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EAST KENT DISTRICTS

A business case for the potential creation of a single new council from the four East Kent ‘coastal’ districts

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EXECUTIVE SUMMARY

Introduction

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

Background and Options Considered

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

- the projected staffing savings for one council delivering a function on behalf of the others, or an extension of EKS, would be considerably less than could be achieved through creation of a new council, as the current senior management costs for each council would not be significantly impacted

- if a single staffing structure could be established to serve all the councils there would still be the significant resource requirement to support the political machinery of four autonomous councils

- any shared service arrangement would lose the benefits of 'speaking with one voice' on important issues

- shared arrangements may not be as stable as a merged council because there always remains the potential for them to be reversed.

Therefore, this business explores the implications and opportunities of the creation of a new council comprising the four current districts – Canterbury, Dover, Thanet and Shepway.

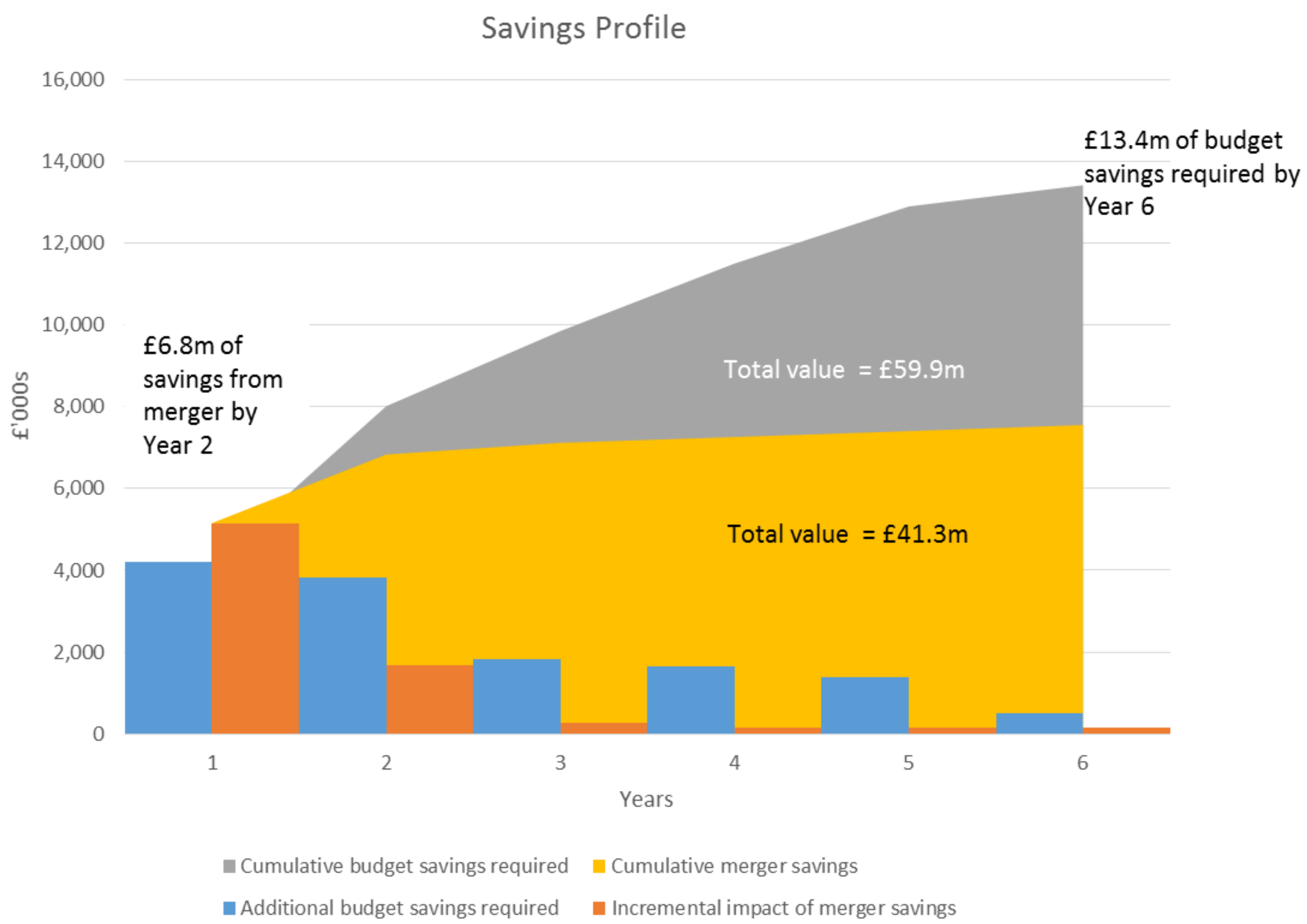
Approach

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

The Financial and Commercial Cases

Under the current arrangements for local government finance, long term estimates for major income streams such as Business Rates and New Homes Bonus are difficult to predict. In projecting the baseline budget position for the four districts, significant assumptions have had to be made about key variables such as expenditure growth and government funding. Under a prudent scenario agreed with the councils' Section 151 officers, the combined savings that would need to be identified by 2024/25, if the four districts continued to operate individually, are estimated to be £18.1m[1], with £4.7m of these required prior to any merger.

Of the remaining £13.4m, this business case identifies c. £6.8m[2] of savings that could be achieved within two years of merging, largely made up of staff savings through structural changes and some consolidation of services. The graph below illustrates how the profile of savings required and savings identified relate to each other.



These savings are considered to be at the lower end of what could ultimately be delivered through the creation of a new council. If, like others, the new council takes the opportunity to transform services, it is estimated that a further additional 50% of savings could be delivered per annum (in other words, an additional c£3.5m).

In order to deliver a new merged council, there will be one-off transition costs that are estimated to be c. £6.8m in today's prices (2016/17)[3], covering, for example, redundancy costs, harmonisation of technology, communications and engagement, etc.

The new council would also need to determine a single rate of council tax for the new merged district. The current range of rates across the four existing districts is large. In

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[1] An alternative, more pessimistic scenario, is illustrated in Section 4 - Financial Case; this projects a combined savings requirement by 2024/25 of £25.5m.

[2] This is the value of savings based on projected inflation rates and is derived from the figure shown in Table 11 (£6.447m at 2016/17 prices)

[3] The value of £7.281m in the table overleaf has been adjusted for inflation.

engaging with DCLG to develop this business case, a senior DCLG civil servant has made it clear that a new council would have a variety of options in determining its preferred approach to harmonising council tax. The proposed approach would be agreed in advance with DCLG and set out in the statutory order required to establish the new council.

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

A) harmonisation to the lowest rate over five years

B) harmonisation to the average rate over five years

C) harmonisation to the average rate in Year 1

Drawing on the points above, the table and subsequent paragraphs below summarise the financial case for the creation of a new council.

	A		B		C	
	Harmonise to the lowest rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at Year 1 (2019/20)	
Period	(2017/18 - 2024/25)		(2017/18 - 2024/25)		(2017/18 - 2024/25)	
Option	**As-Is**	**Single District**	**As-Is**	**Single District**	**As-Is**	**Single District**
	Cumulative (£'000s)		Cumulative (£'000s)		Cumulative (£'000s)	
Value of cash to be saved by 31 March 2025	(92,714)	(92,714)	(92,714)	(92,714)	(92,714)	(92,714)
Less impact of savings to be made pre-merger	*32,843*	*32,843*	*32,843*	*32,843*	*32,843*	*32,843*
Cash to be saved post-merger	(59,871)	(59,871)	(59,871)	(59,871)	(59,871)	(59,871)
Savings generated by merging	0	41,330	0	41,330	0	41,330
Sub-Total	**(59,871)**	**(18,541)**	**(59,871)**	**(18,541)**	**(59,871)**	**(18,541)**
Merger savings as a % of total requirement	0%	69%	0%	69%	0%	69%
Add:						
Costs of merging						
Transition Costs	0	(7,281)	0	(7,281)	0	(7,281)
Council Tax Loss	0	(21,892)	0	(216)	0	20
Risk adjustment	0	(2,707)	0	(2,707)	0	(2,707)
	0	**(31,881)**	**0**	**(10,205)**	**0**	**(9,969)**
Balance of savings to be identified	**(59,871)**	**(50,422)**	**(59,871)**	**(28,746)**	**(59,871)**	**(28,510)**
Balance of savings to be identified (%)	100%	84%	100%	48%	100%	48%
Balance of savings identified (%)	0%	16%	0%	52%	0%	52%

It can therefore be concluded that:

- the creation of a new council from the four district councils is an action that has the potential to make a significant contribution to the savings required over the six year period from 2019/20 to 2024/25
- the impact of savings on the annual budget of the new authority should pay back the estimated transition costs in a little over a year
- once implemented and the reductions in operating costs achieved, the changes will have eliminated £6.4m, in 2016/17 prices, of annual expenditure from budgets which represents c.10% of the current combined net revenue expenditure of the four districts. The extent to which this saving benefit resides within the council or is transferred to residents, depends upon the choice of approach to harmonising council tax rates.

It is likely that the new council would want to transform the services it inherits and leverage its scale, once it has been created, and additional savings of up to 5% of overall expenditure should be achievable based on research of other authorities. This would equate to approximately £3.5m savings per annum over and above those identified in the table above[4].

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

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

Strategic Case

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

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

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

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

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

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

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

Economic Case

In economic terms, the four districts have a complementary economic offer (for example, in terms of sector specialisations) and a single, larger district would have the scale to operate and deliver economic outcomes more effectively. East Kent's coherence as an economic unit provides the scope to better exploit the synergies between the different constituent areas and this can be better achieved through creation of a new council than through collaboration between existing districts. Canterbury acts as a growth engine for the sub-region as a whole yet relies on the other areas for housing (relieving availability and affordability pressures in Canterbury), employment (providing personnel for its businesses) and business growth opportunity (when sites for growth are limited within Canterbury itself). The continued growth and success of Canterbury is very much tied up with / dependent upon the other three districts – with all current districts deriving mutual benefits. There is also a reciprocal and firm intention for the four districts to continue to work with Ashford Borough Council on growth[5] through the East Kent Regeneration Board (and East Kent Growth Framework which is under development).

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

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

Management Case

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

[5] A Memorandum of Understanding is being considered to reflect this intention

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

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

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

Summary

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

INTRODUCTION

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

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

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

1. STRATEGIC CASE

1.1 Introduction

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

1.2 Background and Options Considered

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

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

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

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

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

1.2.1 Potential to Extend the Current Arrangements

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

- the scale of the change needed is far less significant than the creation of a new council and is therefore simpler to implement
- many of the transition costs of creating a new council would not be incurred (for example on communication, member induction etc.)

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

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

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

1.2.2 The Strategic Advantages of Creating a new Council

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

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

The remainder of this business case therefore considers in detail the creation of a new council comprising the four districts.

1.3 Strategic Context

The East Kent coastal districts have already been working together for mutual benefit for a number of years and are starting to be recognised as a cohesive unit, both strategically and economically. The leaders recognise the opportunity to build on that strength by exploring uniting as one district, recognising that this also has the potential to allow them to control their destiny. Their vision for the future is for:

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

This vision will be achieved through:

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

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

All East Kent districts have identified significant common challenges:

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

- using technology more effectively
- responding to ongoing welfare reform

In summary, a new council would potentially be well placed to ensure that East Kent is in a favourable position to positively respond to all these challenges. For example, experience elsewhere indicates that merging delivery models brings increased resilience and enables more resource to be devoted to services / functions which are judged to be strategically more important to them (see section 1.6 below for further consideration of the opportunities for increasing resilience).

In addition, the corporate plans for the East Kent coastal districts identify a number of key high level priorities, many of which are common. These are summarised in Table 1 below.

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

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

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

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

1.5 Stronger Local Leadership

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

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

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

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

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

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

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

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

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

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

There are 89 parish and town councils in East Kent. The districts of Canterbury and Thanet are, however, not fully 'parished'. In Canterbury, the council engages with residents' associations and community organisations in unparished areas. These vary in size and capacity from one area to another. A community governance review in Canterbury district is now overdue, although no date has yet been fixed.

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

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

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

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

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

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

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

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

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

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

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

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

Wiltshire has been recognised[6] as a good example of putting locality governance into practice in a large (unitary) council (see Appendix A).

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

[6] *Independent analysis of governance scenarios and public service reform in county areas*: EY, 2016

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

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

1.6 Building Resilience and Capability

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

Recent research[7] into local government reorganisations has concluded that larger councils are most likely to generate economies of scale and be resilient in the context of continued budget pressures. A larger, merged district provides opportunities to build resilience and capability:

- Resilience: a new, merged authority would have a larger pool of resources in all functional areas, providing the ability to move work around when there are pressures in particular geographical areas. In providing service-based submissions to support this business case, officers from all four councils referenced the need for increased resilience across a range of service areas including Regulatory Services, Electoral Services, Planning, Regeneration, Finance and Waste. A new entity also offers the potential to build increased resilience around corporate duties such as Equalities, Emergency Planning, Policy and Strategy development, Risk Management and Business Continuity as well as providing capacity to support customer insight, data analysis, and research.
- Staff retention: a larger single authority would also be able to create a structure that offers more career opportunities and offers greater appeal in the jobs market and so is able to recruit and retain high calibre staff. Officers consistently made reference to difficulties in attracting and recruiting to specialist roles and to the fact that the small staff numbers in certain functional areas means that capacity to respond to service needs is often impacted by factors such as long term absence and unusual service demand.
- Capability: increasingly, smaller local authorities have used external resources for support in specialist technical areas such as procurement advice. A larger merged district offers the possibility of employing specialist resources, providing cost savings.

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

- The wider knowledge base which would exist in relation to highly specialist areas (such as Contaminated Land or Air Quality Monitoring) as well as the potential to have a wider ranging skill set in house, such as Town Planners, Transport Planners,

[7] "Learning lessons from local government reorganisation: an independent study" *Phil Swann, Shared Intelligence*

Ecologists and Urban Designers, that are difficult to sustain at the existing district level.

- Greater capacity to undertake Digitalisation and Transformation activity. Lack of capacity in this area is currently a barrier to driving through efficiencies and delivery improvements across service areas.

- The scale and capacity to take on more responsibility for delivering services from Kent County Council, if agreed and appropriate, and to ensure that services can be more effectively delivered at a local level to better meet community needs.

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

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

1.7 Value for Money and Innovation

The Financial Case details the potential savings that might be made if the four districts were to merge. In summary, these are estimated at £6.4 million per annum, largely derived from reductions in staff / posts as a result of rationalising the management and administrative teams. Significant savings include:

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

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

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

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

- To improve services for citizens by reducing demand (for example, such as clients chasing the progress of delayed service applications) and, using new technology solutions to improve the quality of services for citizens and their efficiency (such as moving citizens to 'self-serve' and electronic transactions)
- To better support members and officers to deliver their roles in communities; for example, through access to information/data including ward profiles and partners / organisations working in their area and mobile access to information / services to respond to citizen enquiries
- To provide opportunities for staff: although new ways of working will require behaviour and culture change from staff, there would be greater career opportunities as part of a larger council that is able to achieve more than individual councils can

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

1.8 Initial Responses from Stakeholders at a Strategic Level

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

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

1.9 CONCLUSION TO THE STRATEGIC CASE

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

2. ECONOMIC CASE

2.1 Introduction

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

2.2 Context

The four East Kent districts of Canterbury, Dover, Shepway and Thanet are home to around a third of Kent's total population; some 517,669 people. The four councils are contiguous and are all coastal – a sea frontage that stretches from Whitstable on the Thames Estuary in the north, Margate / Broadstairs / Ramsgate to the east round to Dover, Folkestone and onto Dungeness, Hythe, Romney Marsh and Lydd in the south.

Recent work undertaken by Nathaniel Litchfield Partners (NLP) as a part of the ongoing development of an East Kent Growth Framework (EKGF), has provided some up to date (post credit crunch) data on the position in East Kent. Whilst the EKGF covers Ashford Borough Council as well as the four East Kent coastal districts, the data gathered has been used to explore the economic opportunities available to the four districts, should they merge. (It should be noted that there is a reciprocal and firm intention for the four districts to continue to work with Ashford Borough Council on growth[8] through the East Kent Regeneration Board which commissioned the work on the EKGF). A brief summary of key points is provided below under three headings – Economy, People and Place; supporting extracts of the detailed analysis are available in Appendix B.

<u>Economy</u>

Overall, the East Kent coastal economy has performed relatively well compared to the rest of Kent and the South East, with a particularly strong performance in Canterbury; Dover shows the least strong position. Forecasts indicate significant growth potential over the next 20 years, though not as high as the predicted SE average. In addition, the economic 'offer' in terms of jobs across the four districts is complementary; for example, with Canterbury offering largely service-based jobs and the other three districts offering a range including industrial and logistics / transportation. In particular, with Canterbury showing strong service-based growth, the sites in Thanet (Manston Business Park) and Dover (Discovery Park) offer capacity both for expansion from Canterbury (where site-availability is an issue) and for other sectors, such as advanced manufacturing at Manston. This creates a cohesive (cross current district boundary) economic ecosystem within the sub-region.

<u>People</u>

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

[8] A Memorandum of Understanding is being considered to reflect this intention

districts. The corollary of this currently – and a future opportunity – is that the other three areas help relieve the housing pressure in Canterbury – see below.

Place

In terms of housing, completion rates have started to recover after the 2008 credit crunch, with particular pressure in Canterbury (council area) in terms of affordability, where the constrained availability of development sites tends to lead to a 'lumpy' supply of new homes. It is also notable that the mix of properties in Canterbury is different from the other areas, with a much greater proportion of detached and semi-detached stock compared to (for example) a high level of terraced housing in Dover district. Key infrastructure routes include high-speed rail links to St Pancras International (HS1) and a number of strategic roads such as the M20 and A2/M2. Current usage suggests that HS1 in particular, offers further opportunities for passenger growth.

Overall, the current data suggests that:

- there is an emerging degree of economic cohesion to the sub-region, evidenced by the complementary nature of the services currently provided and relatively high rates of self-containment
- Canterbury is a potential key growth engine and 'attractor' to the sub-region for both housing and employment
- there are opportunities to further enhance the links between the strong FE and Higher Education (HE) sectors in Canterbury with the wider sector specialisms of the other districts; for example advanced manufacturing in Thanet; creative industries in Thanet and Shepway (see Appendix B for more details of current sector specialisations across the four districts)

2.3 The Opportunity – Economic Development and Regeneration

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

As outlined in the Strategic case, the four districts face similar problems and, as a single authority, can direct resources to areas of greatest need, rather than competing with each other. This is particularly true for Thanet and Dover (and to a lesser degree, Shepway), which are most similar in terms of economy, people and place. A single district can take a broader perspective, exploiting the links and complementarities identified above and explored in more detail below. In addition, a larger authority is likely to have greater scale to borrow and increase investment in priority areas.

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

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

The next stage of the work involves looking at suggested priority projects from all districts and categorising them as 'strategically significant (for East Kent as a whole)' or 'locally significant' (clearly some projects might be both), mapped against the four strategic objectives above. Whilst the EKGF covers Ashford as well as the area covered by the proposed new district, there is a clear desire to continue to collaborate in key areas, which the framework will address. This will provide a platform to take a view of future investment priorities and feed into the refreshed strategic plan being developed by the SELEP. As stated elsewhere, speaking as a single voice for East Kent, the new council is likely to carry greater influence than four individual districts, with an increased chance of securing funding and delivering the strategically significant projects. (The NLP work is due to complete in early 2017.)

At this stage, what can be said at a very high ('macro') level, is that:

- Canterbury has the potential to become the growth hub and attractor for the new district as a whole
- to fully realise that potential and to benefit the whole four-district area, Canterbury needs the other areas to complement what it has to offer

Looking ahead, the new council will have important choices to make in terms of policy and investment. In terms of economic growth this includes balancing investment in the service sector (largely Canterbury and also Discovery Park) with that in more industrial sectors (largely Dover, Shepway and Thanet) and balancing the range of housing stock available across the whole council area. These and other opportunities are explored in more detail below.

<u>Housing growth</u>

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

Parts of the new council area already attract London workers looking for their next step on the housing ladder – for example Canterbury, parts of Thanet (in particular, Margate) and

Shepway (in particular, Folkestone). In addition, as indicated above, Thanet, Dover and (to a lesser extent) Shepway all provide homes for people who work in Canterbury.

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

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

With pressure on affordable housing in Canterbury, there may be opportunities to look more broadly across the sub-region to invest in neighbouring areas (in both housing and transport infrastructure to provide the necessary connectivity) to relieve that pressure. This is likely to require not just <u>more</u> housing, but the <u>right mix</u> of housing, to satisfy a range of resident (and potential resident) needs and aspirations.

A recent analysis / evaluation of Barratt Developments' socio-economic impact[9] of housing estimates the economic multiplier effect of new housing to be 2.41 while an economic study conducted by L.E.K. Consulting[10] estimate this at 2.84. The results of both studies indicate a significant wider economic benefit of increasing housing supply through new development.

<u>Infrastructure – nationally important with international links</u>

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

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

Although there are some examples elsewhere in England of cross border working to develop shared local plans, ultimately, a single new council would allow the authority to 'scale-up', combining four individual teams into one, to develop a sub-region-wide single local plan, providing strong strategic leadership across the whole area. In early engagement, the business community recognised, and was attracted to, the potential in this area.

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[9] NLP, (2014), Barratt Developments' Socio-Economic Footprint FY2014
[10] L.E.K. Consulting, (2009), Construction in the UK Economy: The Benefits of Investment

The existence of a single local plan, supported by a coherent and costed infrastructure plan would provide increased certainty for potential developers of housing, retail and commercial properties that their schemes would be supported and clarity as to how planning gain would be taxed and spent by the authority. This creates a productive investment environment which should feed through over time into increasing local revenue sources for the new council, particularly via business rates. This is supported by research such as work undertaken by the CEBR[11] in 2013, they calculate the long term multiplier effect of infrastructure investment on economic output as 2.84, identical to the value attributed to housebuilding by the aforementioned LEK report but acknowledged as purely a coincidence.

Coastal communities

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

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

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

Table 2: Economic value of tourism in East Kent

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

Cultural development at sub-region level

East Kent has considerable existing assets and attractions including: Margate – Turner Contemporary and the creative quarter; Folkestone – Creative foundation; Canterbury – a UNESCO world heritage site with over 50 scheduled monuments and the Marlowe theatre;

[11] CEBR Securing our economy: The case for infrastructure (2013)

Dover – the castle (English Heritage's most popular visitor destination). There may be an opportunity to develop a sub-regional 'offer' that leverages more of these strengths in combination and encourages longer stays in the area rather than day trips, thus increasing the spend per visit to include, for example, accommodation, evening meals and entertainment.

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

Income generation

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

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

Specialisation

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

- Higher Education – focused on Canterbury with its three existing universities and opportunities to provide 'satellite' hubs – for example an Engineering faculty hub in Thanet / Manston Business park
- raising the current under-representation of high value office based sectors (such as professional services) in Thanet, Dover and Shepway as well as providing a complementary 'more industrial' offer to Canterbury's service-based sector
- economic growth; for example, Discovery park Dover, Dover Harbour expansion, Manston Business Park, etc.
- cultural growth; for example, Folkestone (underpinned by Roger de Haan's Creative Foundation), Canterbury (Marlowe Theatre) and Margate (Turner Contemporary)

2.4 A Joint Response to External Challenges

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

- key pieces of infrastructure depend upon European trade and tourism for income (HS1, Dover and Ramsgate Harbours). Changes to operations, security and immigration associated with Brexit could have an impact on this infrastructure – as well as a knock on impact on local transport across East Kent (hence operation Stack). The impact, and potential response is a cross authority issue.

- key elements of the economy are dependent directly and indirectly upon the European connection – in addition to the direct transport infrastructure. For example:
    - Discovery Park (the Enterprise Zone in Sandwich) is aimed at attracting international investment from English speaking countries who also require good continental connections
    - University of Kent, which brands itself as the UK's European University, (and other Canterbury HE organisations) offer a number of European focused courses. It is attractive to international students (including those from beyond the EU) because of these courses and the close European ties.
- tourism – all of the districts depend to some extent on tourism. The perception that potential visitors have of the area remaining open and welcoming during and following Brexit will have an impact on the contribution of tourism to the economy.

2.5 CONCLUSION TO THE ECONOMIC CASE

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

3. COMMERCIAL CASE

A new council comprising the current Canterbury, Dover, Shepway and Thanet District Councils presents a number of commercial opportunities as well as challenges.

3.1 Opportunities

3.1.1 Benefits from Scale

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

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

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

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

That said, the new council would want to transform the services it inherits, once they have been brought together, and an indicative level of up to 5% of overall expenditure should be achievable based on research of other authorities. **This would equate to approximately £3.5m savings per annum over and above those outlined in the financial case[12].** Many

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

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

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

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

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

3.1.2 Additional Savings

Democratic Services

The creation of a merged district should mean a reduction in the number of councillors and the costs of managing and maintaining the democratic aspect of local government in terms of meetings and election administration. However, the level of savings could be significantly reduced by the proposed devolution to Town and Parish Councils and possible creation of Area Boards to negate any democratic deficit.

Property

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

Audit

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

Service Consolidation

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

Service Area	Opportunity
Revenues and Benefits	A shared service (East Kent Services (EKS)) delivers the Revenues and Benefits service for three of the four councils and it is anticipated that by bringing Shepway into this arrangement, savings can be generated from hardware and software contracts and improvements made in operational resilience.
Planning	The existence of a single authority should enable greater resilience (particularly of specialised resources) and some savings to be found in aspects of Planning, particularly planning strategy and policy. However, the realisation of the strategic case for a new single district is likely to lead to greater demands on the planning service over the medium to longer term. In addition the possible creation of Area Boards may place additional demands on those planning resources
Waste Collection	The creation of a new council creates the ability to harmonise collections and benefit from economies of scale in the acquisition, management and operation of staff, plant, vehicles and equipment and roll out and management of recycling initiatives (see Footnote 12). As with Planning, an increase in economic activity, as targeted by the new council would feed through as an increased demand on this service.

Table 3: Summary of service areas and opportunities

Contract Management

Overall, the increased purchasing power and opportunity to homogenise contract specifications and contract management approaches should permeate through to savings across major areas of third party spend, particularly in respect of ICT, housing repairs and waste collection. At present, three of the four councils have externalised waste collection and, under a single district, these contracts would novate to the new organisation and involve operating through the initial years with two suppliers (Serco and Veolia) until the contracts were either terminated or expired. Similarly, three of the four owners of EKH hold housing repair contracts with Mears, featuring different specifications and payment mechanisms.[13]

3.3 Implementation Challenges

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

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

3.3.1 Approvals Process

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

3.3.2 Transition Costs

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

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

There would also be costs incurred in the following areas;

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

Table 4: Implementation activity and observations

3.3.3 Council Tax Harmonisation

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

Council	2016/17 Band D Equivalent Rate (£)	2018/19 rate* (£)	2019/20 rate (£)	Increase %
Canterbury	194.31	204.31	218.68	7.0%
Dover	172.44	182.44	218.68	19.9%
Shepway	232.56	242.56	218.68	-9.8%
Thanet	214.92	224.92	218.68	-2.8%

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

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

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

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

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

3.3.4 Merging of Balance Sheets

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

3.4 CONCLUSION TO THE COMMERCIAL CASE

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

4. FINANCIAL CASE

4.1 Introduction

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

4.2 Current Baseline Position

The table below shows the projected income and expenditure for the four districts over the period 2017/18 to 2024/25 and the level of annual savings that will be required to balance the budgets in each of those years. This shows the four districts would need to collectively eliminate c.£4.7m of spending prior to merging and that a further £13.4m of cost pressure would be inherited by a new single district for the period to 2024/25. These projections are based on each council's latest draft of the Medium Term Financial Plan (MTFP) forecasts, extended out, as applicable, on the basis of the following assumptions[14]:

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

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Income (£'000s)								
Canterbury	17,527	15,682	14,927	15,267	15,239	15,223	15,219	15,455
Dover	14,348	13,862	13,560	13,200	12,837	12,663	12,497	12,635
Shepway	15,645	15,109	14,833	14,811	15,157	15,511	15,874	16,244
Thanet	18,604	18,423	18,331	17,849	17,597	17,361	17,141	17,444
Total	66,125	63,076	61,651	61,128	60,831	60,758	60,730	61,779
Expenditure (£'000s)								
Canterbury	17,527	17,344	18,559	20,424	20,833	21,249	21,674	22,108
Dover	14,355	14,886	15,452	15,947	16,266	16,591	16,923	17,261
Shepway	15,645	15,616	15,837	16,359	16,686	17,020	17,360	17,708
Thanet	18,604	19,921	20,689	21,103	21,587	22,090	22,359	22,807
Total	66,132	67,767	70,538	73,833	75,372	76,950	78,317	79,883
Savings Required (£'000s)								
Canterbury	0	(1,662)	(3,632)	(5,157)	(5,593)	(6,026)	(6,456)	(6,652)
Dover	(7)	(1,024)	(1,893)	(2,747)	(3,428)	(3,928)	(4,426)	(4,627)
Shepway	(0)	(507)	(1,005)	(1,548)	(1,529)	(1,509)	(1,487)	(1,463)
Thanet	0	(1,498)	(2,358)	(3,254)	(3,990)	(4,728)	(5,218)	(5,362)
Total	(7)	(4,691)	(8,887)	(12,705)	(14,541)	(16,192)	(17,587)	(18,105)
Net Position post merger	-	-	(4,196)	(8,014)	(9,850)	(11,501)	(12,896)	**(13,414)**
Additional year on year resource requirement	(7)	(4,684)	(4,196)	(3,818)	(1,835)	(1,651)	(1,395)	(518)
Cumulative resource requirement	(7)	(4,698)	(13,585)	(26,290)	(40,831)	(57,023)	(74,610)	(92,714)
Net Cumulative resource requirement post m	-	-	(4,196)	(12,211)	(22,060)	(33,561)	(46,457)	(59,871)

Table 6: Baseline projections

[14] These assumptions have been agreed with each Council's S151 officer.

4.3 Alternative Baseline

The current baseline position shown in Table 6 has been re-assessed in recognition that councils are operating in an era of unprecedented financial uncertainty for them. The local government sector is being subjected to a sustained period of budget reductions as part of the Government's strategy for reducing the Public Sector Borrowing Requirement (PSBR). The wider pressures on the PSBR from areas such as health spending demands could result in further cuts and pressures for local government. Consequently, an alternative baseline has been cast to reflect adverse movements in current forecast assumptions. This would increase the cost pressure for the new council from £13.4m, as per Table 6, to £20.8m over the six year period to 31 March 2025. The relevant changes to the previous assumptions are summarised below and the impact on respective council's baselines shown in the subsequent Table 7.

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

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Income (£'000s)								
Canterbury	17,527	15,682	14,836	15,087	14,966	14,855	14,754	14,892
Dover	14,348	13,862	13,461	13,004	12,548	12,269	11,996	12,027
Shepway	15,645	15,109	14,739	14,621	14,869	15,124	15,384	15,651
Thanet	18,604	18,423	18,206	17,596	17,214	16,845	16,489	16,654
Total	66,125	63,076	61,242	60,308	59,597	59,092	58,623	59,224
Expenditure (£'000s)								
Canterbury	17,527	17,344	18,741	20,827	21,451	22,095	22,758	23,440
Dover	14,355	14,886	15,604	16,261	16,749	17,251	17,769	18,302
Shepway	15,645	15,616	15,993	16,682	17,182	17,697	18,228	18,775
Thanet	18,604	19,921	20,892	21,519	22,228	22,969	23,477	24,181
Total	66,132	67,767	71,229	75,288	77,610	80,012	82,232	84,699
Savings Required (£'000s)								
Canterbury	0	(1,662)	(3,905)	(5,740)	(6,486)	(7,240)	(8,004)	(8,549)
Dover	(7)	(1,024)	(2,142)	(3,257)	(4,201)	(4,982)	(5,773)	(6,275)
Shepway	(0)	(507)	(1,254)	(2,060)	(2,312)	(2,574)	(2,844)	(3,124)
Thanet	0	(1,498)	(2,686)	(3,923)	(5,014)	(6,124)	(6,988)	(7,527)
Total	(7)	(4,691)	(9,987)	(14,980)	(18,013)	(20,920)	(23,609)	(25,475)
Net Position post merger	-	-	(5,296)	(10,289)	(13,322)	(16,229)	(18,919)	**(20,784)**
Additional year on year resource requirement	(7)	(4,684)	(5,296)	(4,992)	(3,033)	(2,907)	(2,690)	(1,866)
Cumulative resource requirement	(7)	(4,698)	(14,685)	(29,665)	(47,678)	(68,598)	(92,207)	(117,682)
Net Cumulative resource requirement post m	-	-	(5,296)	(15,585)	(28,907)	(45,136)	(64,055)	(84,839)

Table 7: Alternative baseline projections

4.4 Position for a Single District

4.4.1 Savings

The commercial case outlines a range of saving opportunities that could arise from creating a new council from the current four district councils. The valuation basis of these is set out below.

Staff

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

Span of control				
Tier	Salary (£'000s)	Current no.	Target no.	Post saving
1	> £99,999	4	1	3
2	> £95,000	5	3	2
3	> £65,000	16	12	4
4	> £47,465	73	48	25
Total				34
	Full cost saving (£'000s)			2,396

Table 8: Management savings

There would also be savings achievable from eliminating duplicated posts and consolidating roles at non-management level. A review of service descriptions and establishment role lists has led to an assumption that approximately 6% of staff costs could be saved from this aspect.

As a result of these two elements and discounting for charges to the HRA and staff savings planned for pre-2019/20, an annual staff cost saving of £5,027k, inclusive of on-costs[15], has been accounted for in the business case. It has been assumed that 75% of these savings will be made in the first year of the new council's operation, with the full value of savings being taken in Year 2 onwards.

Members

There are currently 170 councillors serving the four districts as shown in the table below.

Authority Name	Electors at 1/12/2015	Number of Wards	Council Size	Electors per Councillor
Canterbury	102,393	21	39	2,625
Dover	85,488	21	45	1,900
Shepway	78,619	13	30	2,621
Thanet	98,856	23	56	1,765
Total	365,356	78	170	2,149

Table 9: Member information

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

[15] Employer pension and National Insurance contributions

approximately a quarter of what they account for currently (c £0.4m). It is also anticipated that the total number of councillors would be less than the current figure of 170 and more likely to be in the range of 70 – 100 resulting in a saving of total basic allowance payments. For the purposes of the projections in this business case, it has been assumed that the new district would operate with 72 councillors in receipt of a basic allowance equivalent to the highest current prevailing rate. On the basis of these assumptions, an annual saving of £754k has been accounted for in the business case, with 100% of the savings being taken from Year 1 onwards. However, as considered in section 1.5 (Stronger Local Leadership), the new council would need to design a new form of governance[16] which may impact on this level of saving, dependent upon the approach taken. As a proxy indicator of the additional cost, a democratic function based on 100 councillors would result in an additional cost of c. £153k.

Addressing the Democratic Deficit

The management case highlights a number of risks with a new single district, one of which, (as referenced in Appendix D – initial Risk Log), Loss of Localism, has begun to be explored in the strategic case. Any approach adopted by the new council to address the 'democratic deficit' would be entirely on a voluntary basis. At one level, expanding the presence of Town and Parish Councils into areas, as yet 'un-parished' could be a chosen solution which could be cost neutral with the levy of an appropriate precept. At the other end of the cost range could be an enhanced area management model featuring area boards with democratic representation. These would need officer and administrative support that could, conservatively, add c£500k to the operating budget of a new council. To reflect this, the business case at this stage has taken some account of the staffing implications (a smaller percentage reduction in Democratic Services and Planning staff) and has identified (see paragraph above) an additional cost of retaining 28 councillors. These assumptions must be considered further if the decision is taken to proceed with a new council and any additional cost burdens from an agreed enhanced democratic model will need to be accounted for in the final business case.

Property

Each council has a main corporate administrative building (CAB) which accommodates the bulk of its staff. Although the assumed staff reductions, 10% as a percentage of existing staff costs, would not realise significant additional space, it is unfeasible to assume that a new council would operate into the medium and long term with four CABs. An assumption has been made that revenue savings[17] would be achievable by reducing the number of CABs from four to three and a saving, equivalent to the average running costs of a current CAB, has been shown in the table below.

[16] Through discussions with the Boundary Commission

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

Authority	Administrative Centre	Site name	Value (£'000s)	Capacity (workstations)	Running costs per annum (£'000s)
Canterbury	Canterbury	Military Road, Canterbury	5,512	450	715
Dover	Whitfield	Whitecliffs Business Park	5,656	388	375
Shepway	Folkestone	Civic Centre	2,200	230	202
Thanet	Margate	Cecil Street	2,400	355	351
		Total	15,768	1,423	1,643
		Average	3,942	356	411

Table 10: Property information

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

ICT

The ICT service of three of the four councils is operated by a shared service initiative called East Kent Services (EKS). As a result of discussion with EKS, an annual saving of £125k has been assumed as the benefit achievable from bringing Shepway into the EKS arrangement as a result of creating a single district council. This saving would principally arise from harmonising ICT contract management and contract specifications. It has been assumed that this saving would start to materialise in the second year of the new council's operation with the full saving being taken from Year 3 onwards.

External audit

The current combined core external audit fee for the four councils is approximately £270k per annum. A saving on this figure of £130k has been assumed for the audit fee of a new single district council.

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

Annual Savings (2016/17 prices)		%
	£'000s	
Staffing	5,027	78%
Members	754	12%
Property	411	6%
ICT	125	2%
External Audit	130	2%
Total	**6,447**	**100%**

Table 11: Annual savings

4.4.2 Transition Costs

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

Staffing

The redundancy costs arising from rationalising management and consolidating roles have been estimated with reference to prevailing policy and the average age and length of service of staff. For those staff where the redundancy payment, including pension enhancement, could exceed £95k[18], the cost has been capped at £95k. A total sum of £2,319k has been assumed for the staffing element of transition costs and 50% of these are accounted for in the year prior to the new council being created and 50% in the year of the new council's creation.

ICT

An estimate for the costs of amalgamating the ICT requirements of Shepway into the EKS operation has been included based on a review of ICT integration costs for other council merger business cases and discussion with EKS, taking into account the high degree of commonality across the four councils in terms their ICT Platforms and Applications. At this stage, it is necessary to attach a significant margin of error to the value assumed. This represents the mid-point of a necessary wide range of £0.5 to £1.5m with 50% of these being accounted for in the year prior to the new council being created and 50% in the year of the new council's creation.

Planning and pre-launch

A value of £630k has been assumed to account for the cost of relocation planning and closedown planning. This has been accounted for in the year prior to the new council being established.

Implementation

A team of 9 FTEs at an average salary of £50k (including on costs for 2.5 years) has been assumed to commence in the year prior to merger (2018/19).

Professional support

A value of £450k has been assumed based on the average cost incurred by councils involved in recent mergers and re-structures, principally the creation of unitary councils in 2009. This value is to account for the costs of professional HR (TUPE) and legal (contract novation etc.) advice that would be required. The cost has been assumed to be incurred equally over the year prior to the new council being created and 50% in the year of the new council's creation.

Communications

These are the costs of communicating the change process, keeping stakeholders informed and changing signage, logos, websites and other physical and virtual media. A figure of £450k, based on referencing the costs incurred by previous re-structures, has been assumed. This has been accounted for equally over the year prior to the new council being created and the year of the new council's creation.

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

Set Up

These are primarily the costs of inducting new Members and staff into the new single council. A figure of £225k, based on referencing the costs incurred by previous re-structures, has been assumed. This has been accounted for equally over the year prior to the new council being created and the year of the new council's creation.

Provision

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

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

Total Transition Costs (2016/17 prices)	
	£'000s
Staffing	2,300
ICT	1,000
Planning and pre-launch	630
Implementation	1,125
Professional support	450
Communications	450
Set Up	225
Provision	618
	6,799

Table 12: Total transition costs[19]

4.4.3 Council Tax Harmonisation

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

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

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

Table 13: Existing council tax rates

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

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

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

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

A) Harmonisation to the lowest rate over five years

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Council Tax Foregone (£'000s)								
Canterbury	-	-	215	431	656	887	1,125	1,142
Dover	-	-	-	-	-	-	-	-
Shepway	-	-	488	968	1,448	1,929	2,410	2,435
Thanet	-	-	367	747	1,139	1,544	1,962	2,000
Total	-	-	1,070	2,146	3,243	4,360	5,497	5,577

Table 14: Annual lost council tax income

This would involve the following annual rate changes for residents;

- Canterbury – 0.3% increase
- Dover – £5 per annum[20]
- Shepway – 3.1% decrease
- Thanet – 1.6% decrease

B) Harmonisation to the average rate over five years

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Council Tax Foregone (£'000s)								
Canterbury	-	-	- 72	- 154	- 251	- 361	- 486	- 480
Dover	-	-	- 193	- 411	- 655	- 929	- 1,235	- 1,237
Shepway	-	-	226	450	681	917	1,161	1,190
Thanet	-	-	98	198	302	407	515	536
Total	-	-	59	83	76	34	- 45	9

Table 15: Annual lost council tax income

This would involve the following annual rate changes for residents;

- Canterbury – 3.2% increase
- Dover – 5.5% increase
- Shepway – 0.3% decrease
- Thanet – 1.2% increase

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

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

C) Harmonisation to the average rate in Year 1

Period Start	01-Apr-17	01-Apr-18	01-Apr-19	01-Apr-20	01-Apr-21	01-Apr-22	01-Apr-23	01-Apr-24
Period End	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
Period	1	2	3	4	5	6	7	8
Council Tax Foregone (£'000s)								
Canterbury	-	-	- 460	- 451	- 458	- 464	- 471	- 480
Dover	-	-	- 1,184	- 1,188	- 1,199	- 1,211	- 1,223	- 1,237
Shepway	-	-	1,131	1,140	1,147	1,158	1,172	1,190
Thanet	-	-	480	498	508	519	529	536
Total	-	-	- 34	- 1	- 2	2	6	9

Table 16: Annual lost council tax income

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

- Canterbury – 7.0% increase
- Dover – 19.9% increase
- Shepway – 9.8% decrease
- Thanet – 2.8% decrease

4.4.4 Risk and Optimism Bias

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

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

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

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

Table 17: Risk quantification

The concept of optimism bias also needs to be addressed to take account of the potential that costs may be under-estimated and savings over estimated. The creation of a new district council from four existing districts would break new ground for local government organisation and as such there is no comparable evidence base against which the cost and saving estimates assumed within this business case can be assessed. However, some sense can be gauged from looking at previous examples of local government re-structure, particularly examples of district shared management and the creation of unitary councils. The table below highlights the savings and transition costs associated with a number of examples and compares these with the savings and transition costs[21] assumed in this business case.

Authority	Initiative	Annual Saving (£m)	Annual Saving per capita (£)	Transition Costs (£m)	Transition Costs per capita (£)
Cornwall	Unitarisation	20	37.41	0.00	0.00
Durham	Unitarisation	26	50.22	14.65	28.53
Northumberland	Unitarisation	20	63.02	21.32	67.48
Shropshire	Unitarisation	23	49.44	14.55	30.70
Wiltshire	Unitarisation	21	30.83	20.35	29.75
East Kent	**District merger**	**6**	**12.45**	**7**	**13.17**
Breckland & South Holland	District shared management	1	7.06		
Bromsgrove and Redditch	District shared management	2	16.35	1	9.24
Cherwell and S Northants	District shared management	4	17.76		
Chiltern and S Bucks	District shared management	2	8.50		

Table 18: Savings and transition costs comparisons

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

4.5 Overall Position

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

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

	A		B		C	
	Harmonise to the lowest rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at 2023/24 (over 5 years)		Harmonise to the average rate as at Year 1 (2019/20)	
Period	(2017/18 - 2024/25)		(2017/18 - 2024/25)		(2017/18 - 2024/25)	
Option	**As-Is**	**Single District**	**As-Is**	**Single District**	**As-Is**	**Single District**
	Cumulative (£'000s)		Cumulative (£'000s)		Cumulative (£'000s)	
Value of cash to be saved by 31 March 2025	(92,714)	(92,714)	(92,714)	(92,714)	(92,714)	(92,714)
Less impact of savings to be made pre-merger	*32,843*	*32,843*	*32,843*	*32,843*	*32,843*	*32,843*
Cash to be saved post-merger	(59,871)	(59,871)	(59,871)	(59,871)	(59,871)	(59,871)
Savings generated by merging	0	41,330	0	41,330	0	41,330
Sub-Total	**(59,871)**	**(18,541)**	**(59,871)**	**(18,541)**	**(59,871)**	**(18,541)**
Merger savings as a % of total requirement	0%	69%	0%	69%	0%	69%
Add:						
Costs of merging						
Transition Costs	0	(7,281)	0	(7,281)	0	(7,281)
Council Tax Loss	0	(21,892)	0	(216)	0	20
Risk adjustment	0	(2,707)	0	(2,707)	0	(2,707)
	0	**(31,881)**	**0**	**(10,205)**	**0**	**(9,969)**
Balance of savings to be identified	**(59,871)**	**(50,422)**	**(59,871)**	**(28,746)**	**(59,871)**	**(28,510)**
Balance of savings to be identified (%)	100%	84%	100%	48%	100%	48%
Balance of savings identified (%)	0%	16%	0%	52%	0%	52%

Table 19: Financial summary over eight years

As noted in section 4.2, irrespective of whether a decision is taken to proceed with the creation of a new council, the councils will need to eliminate approximately £4.7m of expenditure from their budgets in 2018/19 and find a further £13.4m over the following six years to 31 March 2025. The cumulative value of these required savings is £92.7m as shown in Table 19 above. The table compares the cumulative impact of the savings, transition costs and lost council tax income as a result of merging the four districts against the projected position if no changes occurred at all. The table highlights that creation of a new council would deliver 16% of the savings required between 2019/20 and 2024/25 if council tax rates were harmonised under the approach described as option A per section 4.4.3 above. However, harmonisation under option B or C results in a much lower value of income loss and consequently, creating a new council under either of these approaches, is projected to contribute 52% to the savings requirement over the period to 31 March 2025.

This calculation also takes into account the transition costs, which equate to approximately one year's worth of savings[22], and a provision for the impact of the risks highlighted in section 4.4.4. As the table identifies, in the absence of such costs and risks, the gross savings projected from merging would deliver 69% of the savings estimated as required between 1 April 2019 and 31 March 2025.

4.6 Sensitivity Testing

As explained in section 4.4.4, rather than adjust for optimism bias, a series of sensitivities have been performed on the projections set out in Table 19 above. The table below sets out the results of two sensitivity tests. The first illustrates the percentage reduction in saving

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

estimates that would need to occur before the net benefit of merging Districts is nil and, similarly, the second illustrates the percentage increase in transition costs that would need to occur for the net benefit of merging to be nil.

Harmonisation Option	A	B	C
Costs of merging	(31,881)	(10,205)	(9,969)
Savings generated by merging	41,330	41,330	41,330
Net benefit of merging	9,449	31,125	31,361
% change in Savings for the Net Benefit to be zero	**-23%**	**-75%**	**-76%**
Transition Costs	(7,281)	(7,281)	(7,281)
Additional Transition Costs for the Net Benefit to be zero	(9,449)	(31,125)	(31,361)
% change in Transition Costs for the Net Benefit to be zero	**130%**	**427%**	**431%**

Table 20: Sensitivity scenarios

The table above shows that savings would need to come in over 75% less than assumed, under harmonisation options B and C, for the as-is case to be financially preferable. This margin of error is a lot lower under harmonisation option A where a fall in expected savings of more than 23% would result in the as-is case to be financially preferable.

The table also shows that transition costs would need to be in excess of five times greater than currently modelled under harmonisations options B and C, for the cumulative benefit of merging to be eliminated over the modelled period. Under option A, however, a doubling of modelled transition costs would largely eliminate the net benefit.

4.7 CONCLUSION TO THE FINANCIAL CASE

The creation of a new council from the four district councils is an action that has the potential to make a significant contribution to the savings that will be required to be made over the six year period to 2024/25. It would involve relatively substantial one-off costs that account for just over one year's worth of projected savings and there are choices to be explored further as to how such costs would be financed. Once the new council is implemented and the reductions in operating costs achieved, the changes will have eliminated £6.4m, in 2016/17 prices, of annual expenditure from budgets which represents c.10% of the current combined net revenue expenditure of the four districts. The extent to which this saving benefit resides within the council or is transferred to residents, depends upon the choice of approach to harmonising council tax rates.

5. MANAGEMENT CASE

5.1 Introduction

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

5.2 Programme and Project Management (PPM) Methodology and Governance

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

The districts currently use programme and project management methodologies based on (respectively) Managing Successful Programmes (MSP)[23] and PRINCE2[24]. As these are well-recognised approaches, we assume the new programme would adopt these (in the form they have been implemented in the districts).

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

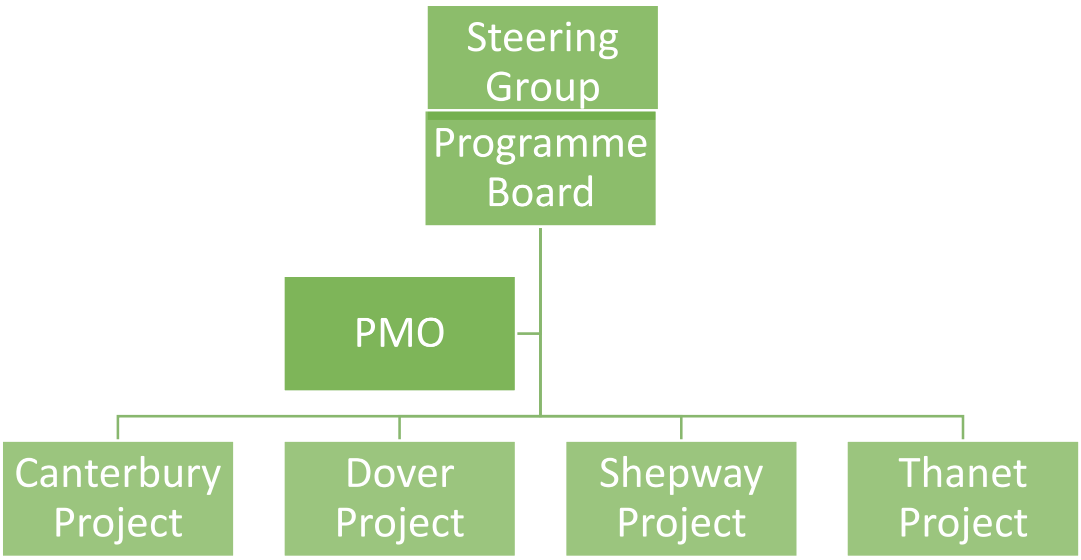


Figure 1: Proposed governance structure for implementation programme

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

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

Steering Group

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

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

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

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

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

Programme Board

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

The Programme Board would:

- review the scope of the programme and make recommendations to the steering group
- provide decisions and steers as required by the constituent projects
- monitor progress on delivery (against budget and time-scales)
- manage risks that have been escalated from the projects and escalate them to the steering group if necessary

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

Programme Management Office (PMO)

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

Projects

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

5.3 PPM Management Plans

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

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

5.4 Transition Arrangements

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

5.4.1 Governance

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

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

5.4.2 Finance

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

5.4.3 People

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

5.4.4 Stakeholder Engagement

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

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

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

5.4.5 Localism - Options for Consideration by the East Kent Councils

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

5.5 Costs

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

5.6 Next steps – Timetable

An indicative timetable for progressing with creation of a new council has been set out below.

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

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

Table 21: Indicative time-line for implementation

5.7 Risk Management

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

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

5.8 CONCLUSION OF THE MANAGEMENT CASE

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

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

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

APPENDIX B – Extracts from the EKGF Detailed Analysis of Economic Context[25]

Economy

- Kent as a whole has registered the second highest level of job growth out of the South East Counties since 1997. Canterbury, Shepway and Thanet recorded growth between 19% and 27% whilst Dover showed a decline of 8%. Canterbury is the largest economy in the sub-region.

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

- The four Districts complement each other in terms of the particular sector specialisation they support relative to the overall East Kent pattern (see details below). This provides opportunities to capitalise upon those specialisms without competing with different areas within the sub-region

    - Canterbury – information and communications; public service and utilities

    - Dover – accommodation, food services and recreation; wholesale, retail and transport

    - Shepway – agriculture, forestry, fishing and mining; professional services and finance

    - Thanet – construction; manufacturing

- Productivity within both Kent and East Kent has improved, but less than for the South East as a whole and the gap is widening

- Over 40% of the economic output growth across the four Districts since 1997, was delivered by Canterbury

- Business start-up rates have generally been low, but the growth in enterprises has been stronger.

People

- East Kent has recorded significant working-age population growth over the last 20 years and this trend is expected to continue in most areas; the share of working-age population is very similar to the rest of Kent and the South East

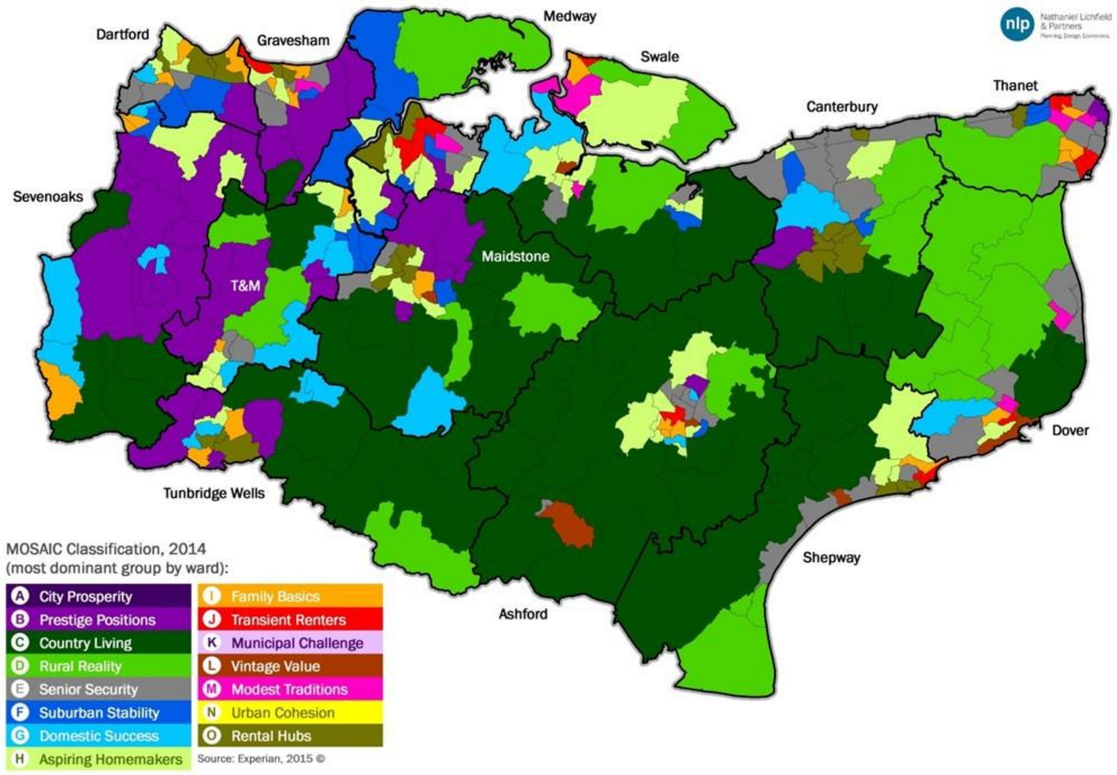
- East Kent is a strong net importer of people, particularly to Canterbury. Internal migration within East Kent also indicates that there is a strong net outflow from Canterbury to other parts of the sub-region.

- There is a high degree of self-containment within East Kent – most people who move house do so either within the same local authority or within the sub-region (between 72%

[25] Data covers the period from 1997 to 2016 unless stated otherwise

and 82% for the latter). Taken together with the previous bullet point, this suggests that Canterbury acts as an ‘attractor’ for the region as a whole.

- The ‘mosaic’ classification undertaken by Experian indicates an interesting pattern of dominant groups across the sub-region (see Figure 2 below which covers the whole of Kent). The majority of East Kent is either ‘Country Living’ or ‘Rural Reality’ compared to significant areas of ‘Prestige Positions’ in west Kent, where commuting to London predominates. However, there are notable areas of retired populations (‘Senior Security’) around the East Kent coastal stretches and a diversification of group types around Canterbury. Looking forward, the opportunity for East Kent as a whole could be to spread that diversification whilst retaining the character of the sub-region as a sought after rural location.



Source: Experian Mosaic / NLP analysis

Figure 2: Mosaic Classification 2014 for Kent

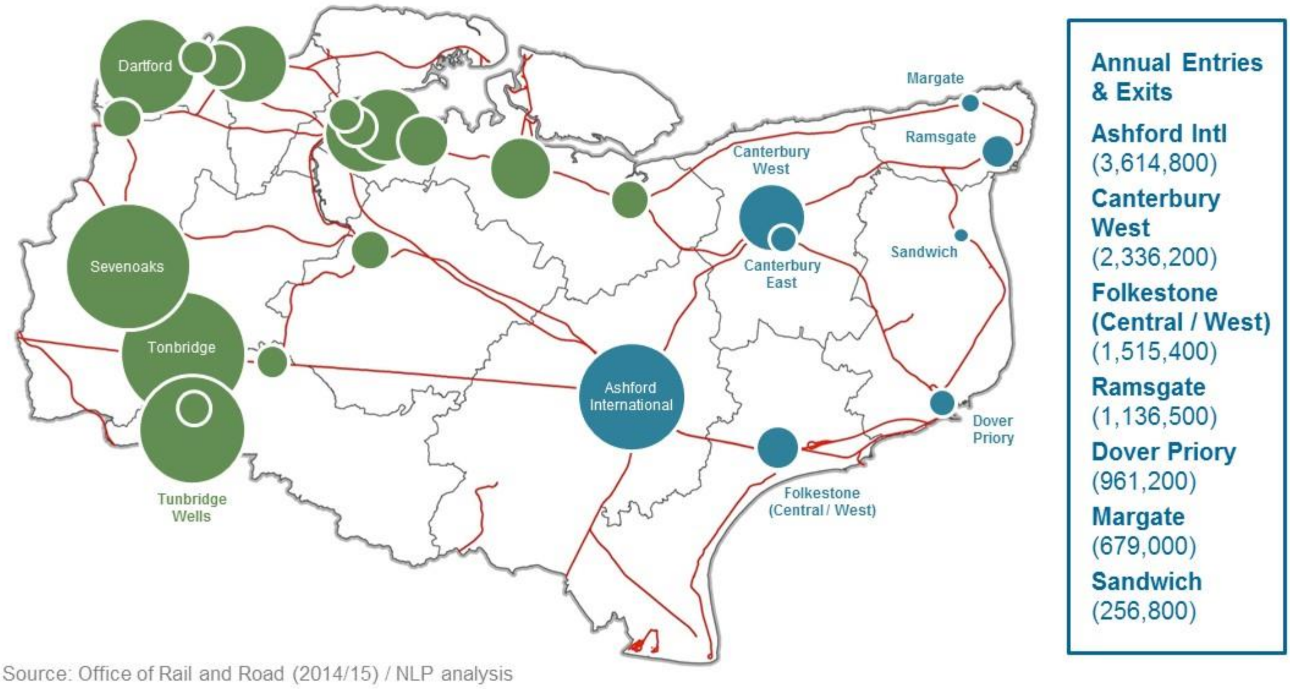
- There has been a decrease across the whole of East Kent in the number of people with no qualifications. However, qualification attainment is highest at all levels within Canterbury and lowest in Thanet

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

Place

- Housing completion rates have started to recover after the credit crunch and associated down-turn. Canterbury has a greater proportion of detached and semi-detached stock compared to Dover, Shepway and Thanet and also faces the greatest challenges in terms of affordability

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



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

Figure 3: Rail Station usage in East Kent (including Ashford) compared to the rest of Kent

- Road infrastructure includes key local and strategic links such as the M20, A2/M2, A21 and A229

- Employment floor-space in the four East Kent coastal Districts is dominated by the industrial foot-print in Dover and Thanet, whereas office space growth in Thanet (30% since 1997) has been partially offset by losses elsewhere (-16% across Canterbury, Dover and Shepway).

APPENDIX C – Balance Sheet Review

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

	As at 31 March 2016								
	£'000s								
Council	Long Term Assets	Current Assets	Current Liabilities	Long Term Liabilities	**Net Assets**	General Reserves	HRA Reserves	Unusable Reserves	**Total Reserves**
Canterbury	505,119	40,465	(25,080)	(190,359)	**330,145**	33,985	6,726	289,434	**330,145**
Dover	282,847	58,396	(20,109)	(165,647)	**155,487**	36,111	9,402	109,974	**155,487**
Shepway	207,409	25,918	(14,015)	(119,966)	**99,346**	26,583	5,864	66,899	**99,346**
Thanet	237,647	38,276	(26,109)	(132,907)	**116,907**	24,860	5,296	86,751	**116,907**
Total	1,233,022	163,055	(85,313)	(608,879)	**701,885**	121,539	27,288	553,058	**701,885**

Table 22: Balance sheet position for the East Kent Districts

Net Asset Value

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

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

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

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

Notable assets and liabilities	
Canterbury	
	Generates £4.7m of income from £76m of commercial and industrial property;
	Recently incurred £74m of debt to fund the purchase of a stake in the Whitefriars shopping centre, with borrowing costs to be covered by rental income;
	Responsible for maintaining a number of heritage assets such as city walls and the Westgate;
	£3.6m outstanding of a £5.5m loan to Kent County Cricket club;
	Accountable for a share of the pension liability of East Kent Housing (EKH) along with other EKH partners
Dover	
	£300k pa from investment income on assets valued at £2.2m. This income is from investment properties, which are shown on the balance sheet based on the capitalisation of rental income
	Dover has a pension fund liability of £77m. However, this is a technical accounting liability. The level of annual contributions is determined by the pension fund actuaries who are content that the pension fund is sustainable and is being properly funded.
	Accountable for a share of the pension liability of East Kent Housing (EKH) along with other EKH partners
	Enterprise Zone Relief is granted to businesses in the Discovery Park, Sandwich, which is a designated Enterprise Zone. This practice is in common with all Enterprise Zones. The Enterprise Zone will not be affected by the proposed merger and does not have a material bearing on the business case.
Shepway	
	The Council has set up a wholly owned subsidiary entity to generate additional income streams for the Council and to provide residential housing in the district (Oportunitas Ltd)
	Generates £90k pa from investment income on assets valued at £6.8m, 80% of which is agricultural holdings
	Accountable for a share of the pension liability of East Kent Housing (EKH) along with other EKH partners
Thanet	
	The Council now owns the Dreamland site in Margate. This site comprises land that is used as an amusement park/fairground and a cinema complex with associated facilities.
	Receives £1.3m of Investment income pa on property valued at £25m
	Council acts as Guarantor for £0.5m loans to Your Leisure
	Accountable for a share of the pension liability of East Kent Housing (EKH) along with other EKH partners
	Responsible for the Port of Ramsgate

Table 23: notes on assets and liabilities of each district

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

Total Reserves

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

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

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

Table 24: value of useable reserves

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

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

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

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

All four local authorities operate a Housing Revenue Account, featuring a combined portfolio of approximately 16,000 dwellings. Table 25 below provides some summary metrics in relation to each of these accounts.

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

Table 25: summary metrics of HRA accounts for each district

It is inadvisable to draw conclusions as to the relative financial strength of each HRA upon a single year's set of figures[26]. The annual rental per dwelling shows little variation between cccouncils, which would be expected, given the basis of rent calculation. It indicates a relatively homogenous type of offering although Ashford appears to feature proportionally more, larger, properties than Thanet at the other end of that scale.

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

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

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

APPENDIX D - Risk Log

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

Risk	Description	Mitigation
1. Changes in the expected costs and benefits of creation of a new council	The creation of a new council may not achieve the identified savings, either through delayed benefit realisation or increased transition costs, with the risk that financial sustainability is not delivered after merger	• Establish a clearly defined benefits management process to enable the rapid identification of benefits which are unlikely to be realised. • Establish a comprehensive change programme – with strands dealing with people change, process change, technology change and asset rationalisation • Programme management resource to forecast and track both benefits and transition / investment costs and report regularly to the Steering Group and Programme Board
2. Adverse impact on Business-As-Usual	The implementation of the new entity will involve a high degree of change. Maintenance (and improvement) of service delivery in this uncertain environment will be a challenge. There is a risk of a 'dip' in service performance whilst the transition to the new entity is completed	• Establish a clearly defined implementation and change management approach (see above – Risk 1) to support the transition to the new entity • Develop a communications strategy to help articulate how service levels may change during the transition period and support expectation management.
3. Loss of localism	A merged district would cover a large geographical area with the potential for a perceived reduction in local leadership and representation	• Actively consider options laid out in section 1.5 and Appendix A of this business case which describe approaches to seek to provide stronger, more effective local leadership
4. Creation of a new council is not approved	The proposals to create a new council are not supported by DCLG and / or by the Secretary of State	• Steering Group and Programme Board to take responsibility for active ongoing engagement with DCLG in relation to the process and to take account of government expectations / requirements • Steering Group and Programme Board to articulate clear overall vision, structure and outcomes for the new council • Active ongoing engagement with all key stakeholders including DCLG, MPs, Ministers, Boundary Commission, County Council as well as other locally based bodies
5. National / regional issues	The position of the current government in relation to local	• Ongoing monitoring of national / regional developments, taking

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