the potential to borrow from their own bank and repay the capital with interest at preferential rates. Councils would also retain and grow this initial asset base with interest based on the size of their initial investment or loan to the Bank.
- 9.42 Initial investigation suggests that no new legislation would be required to establish such a bank. At individual council level, this could be achieved through the power of well-being. However, to establish a bank operated by and on behalf of Local Government in Northern Ireland would almost certainly require enabling legislation to cover its scope, governance and regulatory functions. Clearly this idea would require much further investigation, but it does provide a realistic opportunity for councils to develop and fund initiatives which will enhance local democracy and support local innovation.

District Rates

9.43 Rather than simply set a rate for the new councils that represents, for example, a weighted average of rates across the relevant existing councils, there are a number of key issues that each new council needs to consider in setting its district rate:

∅ Cost to councils of delivering enhanced range of services

Councils need to understand exactly how much it will cost to deliver the current, enhanced and new range of local government services moving forward. The development of a series of its own specific Target Operating Models (with increasing levels of detail) will provide the basis for each council to calculate its cost of service delivery – each of the specific TOMs must be developed with an associated cost model.

Option 5 provides each new council with a unique opportunity to transform itself over the period of implementation in order to provide the optimum balance of cost and service – this is the underlying design responsibility of councils.

∅ Appropriate allocation from the Regional Rate

Rates are currently comprised of two elements – the District Rate which directly funds local government and the Regional Rate which funds some central government services. Historically, the Regional Rate was established to fund those services that in the rest of the United Kingdom are delivered by local government but in Northern Ireland are actually provided by central and regional government including aspects of, for example, Housing, Planning, Social Care, Education and Economic Development. In relatively recent times, there were attempts to calculate an appropriate Regional Rate in Northern Ireland by considering the region as an equivalent local authority and efforts were made to relate the Regional Rate to reference authorities in Wales.

With the transfer of certain functions to local government, there is a preferred option which suggests that there should be a transfer from the Regional Rate to the District Rate i.e. the overall rate could remain static but the proportions within this overall rate value should switch from the regional element to the district element. The benefits of this approach include:

J A zero overall impact on ratepayers (as the overall rate amount would remain constant) but would immediately divert funding to local government; and

J Allocation of funding directly to local government rather than, for example, through grant funding from a number of central government departments.

There is a complexity here in that for certain central government services the allocation from regional rate to district rate will not necessarily be uniform across all of the new councils e.g. within DSD the majority of service delivery resources will be transferred across to the new Belfast and Derry and Strabane councils. The impact of this transfer of resources on each new council must be quantified.

∅ Convergence of rates across legacy council areas

As a consequence of the “balance sheet inequities” outlined above, consideration will need to be given as to whether an “intra-new-council” adjustment should be made (quite separately from any overall debt refinancing / forgiveness by Central Government). Given that the balance sheets of the old councils will, at this point, be merged, the most effective option for adjusting for old council debt winners and losers amalgamating into a new council is through a partial district rate “holiday” for those ratepayers of old councils inheriting significant new (net) debt. This review will have to dovetail into the convergence approach already being considered by the DoE for equalising the district rate between old councils coming together. This issue is explored in greater detail below.

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- 9.44 These issues must be considered in the round if an appropriate District Rate is to be set. One of the key lessons to be learnt from the amalgamation of councils in England is that once an initial council tax rate is set (and on occasions it was set equal to the lowest rate from the legacy councils) it is an extremely difficult position to progress from, particularly with a capping on council tax rate increases, and many councils there are facing significant financial pressures.

Required Level of District Rate

- 9.45 It is imperative that in the setting of district rate levels, the true cost of service delivery is reflected. In order to do this, the District Rate for the new councils, particularly for the initial years of their inception, must be set in the context of:
- ∅ The actual cost of service delivery post-May 2011 in each council. Under Option 5 this service delivery cost should reduce over time as councils transform both within themselves and in collaboration with each other on a regional and sub-regional level, facilitated by the new Business Services Organisation;
 - ∅ The level of allocation from the Regional Rate to the District Rate in line with the cost of the current delivery of the relevant services by Central Government;
 - ∅ The portfolio of other revenue generating mechanisms that the new councils introduce (see a review of some of the key examples below) to provide additional funding for the delivery of services;
 - ∅ The grant aid contributions that government departments make to individual councils rather than, for example, use of regional rate allocation to provide funding to local government to deliver transferred functions. Some government departments would prefer to take this approach at least over the initial 3 year period rather than use a reallocation of regional rates; and
 - ∅ The contributions made by central government to support transformation over the implementation period of the new 11 councils.
- 9.46 The issue of convergence of district rates from the current councils to the new council and the need to support ratepayers through this transition period is explored in further detail below.

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Convergence of District Rates

9.47 A key issue in the setting of district rate levels for the new councils will be the convergence approach already being considered for equalising the district rate between old councils coming together. For example, what will the new district rate be for residents of Fermanagh and Omagh, whose current district rates are 23.57p per £100 of rateable value and 35.53p respectively (see below)? At present we understand that one potential option is to set an average rate across all ratepayers of the new council which, with all other things being equal, will mean the residents of Fermanagh paying higher district rates and the residents of Omagh receiving a district rate cut.

Table 9.5 – Convergence of District Rates

£ Rates/Council	Pre-RPA District Rate (2009-2010)	Post-RPA (District Rate*Council Pop)/Total Pop	Increase / (Decrease) in District Rate (£)	Increase / Decrease in Domestic Rate (% change)
Antrim	0.3404	0.3193	(0.0211)	-6.20
Newtownabbey	0.3057	0.3193	0.0136	4.44
Belfast	0.2717	-	-	-
Carrickfergus	0.3450	0.3370	(0.0080)	-2.32
Larne	0.3318	0.3370	0.0052	1.57
Ballymena	0.3345	0.3370	0.0025	0.75
Omagh	0.3553	0.2903	(0.0650)	-18.28
Fermanagh	0.2357	0.2903	0.0546	23.18
North Down	0.2598	0.2607	0.0009	0.36
Ards	0.2617	0.2607	(0.0010)	-0.36
Newry & Mourne	0.2992	0.3055	0.0063	2.11
Down	0.3143	0.3055	(0.0088)	-2.80
Moyle	0.3749	0.3220	(0.0529)	-14.10
Limavady	0.3750	0.3220	(0.0530)	-14.12
Coleraine	0.2812	0.3220	0.0408	14.52
Ballymoney	0.3097	0.3220	0.0123	3.98
Magherafelt	0.2344	0.2510	0.0166	7.08
Dungannon	0.2542	0.2510	(0.0032)	-1.26
Cookstown	0.2663	0.2510	(0.0153)	-5.75
Lisburn	0.2374	0.2201	(0.0173)	-7.27
Castlereagh	0.1902	0.2201	0.0299	15.74
Craigavon	0.3576	0.3512	(0.0064)	-1.79
Banbridge	0.3244	0.3512	0.0268	8.26
Armagh	0.3628	0.3512	(0.0116)	-3.20
Derry	0.3730	0.3632	(0.0098)	-2.64
Strabane	0.3361	0.3632	0.0271	8.05

Source: Land and Property Services (column 1), PwC analysis

Note: Differences due to rounding

- 9.48 While the above situations (Vis amalgamation of legacy debt and convergence of district rates) are not inconsistent with mergers of English councils into their new unitary councils (i.e. there was an immediate step onto a single [lowest] rate), these outcomes could, clearly, create a situation of “double losers” on both these issues. For example, under a balance sheet amalgamation, the ratepayers of Fermanagh will move from a position of net cash per head of population of some £62 to a net debt of £56 (see table 9.5) and, under district rate averaging, above, they also face a district rate bill uplift of more than 23%.
- 9.49 A solution within a new council that may address this convergence “unfairness”, to an extent, would be for the higher old council district rates to be frozen, with the lower district rate old council’s new rates transitioning over, say, an agreed 3-year period, to the higher rate. This would be in addition to any partial holiday that may be deemed appropriate per paragraph 9.43 above to deal with respective debt endowments. Recently district rates were subject to a transitional relief around the revaluation of non-domestic assets.
- 9.50 Finally, on this matter, given the scale of any realignment that may be considered for adjusting for district rate winners and losers at both of the above levels (i.e. the averaging of the old legacy debt and of district rates), and in order to not have to go through further restructuring in the near future, it would be appropriate to ensure that the timing and implementation plan for any future additional increases to household bills is also considered at this time.

Summary

- 9.51 The key conclusions arising from our initial assessment of the convergence issues are that:
- Ø Consideration should be given to district rate transition arrangements for “balance sheet losers”;
 - Ø Consideration should be given to district rate transition arrangements for “district rate losers”; and
 - Ø There is a significant opportunity for this period of convergence for District Rates to be used as a basis to address a range of other issues impacting overall household bills.

Loans

- 9.52 While the draft Local Government Finance Bill requires a council to "approve estimates, authorise expenditure and approve rates for the following year", in practice a number of aspects of a council's financial management will need to be planned and managed on a considerably longer time frame.
- 9.53 The Local Government Finance Bill suggests that relaxations in a council's ability to borrow prudently would enable such autonomous financial management if there were an accepted framework agreement between the new councils' finance functions and their lender(s).
- 9.54 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code sets out the basis on which a council's borrowings are defined as affordable or prudent, and GB local authorities are using prudential borrowing to deliver: efficiency savings, better procurement; economic development and regeneration. Borrowing by the new district councils to fund these types of implementation/transition costs would, therefore, seem to be in line with current practice elsewhere in the UK. It should be noted, also, that, in other council mergers elsewhere in the UK, central government has allowed such implementation/rationalisation costs to be capitalised by the councils and spread over a number of periods.
- 9.55 However, as above, this also needs to be viewed in the wider discussion around affordability (and net debt per population).
- 9.56 In the meantime, ahead of 2011/RPA, the councils need to be encouraged not to take on additional debt that will become a shared liability, accelerating infrastructure investments that might be at odds with the enlarged future council's prioritisation of spending, or unduly lifting the district rate (and spending) so future "convergence" rate rises are less marked.

Income

- 9.57 Income generation can provide a valuable funding stream for local councils. A portfolio approach to income generation should be based on core policy principles established within a strategy for charging which might include:
- Ø Clear linkages to contributing to the overall objectives of the organisation, for example through subsidising specific groups of users (e.g. children);
 - Ø Expanding service choices for those that are able to pay;
 - Ø Ensuring that opportunities are not restricted for those with limited ability to pay;
 - Ø Deterring or incentivising certain behaviours, e.g. anti-social behaviour, recycling of waste;
 - Ø Recognising that charges which have a market context should be tested against competition to maximise revenue; and
 - Ø Defining the circumstances where trading opportunities would be reputationally acceptable.
- 9.58 The 11 new councils, and their new Business Services Organisation, face two key issues:
1. What services should be charged for?
- Why should citizens, communities or business users not be able to exercise the same choices for local authority offerings as they do for other services where there is an opportunity to make their life better, easier or more enjoyable – at a price they

are prepared to pay? Paying for 'common good' services through universal taxation – and making lifestyle and value based choices to use services which they draw down against their personal payment account. An example candidate service is that of bulk waste collection.

2. What should the charge for such services be?

In addition to Income Generation, there are a wide range of factors that will determine the most suitable charging scheme for each service including the shaping of citizen behaviours and equality through continued access to services.

Planning represents a particular challenge for the new councils in terms of setting an appropriate fee. The planning service is designed to be self-funding with the income from fees used to cover the cost of service provision. The current planning fee is not calculated on a unit cost basis and even if it was, the on-going fundamental overall of planning would make this fee inappropriate. Even if a new fee is calculated for the new planning process, how does that map to a planning process that is disaggregated across local councils. Another issue is whether a regionally set planning fee can actually be calculated to cover potentially different local costs within each new council?

Effective Asset Management

- 9.59 Since the UK Audit Commission's report on local authorities in 1988 there has been considerable debate about the effectiveness of the management and use of real estate assets within the public sector.
- 9.60 The Office of Government Commerce (OGC) recognises that public services are evolving in the context of rising public expectation, increasing focus on improving efficiency and value for money, and the continuous emergence of new technologies. The Government's strategy for increasing efficiency in the public sector gives further impetus to these developments. It is recognised that effective asset management can help meet these objectives through a number of measures, including the following:
- ∅ Selling surplus assets to free resources for new investment;
 - ∅ Transferring ownership of assets to the private sector where this secures access to new funding and skills, or by placing risk where it can be better managed;
 - ∅ Identifying and capitalising hidden assets; and
 - ∅ Increasing value for money from retained assets and property.
- 9.61 Any financial benefits from property rationalisation are outwith the scope of this Economic Appraisal i.e. this is an area under the discretion of the new council and any property strategy within the new organisation should support its overall Target Operating Model.
- 9.62 The reorganisation to 11 councils under the preferred option has clear implications for the Local Government estate – it is understood that whilst there are examples of good estate management arrangements across existing councils, the limited range of assets has meant that the remaining councils have not often required the range of estate functions that will result from reorganisation.
- 9.63 We recognise that the rationalisation of the estate must be achieved with an eye to sharing accommodation with other public sector occupiers and the achievement of urban and social regeneration objectives. There is also the possibility of sharing transactions in the disposal of the surplus estate, and the introduction of shared services in order to introduce good practice Property Asset Management (PAM) with economies of scale and greater integration and co-ordination of services.

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- 9.64 In undertaking a review of existing PAM arrangements, including maintenance and minor work and planned preventative procedures, it is imperative to seek to understand the dynamics of the estate through the collection of data on how the estate is managed internally including procurement arrangements. Councils should use maturity matrices and good practice models to assess current estate management across the local government estate.
- 9.65 In helping understand the opportunities introduced by rationalisation, it will be necessary to highlight and understand examples of best practice in the management and rationalisation of corporate real estate by local authorities nationally.
- 9.66 In order to inform thinking in this area, we have outlined below a summary of the leading edge collaborative work recently undertaken by PwC in the West Midlands.
- 9.67 It is likely that there will be a requirement to raise awareness of the importance of property and the benefits of robust asset management needs at various levels within Northern Ireland's local government structure. There is an opportunity to learn from this approach and outcomes in undertaking a similar exercise in Northern Ireland.

Case Study - 4ps and IEP West Midlands

SOC Accelerating Improvement in Local Authority Asset Management

In January 2009 PricewaterhouseCoopers LLP (PwC) were commissioned by the 4ps and the West Midlands RIEP - Improvement and Efficiency West Midlands - to develop a Strategic Outline Business Case (SOC) for sector-wide improvement in PAM.

Acting as the project manager in the initial phase of work, PwC led the project team and seven pilot authorities to prove the SOBC for a co-ordinated response to improving PAM across the local government sector, by driving out significant incremental benefits, covering service enhancements, cost reduction and sustainability.

The initial phase of the programme focused on sizing cashable and non-cashable efficiencies and planning how to deliver them and has highlighted significant opportunities to release benefits through adopting leading practice in areas such as strategic asset planning, procurement, energy management, office workspace and multi-service front-line facilities.

At the heart of the project was the PAM Diagnostic tool, developed by PwC, to allow the project team to quantify the size of the financial opportunity from adopting leading practice in four major process areas using a three stage approach:

1. Data collection - the organisation completes four data templates using the common process model to identify current baseline.
2. Gap analysis - the organisation completes the leading practice questionnaire in a gap analysis workshop to assess the gap between current and leading practice.
3. Opportunity quantification - the size of the opportunity is quantified using a model that contains maximum benchmark saving ranges. These are adjusted to reflect the organisation's current capability and maturity as assessed by the 'Gap Analysis'.

The 'size of the prize' comprises:

- ∅ The financial and carbon benefit from making better use of the asset base and the resources that are consumed in operating the assets; and
- ∅ The cost of delivering each PAM process.

The tool also allows the project team to quantify benefits by type as follows:

Cashable revenue efficiencies	Capital	Carbon	Avoidance
<ul style="list-style-type: none"> J Activity spend J External revenue J Premises running costs 	<ul style="list-style-type: none"> J Proceeds from disposal 	<ul style="list-style-type: none"> J CO2 emissions 	<ul style="list-style-type: none"> J Backlog maintenance J Capital programme savings

By applying the tool across seven pilot authorities in the West Midlands and extrapolating this data regionally, the project team were able to shape a 10 year programme with the potential to deliver gross revenue savings in the West Midlands of £173m, capital returns of £467m and a reduction in the carbon footprint of 50,000 tonnes per annum. The programme also identified the changes required to release the efficiency savings and provided an indicative investment requirement from public sector stakeholders to accelerate the delivery of efficiency gains.

Business Rates Supplement (BRS)

9.68 The purpose of this Bill is to give upper tier local authorities (County Councils, Unitary Authorities and, in London, the Greater London Authority) the power to levy a local supplement on the business rate and retain the proceeds for economic development. The main elements of the Bill are:

- ∅ Creating a new power for upper tier local authorities to levy a local supplement on the business rate and to retain the proceeds for investment in that area;
- ∅ Providing safeguards for business, including: a requirement that proceeds should be spent on economic development; consultation and, in certain circumstances, a ballot of businesses that would be affected; a national upper limit to the levy of 2p per £1 of rateable value; an exemption for all properties with a rateable value of £50,000 or less; and
- ∅ Flexibility for authorities to: decide the duration of the supplement; reduce liability for the supplement for properties above the £50,000 threshold; and to decide whether to offset Business Improvement Districts levies against liability for the supplement.”⁴

Impact	Businesses are unlikely to favour higher business rates in the current economic climate but the tool will be a useful tool in the longer term. ⁵
Status	Received Royal assent on 2 nd July 2009 and is now an Act of Parliament in England and Wales.

Community Infrastructure Levy (CIL)

9.69 The overall purpose of the CIL is to ensure that development contributes fairly to the mitigation of the impact it creates: to ensure that development is delivered, and in a more sustainable way.

9.70 CIL will be a standard charge decided by designated charging authorities and levied by them on new development. For example, the CIL could be levied as a certain amount per dwelling or per square metre of development, following the example of existing ‘tariff’ schemes introduced by some local planning authorities.

9.71 The Government wants CIL funds to unlock development. But if the levy is set too high, it might cause some development to become unviable. Because it is the purpose of CIL to ensure that more development is delivered, the level of CIL must be set to ensure it supports and does not prevent development. In setting charges, charging authorities will therefore need to take account of land value uplifts in their area.

Impact	Provides clear transparency on contribution required for new development in order to mitigate impact on local infrastructure. In most cases a levy is already sought from the developer in exchange for planning consent and therefore CIL is likely to have only a marginal impact on revenue. All proceeds must be ring-fenced for improvements in local infrastructure.
Status	The Bill which will enact the CIL for England and Wales is expected to be introduced in 2010.

⁴ Direct Gov. “Business Rates Supplement Bill”,

⁵ All Party Urban Development Group, Regeneration and the recession “Unlocking the money”, (2009), London

Workplace Parking Levy (WPL)

9.72 The most serious congestion problems in most towns and cities are associated with peak commuting, and car use is influenced by the availability of free or relatively cheap workplace parking. The principal aim of the levy is to provide an incentive to employers and educational establishments to discourage car commuting and use alternative modes of transport (including car-sharing). This would be achieved by imposing a levy on employers and educational establishments relating to the amount of workplace car parking they provide. Schedule 12 of the Transport Act 2000, as amended by the Local Transport Act 2008, requires that revenues from WPL schemes must be used for the achievement of local transport policies.⁶

Impact	<p>Nottingham City Council plans to implement the scheme in 2010 and charge employers with 10 or more parking spaces £185 per space, per annum, rising to £350 per space annum by 2015. Nottingham City Council expects to generate £10.8m per annum by 2014.</p> <p>Whilst the business community has voiced concerns about the impact of WPL on economic development, “analysis indicates that the establishment of a WPL will not have a significant impact on business investment decisions.”⁷</p>
Status	<p>The Transport Act 2000 which legislates for the use of WPL applies only to England and Wales. Nottingham City Council is the first and only council to have submitted an order for the introduction of the WPL.</p>

Joint European Support for Sustainable Investment in City Areas (JESSICA)

9.73 Under new procedures, Member States are being given the option of using some of their EU grant funding, their so-called Structural Funds, to make repayable investments in projects forming part of an integrated plan for sustainable urban development. These investments, which may take the form of equity, loans and /or guarantees, are delivered to projects via Urban Development Funds and, if required, Holding Funds. Projects must be integrated and sustainable. Examples could include:

- Ø Urban infrastructure including transport, water / wastewater and energy;
- Ø Heritage and cultural sites for tourism and other sustainable users;
- Ø Redevelopment of brown field sites including clearance and decontamination;
- Ø Office space for SME, IT and / or other R&D sectors.⁸

Impact	<p>Not a new source of funding but new way of using funding for Member States;</p> <p>Funds can be recycled – returns on investment can be retained and reused by fund;</p> <p>Provides greater leverage - fund can be used to attract funding / match funding from private sector; and</p>
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⁶ Department for Transport, “Explanatory Memorandum To The Workplace Parking Levy (England) Regulations 2009”

⁷ Unlocking City Growth, Interim Findings on New Funding Mechanisms A report by the Core Cities Group and PricewaterhouseCoopers LLP

⁸ European Investment Bank, “JESSICA A new way of using EU funding to promote sustainable investments and growth in urban areas.”, (2008)

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	Provides greater flexibility - in terms of eligibility of expenditures and use of JESSICA funds.
Status	The EU Structural Funds' legislative package for the programming period 2007 to 2013 provides the JESSICA operating framework to assist in the delivery of this agenda.

Regional Infrastructure Funds (RIF)

9.74 The RIF is a mechanism through which a region can pump prime or forward fund major infrastructure schemes, in situations where the anticipated public or private funding for the scheme will not be available in full at the time when the infrastructure is needed to support planned growth or development. The cost of the capital investment would then be recovered from pre-determined public and /or private funding streams as they become available. A RIF will need to be designed to reflect the particular infrastructure needs and priorities of the region in question, as well as specific governance requirements. For example:

- ∅ A business planning approach to the identification of infrastructure need, including a thorough assessment of costs, timing, funding streams and responsibilities for delivery of major schemes;
- ∅ The existence of identified revenue streams through which the RIF would recoup its up front capital investment. This could be a combination of strategic planning contributions, user charges, other private investment, for example the sale of concessions or longer term public funding commitments;
- ∅ The identification of appropriate 'banker' arrangements through an accountable body; the status of which (public or private) will be dependent upon the sources of finance employed and the nature of contractual relationships with infrastructure providers; and
- ∅ Robust and transparent governance arrangements to ensure appropriate levels of public accountability and scrutiny.⁹

Impact	A RIF offers many of the same advantages that JESSICA does but is funded primarily by top slicing local authority budgets and leveraging private sector contributions.
Status	South West RDA has implemented the RIF. Other development agencies such as East of England Development agencies are looking at similar mechanisms.

Local Asset Backed Vehicle (LABV)

9.75 Unlike other models, LABVs are arrangements where local authority assets are used to lever long-term investment from the private sector for a stream of development projects. They are designed to:

- ∅ Bring together a range of public and private sector partners in order to pool finance, land, planning powers and expertise;
- ∅ Ensure an acceptable balance of risk and return for all partners; and
- ∅ Plan and deliver projects more strategically.

⁹ SEEDA, SWDA, "Regional Infrastructure Funds: A Prospectus", (2006)

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9.76 LABVs could make a difference in a range of cities – and allow them to:

- ∅ Retain a long-term stake in development;
- ∅ Retain a share of the returns from any uplift in land values; and
- ∅ Plan development citywide – or even across local authority boundaries.

Impact	LABVs are not right for every local authority. But for those councils that can identify a portfolio of assets, a pipeline of regeneration projects and suitable institutional investors, they offer a means to unlock additional private sector investment for regeneration and housing programmes.
Status	Asset-backed vehicles (ABV) are already in action today at the regional level, including the East Midlands and the North East. British Waterways also uses an ABV, ISIS Regeneration, to regenerate specific types of sites. And a number of towns and cities are now interested in the LABV model. Newcastle-Gateshead, Liverpool and Croydon are all actively investigating the possibilities ¹⁰

Tax Increment Financing (TIF)/Accelerated Development Zones (ADZ)

9.77 TIF is a mechanism for using anticipated future increases in tax revenues to finance the current improvements (such as new or improved infrastructure) that are expected to generate those increased revenues. In simple terms, it enables a local authority to trade anticipated future tax income for a present benefit. TIF works on the principle that the supply of new or improved infrastructure usually leads both to new development and to an increase in the value of surrounding property, both of which serve to increase the level of property taxation in the area. Within a designated TIF district, this anticipated increased taxation (the ‘tax increment’) is captured and used to fund the infrastructure that has been provided. Financing debt issued to pay for the project by utilising increased tax revenues can take up to 20-25 years, but in some cases the timeframe can be much shorter. In the UK, TIF has been rebranded as Accelerated Development Zones. The schemes enable one or more local authorities to retain business rates over and above existing receipts of the area caused by new development. A number of cities across the UK including Leeds, Sheffield, Edinburgh and Cardiff have submitted expressions of interest in implementing ADZs and have submitted expression of interest in operating pilots.

Impact	The Core Cities Group with support of PwC has conducted significant analytical work that shows that ADZ, if used appropriately could be the key source of funds for many local infrastructure projects. For example, in Leeds, the regeneration of the Aire Valley is expected to cost over £280 million. Projections suggest that an ADZ would generate additional business rates of nearly £290 million over a period of 13 years.
Status	There is widespread support for ADZs and widespread recognition that they should be used cautiously and appropriately. Current proposals are to pilot a number of ADZs in 2009/2010 with a view to implementing a national scheme in 2011. ¹¹

¹⁰ PricewaterhouseCoopers, “City Solutions: Delivering Local Growth, Local Asset-Backed Vehicles”, (2007)

¹¹ British Property Federation, “Tax Increment Financing, A new tool for funding regeneration in the UK?”, (2008)

Funding Summary

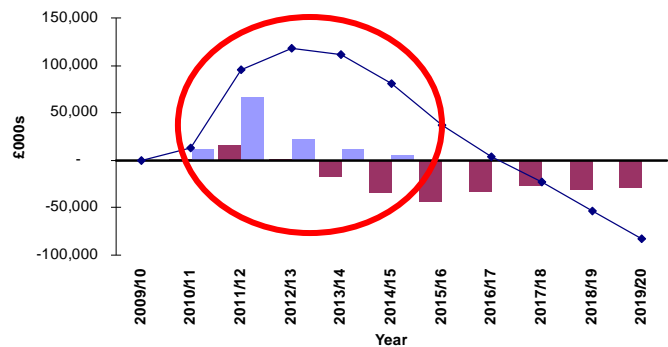
9.78 The funding requirement for the local government reform programme relates to the additional funding that will be required (i.e. over and above existing funding) to design and implement the proposed new operating model across local government and those affected parts of central government.

9.79 In considering the overall additional funding requirement associated with the preferred option, it has been assumed that the full cost to central government of delivering those functions to be transferred to local government will be transferred to local government. It is noted that the full cost of current service delivery, for many departments, includes an element of notional costs in relation to common and shared services across central government including, for example, Departmental Solicitors Office, AccountNI, HRConnect and ITassist. Such notional costs also often exist in relation to property charges. It is assumed that the full cost for the current delivery of those services to be transferred to local government will include all notional costs.

9.80 The additional funding requirements associated with the preferred option (Transformation with Regional Collaboration) relate to:

- ∅ Implementation costs (associated with one-off transition, transformation and ICT costs); and
- ∅ Increased operating costs (relative to Option 1 - Do Nothing) until on-going transition and transformation benefits are fully realised.

9.81 The Local Government reform programme, against the preferred option – Transformation with Regional Collaboration, can be self-funding from Year 4 (2013/14) with a break-even point in 2016/17.



9.82 The funding requirements considered by this Economic Appraisal relate to the initial period when the reform programme will not be self-funding – it is assumed that from that point onwards local government will fund the reform itself.

9.83 The total additional net NPC funding requirement for the Local Government reform programme is **£117.99m** (from year 0 to year 3, from year 4 onwards there is a negative net funding). This funding is required to deal with the additional implementation and operating costs, relative to the Do Nothing option. The breakdown of this funding requirement is shown at Table 9.6 below.

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Table 9.6 – Breakdown of Funding Requirement

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Operating Costs	-	£1,086,981	£15,777,622	£757,461	-£17,731,526	-£35,341,384
Implementation Costs	£143,973	£12,292,025	£65,703,103	£22,231,893	£11,076,770	£5,025,758
Funding Requirement	£143,973	£13,379,006	£81,480,725	£22,989,354	-£6,654,756	-£30,315,626

Note:

- i. All costs are stated in Net Present terms.
- ii. The gross funding requirement is £134.1m (NPC). However, this figure includes the investment totals for Year 4 and 5 when it is anticipated that the programme will be self-funding i.e. the benefits realised will exceed the investment costs.
- iii. Funding requirements associated with Operating Costs relate to the variance in costs of the 'Do Nothing' operating model against the costs of the proposed operating model. These funding requirements assume that the full amount of existing central government funding of transferring functions will be made available to local government. This is not an additional funding requirement but rather a reallocation of current funding (see key assumption detailed above).
- iv. Funding requirements associated with Implementation Costs cover the relevant aspects of the Transition, Transformation and ICT elements. The Economic Appraisal assumes that one-off ICT investment costs will all be incurred in 2011/12 (to provide a prudent NPC calculation) but it is probable that these costs will be more evenly spread over the first few years of the programme. The prudence of this assumption, in terms of NPC impact, means that the investment profile is potentially more 'front loaded' than will eventually be the case. The actual profile of ICT costs will only be defined during the detailed design phase.
- v. Funding requirements exclude budgets that have already been approved e.g. DoE funding of Transition Committees and their change manager posts.
- vi. This net funding requirement is only detailed up to the point that the programme can become self-funding.
- vii. In order to identify the most appropriate funding source we have defined a number of funding categories with associated criteria:

Table 9.7 – Funding Sources and Criteria

Funding Source	Description	Criteria
Central Government	Funded by Central Government, represented by local regional assembly, through a number of mechanisms including: Ø Allocation of block grant funding; Ø Allocation of specific grant funding from individual departments; and	<ol style="list-style-type: none"> i. One-off costs relating to consolidation of sector into 11 councils; ii. Current costs of central government functions transferring to local government; iii. Pump prime costs for

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	∅ Allocation of regional rate funding.	core / baseline transition and transformation structures and activities; iv. Costs of design and implementation of retained government functions
Central Government and Local Government	Funded initially by Central Government throughout the implementation period but post-2015 becoming a local government funding responsibility	i. Additional costs of running central government functions disaggregated new across councils; ii. Costs of new local government services (e.g. new community planning role).
Local Government	Funded by Local Government which may raise funds through a number of mechanisms including: ∅ District Rates; ∅ Loans (from central government, municipal bank or commercial banks); ∅ Asset Management; ∅ Income Generation; and ∅ Other (e.g. BRS, CIL, etc.).	i. Current costs of local government functions; ii. Pump prime costs for non-core transition and transformation activities; iii. On-going costs for transformation structures and activities post-implementation period.

9.84 It is assumed that, in the longer-term, the preferred mechanism for transferring the funding (in line with the current cost of service delivery) for those functions which are moving into local government is through the allocation of regional rate income to the district rate i.e. while the overall rate income may not in itself change, there will be a movement of regional rate income to the district rate.

9.85 One possible funding solution is for Central Government to make funding available to the reform programme to meet the one-off transition, transformation and ICT costs with local government meeting the on-going costs. Table 9.1 below sets out the various elements of funding that would be required under this option, with a potential profile of funding sources against central and local government. This suggested approach would allow Central Government to “pump-prime” and drive the reform programme with local government incentivised to realise efficiency benefits on an on-going basis.

9.86 However, the exact profile of funding sources for this reform programme will only be decided following detailed discussions with DFP, and it is imperative that Local Government enter these discussions with an understanding of:

- ∅ The scale of efficiencies that local government will deliver through this reform programme;
- ∅ Proposals for optimum use of its physical and cash assets;
- ∅ The range and scope of revenue optimisation and alternative funding mechanisms that local councils will deploy moving forward; and
- ∅ The non-financial benefits that a reformed local government sector can deliver in support of future wider public sector transformation.

**Local Government Service Delivery
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Table 9.8 – Summary of Potential Funding Sources

Funding Source	Year 0	Year 1		Year 2	Years 3 to 5	Years 6 on	
Central Government	Transition Committee PMO PDSU Recruitment of Chief Executive Designate RPA Project Team within councils	Transition Committee PMO PDSU Recruitment of Directors (*4) designate (and admin support staff) Salaries of designate staff	Branding of new councils Set-up costs of new BSO organisation Regional Communications	Design and implementation of enhanced NIAO Programme to attract new generation of local politicians Capacity Building Programme ICT Convergence	PMO PDSU Voluntary Severance Scheme for members Voluntary Severance for officers Branding of new councils Contribution to additional cost of disaggregated services Contribution to additional cost of Community Planning Set-up costs of BSO Regional Communications	PMO PDSU Contribution to additional cost of disaggregated services Contribution to additional cost of Community Planning Set-up costs of BSO	None

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Funding Source	Year 0	Year 1		Year 2	Years 3 to 5	Years 6 on	
Local Government	RPA Core Project Team RPA inputs by staff	RPA Core Project Team RPA inputs by staff Non-core Designate posts Local Communications Property Transformation Costs Salary Harmonisation Operational costs for new BSO			RPA Core Project Team Cost of transferred services Induction of staff into new organisations Property Transformation Costs Excess Fares for relocated staff Local Communications Salary Harmonisation Operational costs for new BSO	RPA Core Project Team Cost of transferred services Property Transformation Costs Excess Fares for relocated staff Salary Harmonisation Operational costs for new BSO	Cost of transferred services Full cost of disaggregated services Full cost of Community Planning Salary Harmonisation Operational costs for new BSO