

WEST SOMERSET COUNCIL

1. INTRODUCTION

1.1 This report has been prepared for West Somerset Council following its invitation (with the support of neighbouring and partner Councils) of the 23rd July 2012 to the Chairman of the LGA, Sir Merrick Cockell, for the LGA to lead an independent investigation into West Somerset's current financial circumstances, to make recommendations as to realistic ways forward and to assess what savings could be made by the Councils working more closely together in order to have various budget and MTFP scenarios ready before the end of 2012.

1.2 West Somerset Council have taken a positive approach and been open and honest regarding their situation and have been courageous in inviting an independent investigation. Their partner Councils have engaged helpfully in the process and it is hoped that this report enables progress to be made in the interests of the communities and Councils of Somerset.

1.3 We would like to thank the Councils for making the necessary arrangements to meet and engage with us, particularly given the pressure on diaries and short timescale and notice to which everyone worked.

2. METHOD

2.1 On receipt of the invitation to provide support to the Council and its partners, the LGA initiated a review of the Council's financial situation and budget by the LGA Finance team.

2.2 It identified Cllr Neil Clarke (an experienced Peer Challenge Peer and Chairman of the District Councils Network) and its Executive Director Michael Coughlin to act as the independent investigators. Initial discussions were held with West Somerset Council and a draft brief for the work prepared.

2.3 The brief was shared with the Councils concerned and an offer made to discuss it further. As there was agreement on the brief, arrangements were put in hand to meet with the Leaders and Chief Executives of each of the Councils, initially at a 'round table', introductory meeting and then, during the course of Tuesday 2nd October, in a series of meetings with individual Council Leaders and Chief Executives. (The Leader of Somerset County Council and Chief Executive of Sedgemoor were contacted by telephone on the 2nd).

2.4 The role of the LGA was confirmed not as 'experts' or 'regulators', but primarily to listen, reflect, broker where wanted and report back to the Councils, with options from which it was anticipated an emergent mutually agreeable way forward could be established.

3. CONTEXT AND CHALLENGE

3.1 West Somerset Council has a population of 35,075 in an area of 740 square kilometers (290 sq miles) and as a result has a high level of 'sparsity', with attendant costs and challenges. In addition, the population has the oldest average age in the United Kingdom, at 52. Nearly two thirds of the western land area of the district forms part of Exmoor National Park while the Quantock Hills are an Area of Outstanding Natural Beauty.

3.2 Critically, West Somerset Council incurs each year additional, unavoidable cost pressures (inflation, pay, contract and property costs) amounting to some £150,000, representing around 3% of costs, but is able to raise through a 2% Council Tax increase just £39,000 p.a. This structural problem generates an ongoing potential increase in the council's budget deficit of £111,000 each year on an annual net budget of £4.939m.

3.3 Partly as a consequence of these factors, West Somerset Council has historically faced significant financial pressures and the LGA and others have worked with the Council over a number of years to address them.

3.4 The Council now believes it is facing budget pressures that in the medium term render it non-viable. Their own work has forecast, assuming a 7.5% reduction per annum in Government funding for each of the next two years and the New Homes Bonus being incorporated into start-up funding allocations, a budget deficit of £1.28m by 2016.

3.5 The LGA's own modelling of West Somerset Council's budget, having regard to the assumptions and issues set out in 3.7 below, suggests the following:

(£'000s)	'12-'13	'13-'14	'14-'15	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20
<i>Council tax</i>	1966	1671	1713	1756	1800	1845	1892	1939
<i>Redistributed / Retained business rates</i>	2242	1101	1157	1215	1276	1340	1406	1476
<i>New Homes Bonus</i>	239	428	622	630	637	553	413	231
<i>Revenue Support Grant and Other grants excl New Homes Bonus</i>	404	1848	1526	1237	1069	929	792	659
<i>Investment income</i>	0	0	0	0	0	0	0	0
<i>Change in reserves</i>	368	155	0	0	0	0	0	0
TOTAL FUNDING FOR SERVICES	5219	5203	5018	4838	4782	4667	4503	4305
PROJECTED NET EXPENDITURE	5219	5203	5266	5334	5439	5555	5688	5830
BUDGET GAP	0	0	148	496	657	888	1175	1525

(Notes: i) includes capital financing (debt servicing), ii) £879k in reserves at 31st March 2012, iii) running down reserves, so no investment income shown, iv) inflation and spending pressures projected to 2019-20, v) In '12-'13, Council Tax includes Council Tax Benefit grant, from 13-14 this is included in 'RSG and Other Grants', vii) From 13-14 'RSG and Other Grants' includes central share of business rates, local share of business rates is included in 'Redistributed/Retained business rates', viii) projections assume Council Tax increase of 2% per year).

3.6 The Council is well-advanced in its thinking about possible savings for the financial year 2013/14 and has provided an analysis of its work to demonstrate how various levels of savings could be made. These are the subject of comment below.

3.7 In setting out the context in which West Somerset's options and decisions sit, there are some critical factors and assumptions that will need to be tested and clarified further, which will have a material bearing on the financial situation of the Council. They are:

- The level of New Homes Bonus payments receivable by the Council in future years. Thus far, the council has received New Homes Bonus of £91K for 2011-12 and a further £147K for 2012-13, making a total of £239K in 2012-13. New Homes Bonus receipts beyond 2013-14 depend on growth in house building that is difficult to predict but, on the Council's own forecasts of house-building numbers, this alone could account for £1.3m over the next three years. However, national forecasts of population and household growth in the latter part of the decade suggest that West Somerset may be unlikely to continue to increase its income significantly through New Homes Bonus. The government has indicated that further New Homes Bonus funding will be top-sliced from the overall total funding made available to local government, which is likely to continue to reduce. Furthermore growth of dwelling stock in West Somerset has not been particularly high, reflecting the area's demographics. Over 2001 – 2011, dwelling stock increased from 16,820 to 18,310 homes, representing growth of 8.8%, below the all-Somerset growth of 11% for the same period (source: DCLG Table125: Dwelling Stock Estimates by Local Authority District 2001-2011).
- The Government's treatment and payment of the 50% Business Rate to be retained by Councils. This is especially significant due to the works to Hinckley Point nuclear power station and the unclear effect of the commissioning and de-commissioning of reactors. On the latest exemplification published by DCLG, West Somerset would have a Start-Up Funding Allocation of £2.631m for 2013-14, comprising £2.162m from the Formula Grant calculation, £49K council tax freeze compensation, £376K council tax support funding and £44K homelessness funding. The LGA estimates that West Somerset's Business Rates Baseline figure is £4.544m, and this means that West Somerset would be likely to have to pay a tariff on its share of business rates of £3.464m, face a levy rate of 76% on excessive business rates and receive initial Revenue Support Grant of £1.552m. The potential volatility of the council's business rates income means that it could be subject to wide swings in its funding, with the downside risk being potentially considerably more severe than the benefit from business rates growth, as has been pointed out in the LGA's response on the recent Business Rates technical consultation.
- The arrangements for the pooling of Business Rates that are being developed and negotiated between Somerset Councils.

- The funding of any 'community benefit' payments, possibly from locally retained Business Rates, which it appears are intended to be paid directly to communities and local organisations, rather than to Council(s).

3.8 It is strongly suggested that the Council seek to have these matters clarified as soon as possible and as far as possible in advance of making any final decisions regarding future budget and financial, operational or governance plans. The Council is due to meet with Local Government Minister, Brandon Lewis MP on 13th November 2012.

4. OPTIONS

4.1 The options that follow - matters that the Council are strongly encouraged to explore and consider as a means of addressing their situation and circumstances - have been drawn from the analysis undertaken by the LGA finance team and the conversations had with West Somerset and their partner Councils.

4.2 They are categorised as those that:

- West Somerset Council could pursue independently to address the shorter term budget challenge
- West Somerset, Taunton Deane, Sedgemoor and Somerset County Councils will need to work on collectively, in partnership to address the medium term financial challenge and
- West Somerset Council should consider as part of the longer term consideration of the on-going viability of the Council.

4.3 Whilst it is felt helpful to present them in this way, there is a degree of overlap and inter-dependency between these in many respects.

4.4 For West Somerset Council

4.4.i The Council has undertaken good work to identify alternative options for cost reductions of various levels, up to a maximum of £1.28m.

4.4.ii Whilst it is understood that the Council will wish to minimise the impact of savings on front-line services and staff jobs, an analysis of the options generated to date, suggests that some of those savings included in the higher level figures, could be accelerated.

4.4.iii A number of these savings relate to posts, vacant or otherwise, some of which appeared to be relatively limited in scope and of uncertain impact set against the immediate priorities of the Council. We heard little evidence of a wider review and/or benchmarking of staff structures and levels, (including critically supervisory and middle managers) which may lead to the opportunity to reduce spans of control and create more generic and flexible job roles, enabling reductions in services to be minimised while savings made.

4.4.iv At a greater level of detail and specificity, it was noted that the Council does not charge for pre-application planning advice, which was an option that other Councils had taken up.

4.4.v While the cessation of the Pest Control function was highlighted as a higher order cost reduction, it was felt that the Council could review the extent of alternative providers and that this could be brought forward, given that the service is non-statutory.

4.4.vi The Council has borrowing of £3.5m, due for repayment in February 2014, incurring interest costs of £58,000 p.a. It is understood that the former leisure centre site is due to be marketed and sold for development, which will, subject to the course of action chosen by the Council, make a contribution to or may entirely fund the debt repayment. The Council is strongly urged to ensure good and timely progress is made in determining a preferred way forward and consequently, an appropriate contingency plan in the event that the debt is not repaid in full through the sale proceeds.

4.4.vii It was clear from our discussions that it will be important for West Somerset Council to demonstrate that it has, to the maximum extent possible, acted to address its financial situation and challenges within its own organisation and decision making processes, if the support of other Councils is to continue to be offered. This could be better facilitated through a clearer set of fewer priorities for the Council, ensuring spending on top priorities only. It is not clear yet that this is the case.

4.5 For West Somerset in partnership with others

4.5.i We heard evidence from all the Councils of the work that was in place to share services and provide support to each other where cost savings could be made and services benefit. The Councils had agreed that this was to be developed on an 'organic' basis, allowing arrangements to opportunistically emerge over time, rather than a proactive, planned approach. To date a number of shared arrangements have been put in place to good effect, as reported by Councils.

4.5.ii Councils all over the UK have made good progress with implementing shared service arrangements to reduce costs and provide service resilience. In view of the severe budget pressures being faced by West Somerset Council, more must be done more quickly to pursue savings in this way. Specific opportunities that were raised included:

- Shared Building Control and Environmental Health services
- Sharing planning services with Sedgemoor and/or the Exmoor National Park Authority
- Professional (back-office) and Customer/call centre services with Somerset County Council/Taunton Deane (through South West One)
- Shared car park fees collection service with Sedgemoor
- Human Resources support from Somerset County Council

4.5.iii Reference was also made to a previous opportunity to outsource the Revenues and Benefits service that had not been pursued by West Somerset, which could be explored again, possibly a shorter term option to share with Taunton Deane, ahead of the introduction of Universal Credit.

4.5.iv It was felt essential that such opportunities be re-visited and an initial assessment made of the likely benefits and savings to be derived, to act as a guide for where time and attention should be focused on implementation, in accordance with a more proactive programme and allocation of the necessary, albeit limited Council resources to deliver the changes required. West Somerset Council appreciates that it will need to identify resources to support any resultant programme of activity.

4.5.v Discussion was had around the likely benefits and cost savings that might be achieved from sharing a Chief Executive and management teams, between West Somerset and one or more other Councils. Because of the low costs of senior management posts in West Somerset, and probably higher travel/fuel costs, there was felt to be less opportunity for meaningful short term savings, but that the approach would enable a single Chief Executive and management team to identify further opportunities and more importantly drive out further cost savings across two (or more authorities). Some concern was expressed by other Councils about the impact that this could have on the capacity of their Chief Executive to focus on their Council's interests.

4.5.vi West Somerset had identified a review of their waste collection service, which is currently undertaken as part of the Somerset Waste Partnership, as an opportunity for cost reductions. We noted some disagreement between Councils as to the current level of 'hidden subsidy' that West Somerset benefited from under the arrangement and were alerted to the possibility that an alternative service in West Somerset, outwith the partnership, could end up costing substantially more. This is an area that West Somerset Council agreed needed to be explored further, with due diligence, before being progressed as a definite saving option.

4.6 The longer term

4.6.i Having regard and subject to the above context, uncertainty around West Somerset Council's settlement from Government and decisions and subsequent implications in respect of the options set out above, it is considered that the future viability of the Council as a unit of local democracy, governance and service delivery remains in doubt.

4.6.ii Our discussions with the Councils in this respect centred around a review of the arrangements for local government in this part of the County and the desirability and value of a referendum, seeking residents views on the option to raise Council Tax by a level above the permissible 2.0%, currently estimated in the Councils plans as needing to be 39% to achieve a balanced budget for three years to the end of March 2016.

4.6.iii With regard to the former, it was felt that in parallel to the work to identify budget savings, the Council should continue in their discussions with the Boundary Commission, to establish a process and timescale for an urgent review of local authority boundaries and governance arrangements in the area, with a view to instigating such a review from the summer of 2013 and completing ahead of the local elections in 2015.

4.6.iv With regard to the possibility of a Council Tax referendum, while West Somerset Council remain of the view that this is something that Councillors may wish to pursue, the overriding sense emerging from our discussions was that it was very unlikely to generate a result in favour of the level of increase in Council Tax necessary to address the problem.

4.6.v Furthermore, and given this and the limited capacity of the Council's senior team, it was considered that the cost of mounting the referendum, even if undertaken in conjunction with County elections in May 2013, and 'distraction' from the fundamental budget issue and need to make savings, meant that it was a less attractive option.

4.6.vi In view of the sensitivity of both longer term options and the need to engage local communities, potentially across the wider area, in the deliberations about the Council's funding and future, the role of communications and public relations was highlighted. It will be important to have a proactive and co-ordinated communications programme, if the Boundary Commission and/or a referendum are to be based on well-informed views amongst the communities affected.

4.6.vii It was accepted by all parties that the options set out and measures to be taken will require the ongoing support of all. The preparation and mutual agreement to a 'Memorandum of Understanding' or similar that could be entered into by all Councils was felt worthy of development and adoption.

5. Viability

5.1 West Somerset Council has specifically invited the LGA to comment on the future viability of the Council.

5.2 In our view the situation that West Somerset Council finds itself in, is without precedent. Therefore there is no established measure or definition of the viability of a Council and no process nationally prescribed to deal with such a situation.

5.3 Were the Council over the next two years to make the full range of savings suggested, we believe that it could continue to provide a viable organisation serving the people of West Somerset.

5.4 However, for the longer term, we have considered the need for clarification from the Government around those matters identified at paragraph 3 above and had regard to the financial forecasts and extent of budget deficit in absolute and proportional terms.

5.5. We conclude that the Council is not viable as a unit of local democracy and governance over the longer term.

5.6 We suggest that the Council over the longer term would be unable to:

- provide essential or statutory services to a minimum acceptable level
- ensure an ongoing acceptable level of risk to life, health, well-being, property and/or assets
- recruit and retain sufficient capable staff to deliver basic services
- ensure the capacity needed to make the changes the Council is required to undertake to remain viable
- maintain residents' confidence in the ability of the Council

5.7 As a consequence, we recommend that serious consideration be given by the Council to accelerating its discussions with the Boundary Commission to instigate a review commencing in the summer of 2013.

6. LGA offer

6.1 West Somerset Council's subscription fee to the LGA £4,036 p.a. In view of the nature of the challenges faced by West Somerset Council, the LGA is able to offer to supplement the Council's work in the following ways:

- Support from an LGA officer to work through various possible implications of the Government's funding proposals for local government and Councils on West Somerset's budgets over the next three years
- A Peer Councillor visit to West Somerset Councillors, arranged through the LGA,
- A member of the LGA Productivity team to assist in initiation of savings proposals,
- One day of communications advice to support West Somerset Council in respect of building further the public's understanding of the Council's situation and alternative courses of action being considered
- Personal peer support to the Chief Executive
- Off-site guidance and support (by telephone, e-mail, etc) from Cllr Clarke and Executive Director.

6.2 Given the potential time and costs involved with this package of support, the precise nature and extent of it and cost to the Council (which will need to be allowed for in the Council's budget) will be discussed and clarified further following receipt of this report by West Somerset Council and their confirmation of their needs going forwards.

7. Recommended Options for consideration by West Somerset

7.1 The following are drawn from the body of the report above, for ease of reference.

- Test and have clarified as soon as possible the reasonable range of assumptions regarding the future level of New Homes Bonus that the council might receive
- Test and have clarified as soon as possible the impact of the Government's proposals regarding Business Rates, especially as they apply to Hinkley Point
- Test and have clarified as soon as possible the Government's proposals regarding 'community benefit' payments and their funding and the prospect of them being paid directly to community bodies
- Review staffing levels and structures (especially supervisory and middle management) to ensure that every opportunity for savings has identified and made, against a clear set of fewer Council priorities
- Consider introducing additional income raising opportunities e.g. pre application planning advice charges
- Consider cessation of non-statutory services, where suitable alternative provision exists (e.g. Pest Control service)
- Press ahead with the options for the sale of the leisure centre site as a matter of urgency,
- Determine a contingency plan and any associated costs arising from continued borrowing,
- Continue to be open and demonstrate the savings being considered and made to partners,
- Explore and speedily determine the optimum shared service arrangements with others to include:
 - Shared Building Control and Environmental Health services
 - Sharing planning services with Sedgemoor an/or the Exmoor National Park Authority
 - Professional (back-office) and Customer/call centre services with Somerset County Council/Taunton Deane (through South West One)
 - Shared car park fees collection service with Sedgemoor
 - Shared Revenues and Benefits service with Taunton Deane Council
 - HR support from Somerset County Council

- Take discussions further with the Boundary Commission to establish a review of local authority boundaries and governance arrangements around West Somerset, from the summer of 2013.
- Put in place a proactive and co-ordinated communications programme, to ensure high levels of awareness, understanding and engagement with local communities around the immediate and longer term issues,
- Establish a 'Memorandum of Understanding' or similar that could be entered into by all Councils to codify and cement an ongoing commitment to working in partnership on the above matters.

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Independent Investigator

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Independent Investigator

31st October 2012