Appendix A

Financial Analysis

Financial Analysis: contents

1. Executive Summary

The recommended option, option B2: 4UA, is estimated to deliver annual recurrent revenue savings of £48.6m post transition:

Options – Cumulative net benefit

	Savings / (Costs) - Cumulative		
	Option A (3 UA)	Options B1/B2 (4 UA)	Option C (5UA)
	£m	£m	£m
2028/29	26.3	15.5	(38.2)
2029/30	81.9	45.1	(71.4)
2030/31	158.4	86.3	(103.2)
2031/32	245.9	131.3	(136.5)
2032/33	339.6	179.9	(167.9)
Benefit / (cost) after 5 years	**339.6**	**179.9**	**(167.9)**
Implementation costs	(125.0)	(80.4)	(132.4)
Net benefit after 5 years	**214.6**	**99.5**	**(300.3)**
Payback period (years)	2.6	2.9	N/A
Annual recurring benefit / (cost) post transformation	**93.7**	**48.6**	**(31.3)**

As shown above, based on just the financial modelling, **the 3 UA (2-mainland unitary) option is the best option financially**, but the risk of delivery is considered significant given the impact on the existing 2 unitary authorities and the disruption to upper tier services.

Therefore, taking account of transition risk, stability, maintaining the quality of the services delivered, minimising the impact to upper tier services, and taking account of the key findings from the qualitative assessment, **the 4 UA (Option B2: 4UA) option would be the least risky option whilst still providing significant financial benefit**, with more confidence of delivery based on the concept of building on the existing anchor services and frameworks. **It is for these reasons that Option B2: 4UA is the recommended option.**

Summary Comparison to the Other Authorities Business Case (the Alternative case)

The following table sets out the different outputs from our business case and the alternative business case published by 12 other councils across Hampshire and the Solent, and shows that the alternative case assumes net benefits are £95.2m higher for a 5 UA model compared to our financial modelling for a 5 UA:

	HCC / EHDC	Alternative	Difference
	Option C (5 UA)	5 UA (no boundary changes)	
	£m	£m	£m
Savings from reorganisation and transformation	35.1	81.8	46.7
Disaggregation costs	(66.4)	(17.9)	48.5
Net saving / (cost)	**(31.3)**	**63.9**	**95.2**
One-off implementation and transition costs	(132.4)	(128.2)	4.2

There are significant differences in methodology between business cases:

Our case provides comparators of 3, 4 and 5UAs, whilst the alternative case does not offer a comparator and only considers 5UA models (and is based on the savings forecast - not savings achieved - from previous LGR cases nationally), **so a comparator of the costs and benefits against our recommended option B2: 4UA using the methodology from the alternative case is not available.**

Given the different methodologies adopted, the outputs of the financial modelling in the two business cases are significantly different; savings from reorganisation and transformation are significantly higher in the alternative case, while disaggregation costs are significantly lower, which in their modelling of a 5UA lead to a net difference of £95.2m. Implementation costs for a 5 UA option are broadly similar in both cases.

There are a number of core differences with the assumptions:

Comparing the 5UA analysis from both cases highlights some stark differences.

Our case builds in savings on contract consolidation and staffing that can be achieved when organisations are aggregated. However, it recognises that:

- Where these aggregation savings come from districts, they are coming from a limited cost base that only accounts for 5.3% of third party spend and 20.2% of staff costs in mainland Hampshire.

- These benefits will be more than offset by the significant, nationally recognised cost of disaggregating upper tier services and creating a new ‘greenfield’ authority. In particular, the recurring cost of duplicating the infrastructure needed to effectively run an additional large organisation delivering complex services; and the diseconomies of scale this will create for third party contract spend.

The alternative case uses historic estimates of savings per head of population based on 14 previous LGR business cases (which on review we believe is 9 previous LGR proposals, 7 of which were implemented) from 2009 onwards and indexes to a 2025 price base as the basis for establishing the potential quantum of savings; such an approach is likely to **significantly overestimate** the potential for savings.

The alternative case also assumes that consolidation savings can be achieved *on all third party spend and all staffing expenditure*, even for complex upper tier services (e.g. social care) where markets are extremely challenging, there are skills shortages and delivery would actually be disaggregated from 3 to 4 mainland organisations.

It does recognise some additional costs from duplicating infrastructure and staff but assumes these costs will be significantly lower than our case.

A detailed comparison to the business case which has been published by the other 12 authorities across Hampshire and the Solent is set out in section 7.

2. Background

a) Introduction

This appendix sets out the data used, assumptions and approach underpinning the Financial Analysis completed as part of Hampshire County Council (HCC) and East Hampshire District Council's (EHDC) LGR submission, which have been used to calculate the forecast one-off and ongoing costs and recurring benefits of the 4 options considered.

The purpose of the financial analysis is to provide a comparative view of the potential costs and benefits of the four options considered within the Business Case to support decision making. It considers costs and benefits across the whole of the Hampshire mainland area – as none of the options propose changes for the Isle of Wight, the Isle of Wight has been excluded from the analysis.

The analysis does not attempt to identify the potential costs or savings for individual future authorities or to describe exactly what levels of costs or savings will result from Local Government Reorganisation (LGR). The final costs and savings will be the result of the decisions taken by the individual authorities when implementing LGR. However, the financial analysis does forecast the potential for delivering savings and the likelihood of incurring additional costs presented by the **different UA structures** at a macro level for the mainland region.

LGR is an exciting opportunity to improve the efficiency of local government by making structural changes. It is important that plans are ambitious and seek to maximise the potential for cost savings and efficiencies that LGR offers. However, it is equally important that any assessments of future costs and savings are based on

robust logic and are sensible and prudent. This appendix seeks to explain how this balance has been struck as part of the financial analysis.

In particular, the risks presented by more complex change (for example, combining existing upper-tier authorities or the creation of at least one “greenfield” unitary) have been considered. The analysis is rooted in the current landscape of local government in mainland Hampshire and has considered the current state of transformation across the region as well as and the volume of work required to maintain business as usual while transitioning to the new authorities.

As part of the analysis, four options were considered:

1. Option A - 3 Unitary Authorities
2. Option B1 and B2 - 4 Unitary Authorities (two configurations have been presented)
3. Option C - 5 Unitary Authorities

Option	Geography	Components (City / district / borough level)	Population (% of total)
A 3 Unitary Authorities		**North:** Basingstoke and Deane, East Hampshire, Hart, New Forest, Rushmoor, Test Valley, Winchester **South:** Eastleigh, Fareham, Gosport, Havant, Portsmouth, Southampton **Isle of Wight**	**North:** 965,387 (47.4%) **South:** 929,579 (45.7%) **Isle of Wight:** 140,906 (6.9%)
B1 4 Unitary Authorities		**North:** Basingstoke and Deane, East Hampshire, Hart, Rushmoor, Test Valley, Winchester **South-West:** Eastleigh, New Forest, Southampton **South-East:** Fareham, Gosport, Havant, Portsmouth **Isle of Wight**	**North:** 789,989 (38.8%) **South-West:** 572,458 (28.1%) **South-East:** 532,519 (26.2%) **Isle of Wight:** 140,906 (6.9%)
B2 4 Unitary Authorities		**North:** Basingstoke and Deane, East Hampshire, Hart, Rushmoor, Winchester **South-West:** Eastleigh, New Forest, Southampton, Test Valley **South-East:** Fareham, Gosport, Havant, Portsmouth **Isle of Wight**	**North:** 655,528 (32.2%) **South-West:** 706,519 (34.7%) **South-East:** 532,519 (26.2%) **Isle of Wight:** 140,906 (6.9%)
C 5 Unitary Authorities		**North-East:** Basingstoke and Deane, Hart, Rushmoor **Central:** Test Valley, Winchester, East Hampshire **South-West:** Eastleigh, New Forest, Southampton **South-East:** Fareham, Gosport, Havant, Portsmouth **Isle of Wight**	**North-East:** 394,648 (19.4%) **Central:** 395,341 (19.4%) **South-West:** 572,458 (28.1%) **South-East:** 532,519 (26.2%) **Isle of Wight:** 140,906 (6.9%)

Source: ONS 2023

b) Top-down and bottom-up approaches

The approach set out combines internal HCC / EHDC led modelling complemented by PwC as part of the wider strategic business case (SBC) submission.

Drawing on their extensive experience in public sector change, including LGR and major service transformations, PwC used their evidence base to model a top-down review of potential costs and benefits. This was a valuable input and allowed comparison and sense check to be built into our modelling, enabling a healthy and challenging discussion on the level of savings and costs which could be achieved / incurred.

HCC / EHDC modelling then took a bottom-up approach, taking account of our knowledge of the local authority landscape across Hampshire, and recognising that Hampshire County Council accounts for circa 85% of total expenditure within the current County Council area, and for 72% of spend across the 3 mainland upper tier

authorities. We understand our services and budgets, so are well placed to assess the impact of disaggregation on our significant budget in terms of both service impact and cost.

From a district perspective, the modelling was able to fully take account of the potential service impact and savings from the aggregation of districts, as we were supported in our work by Matthew Tiller, CFO of East Hampshire District Council, and his Deputy CFO Neil Gorman. Matthew was also able to bring his 'lived experience' to the work having been involved in LGR previously, specifically the creation of the new Wiltshire unitary council, and his insight was a further valuable sense check of assumptions, deliverability of savings and the potential for new costs. Similarly, Neil has 'lived experience' from his time at Dorset County Council and its break-up through LGR.

In our work we reviewed the potential areas where savings would most likely be achievable (primarily from aggregation) and where new costs would be incurred (primarily from disaggregation) and calculated forecast savings and costs applied to the current budgets of the 14 mainland authorities (based on the budget data collected across all 14 mainland authorities). We were then able to collectively sense check our modelling through discussion and triangulation of PwC input, Hampshire CFO input, and East Hampshire CFO input, taking account of our local knowledge; this has provided a good level of assurance on the reasonableness of our assumptions.

Throughout this process, we have also worked collaboratively with other county councils, as part of the County Council Network (CCN), participating in regular LGR working group sessions to facilitate the development of proposals and share learning between partners. The data and insights made available through CCN contributed to the suite of data underpinning the appraisal of options. Through the CCN, we have also worked with the following consultancy firms to inform our modelling work: Newton and Pixel Financial Management ('Pixel'), as referenced later in the appendix.

Finally, confidence factors were applied to account for the complex challenges inherent in some options and as an additional measure of prudence.

c) Common Principles

1. **Individual Authorities:** The impact on individual future authorities has not been modelled as the analysis has considered the forecast financial impacts of LGR for the Hampshire mainland area at a macro level, based on each of the options modelled.
2. **Inflation:** In line with national guidance, analysis has been completed at today's prices not considering the impact of inflation and not discounting future cash flows.
3. **Shared Services:** New shared services arrangement could deliver savings for the new unitary authorities, particularly for transactional back-office

services (e.g. finance system, payroll, transactional finance, transactional HR etc). However, decisions to embark on new shared service partnerships would be for the new unitaries to make following full consideration of the benefits and limitations of such arrangements.

Hampshire County Council currently operates the UK's largest public sector shared service partnership, so is well placed to assess the benefits which can be derived; the existing partnership is scalable and could support any model of unitarisation across Hampshire and the Solent. The impacts of new shared services arrangements have been excluded from the modelling of all options.

4. **Implementation costs:** Government have been clear that the responsibility for funding LGR sits with Local Government. As part of implementation, available resources across all 14 mainland councils will need to be considered including redirection of reserves (where available), the flexible use of capital receipts, re-prioritisation of existing spend programmes, and borrowing. The specifics of how implementation costs will actually be funded has not been included in any of the options.
5. **Data used:** The bottom-up analysis has been completed using the shared data repository hosted by Southampton City Council, containing the finance and budget data gathered for all 15 authorities in the data collection exercise supported by KPMG. The source of any other data has been provided as appropriate.
6. **Mayoral Combined Authority (MCA):** The costs and benefits of the MCA have not been considered as part of the financial analysis.

The financial analysis has quantified the impacts of three types of change:

- **Implementation costs** – the one-off costs of delivering LGR.
- **Reorganisation benefits and costs** – the recurring benefits of aggregating services (unitary/upper tier and district in the 3 UA model and district in the 4 UA and 5 UA models) and the recurring costs of disaggregating services (upper tier in the 5 UA model).
- **Transformation benefits** – the potential recurring benefits from transforming services within the new unitary authorities.

The financial analysis focuses on cashable financial savings.

d) Financial sustainability

The County Council has a structural financial deficit as a result of low levels of funding that are outstripped by the rising costs of, and demand for, key statutory services, particularly social care and school transport. The County Council has sought to manage these issues by delivering savings of nearly £800m since the start of the period of austerity in 2008. However, as set out clearly and repeatedly in

Medium Term Financial Plans, achieving savings to the level required to balance the budget is no longer possible.

The County Council has a forecast recurrent budget shortfall of £136m for 2026/27, not accounting for the impact of the Fair Funding Review 2.0 consultation, which based on modelling undertaken by Pixel on behalf of the County Council's Network, will potentially see the County Council's annual grant funding reduce by £48m by the end of the 3-year transition period.

LGR offers an opportunity over the medium term to reduce costs and improve financial sustainability. However, without Government intervention, the structural financial deficit of the County Council will be inherited by the new authorities and is likely to increase from the current £136m forecast deficit by vesting day in 2028.

Adopting the preferred Option B2: 4UA model will contribute towards improving the financial sustainability of local government in Hampshire. But it is clear that the timing and scale of the potential savings will not be sufficient to address the structural financial deficit.

e) Summary findings

The recommended option, option B2: 4UA, is estimated to deliver annual recurrent revenue savings of £48.6m post transition.

Options – Cumulative net benefit

	Savings / (Costs) - Cumulative		
	Option A (3 UA)	Options B1/B2 (4 UA)	Option C (5UA)
	£m	£m	£m
2028/29	26.3	15.5	(38.2)
2029/30	81.9	45.1	(71.4)
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Implementation costs	(125.0)	(80.4)	(132.4)
Net benefit after 5 years	**214.6**	**99.5**	**(300.3)**
Payback period (years)	2.6	2.9	N/A
Annual recurring benefit / (cost) post transformation	**93.7**	**48.6**	**(31.3)**

Options A and B1/B2 both pay back within less than a 3-year period.

Option A (3UA) offers the potential for the highest savings, albeit with higher implementation costs, but there is significant delivery risk from effectively reducing the upper tier footprint on the mainland from 3 UTLA to 2 UTLA, and in particular combining the existing Southampton and Portsmouth unitaries, whilst at the same time adding in the disaggregated Hampshire upper tier services.

Option B1/B2 (4UA) offers lower annual savings, but with lower implementation costs, retaining a payback period of less than 3 years. Savings and costs are based on the assumption that the 3 new mainland unitaries would utilise and build on the existing upper tier anchor institutions – building on the infrastructure, systems, procedures, and service familiarity already in place in the existing 3 mainland UTLA.

Option C (5UA) does not pay back; whilst there are anticipated savings from the aggregation of district services, they are more than outweighed by the forecast recurring costs of disaggregating upper tier services and effectively creating a new 'greenfield' unitary.

3. CFO Professional Statement

Included as an appendix to the business case are a series of Professional Statements by the Statutory Officers, which includes a CFO professional statement. This statement covers the CFO's view of the risks and benefits to be considered as part of implementing LGR, and includes a section titled 'Local Government Reorganisation Implications'.

The professional statement can be accessed in Appendix B.

The financial modelling has been undertaken taking account of the CFO's professional statement, and the CFO's conclusion within the professional statement is set out below:

CFO Conclusions (from professional statement):

"Whilst there are undoubted opportunities and positive outcomes which can be achieved from the successful implementation of LGR, it is my view that there is no outcome in terms of a new number of unitaries that will resolve the financial challenges which those unitaries would inherit on the dissolution of the County Council, as the demand for Upper Tier services continues to significantly outstrip the funding available to deliver them, and the size of the budget shortfall will impact financial sustainability.

In terms of Financial Resilience and ability to achieve value for money, my view is that the fewer the number of new unitaries created, the more resilient those unitaries are likely to be based on overall size of budget, purchasing power, overall funding position and disaggregated reserves, and are therefore more likely to be able to achieve VFM, albeit their financial position is still likely challenging and a deficit position".

4. Data Baseline and Budget Disaggregation

KPMG led an exercise to collate data from all authorities, which was stored in a shared data stack hosted by Southampton City Council. The following table draws out some key financial facts for the mainland Hampshire and the Solent area.

The following sets out the system overview of total expenditure and income. This includes Hampshire County Council, Portsmouth and Southampton City Councils and the remaining Districts. The source of the data is the original KPMG data collection, augmented by subsequent data provided by authorities.

	Hampshire County Council (£'000)	Southampton City Council (£'000)	Portsmouth City Council (£'000)	Total for all 11 District & Borough Councils (£'000)	Total for all 14 local authorities (£'000)
Total planned 2025/26 expenditure	2,670,428	538,010	500,843	249,156	**3,958,437**
Total planned 2025/26 funding	(2,605,492)	(538,010)	(500,843)	(243,536)	**(3,887,881)**
Total planned 2025/26 balancing reserve draws	(64,936)	-	-	(5,620)	**(70,556)**
Total council tax 2025/26	(876,370)	(127,710)	(110,290)	(103,342)	**(1,217,712)**
Total business rates 2025/26	(60,896)	(55,190)	(68,795)	(66,978)	**(251,859)**

This high-level data was built up from much more granular finance data. The starting point for this data was the service categories outlined in the Government Revenue Outturn (actuals) and Revenue Account (budget) data collections:

- Education services
- Highways and transport services
- Children Social Care
- Adult Social Care
- Public Health
- Housing services (General Fund Revenue Account only)
- Cultural and related services
- Environmental and regulatory services
- Planning and development services
- Central services
- Other services

This data was augmented with additional information on back office and senior leadership costs as well as separately identifying pay and non-pay costs. A supplementary data validation exercise led by the County Council, was undertaken to understand how the budget for each authority was balanced for 2025/26.

Although the modelling of the impacts of LGR has been undertaken at a macro level, the "starting point" for each new unitary has been considered separately. The purpose of this work was to understand whether any of the new unitaries would be facing disproportionate levels of demand compared to funding before any of the impacts of LGR were considered.

The approach taken was to disaggregate current County Council expenditure and funding over the existing district councils, utilising methodology appropriate to the type of spend or funding.

Expenditure

- **Newton:** Provided data-driven evidence and analysis of the potential impact of LGR on 'people services' – high cost and high demand services across Adult Social Care, Children's Social Care, SEND and Home to School Transport.

  Modelling of activity and cost to Middle Layer Super Output Area (MSOA) level provided a basis on which to allocate out existing demand for these services to a district level and could be used as a proxy to allocate out the budget for these services and the £136m deficit (the primary driver of which is these services) to districts. An important takeaway from the Newton modelling was that there are no particularly anomalous areas of demand and activity across the area, meaning that different unitary options are not expected to be impacted by significantly differing cost pressures or growth based on this forecast data.

- **Geography:** Utilised to disaggregate expenditure for other services, where locality of service is within individual districts e.g. libraries

- **Population:** Utilised as a proxy where no other better disaggregation basis existed.

  Funding

- **Pixel:** Provided a model which enabled the disaggregation of the County Council's key funding source of government grant down to district level.

- **District based:** Utilised for disaggregation where funding can be split by district e.g. council tax.

Expenditure was disaggregated as follows:

	Newton %	Geography %	Population %	Total %
Expenditure – non schools	64	13	23	100

Funding was disaggregated as follows:

	Pixel %	District based %	Total %
Funding – non schools	24	76	100

The output of this analysis, including the Newton modelling, broadly showed that the current County Council structural deficit was fairly evenly distributed across the existing districts; there were no significant outliers identified.

5. Assumptions

a) Introduction

The following sets out the PwC and HCC / EHDC, assumptions throughout the model that have been used to calculate the costs and benefits from both reorganisation and transformation.

As stated previously, the forecast costs are indicative and comparative. The modelling is not proposing to represent the budget position; it does however provide a sense of scale, and the relative comparative impact of the various unitary options which could be taken forward. The costs and savings are against a baseline of no structural changes. Costs and benefits have been phased, and a confidence factor has also been applied to forecast savings.

When considering the assumptions and modelling, a “reasonableness” check has been applied by HCC’s and EHDC’s Chief Financial Officers; a professional review to ensure that the proposed modelling outcomes make sense.

For example:

- Is it reasonable that there would be a greater level of savings in a 3 UA option compared to a 4 UA option? Yes, because the scope for aggregation of district services is greater in the 3 unitary option, and there is also a reduction in the overall ‘upper tier’ infrastructure and leadership and management in a 3 unitary option compared to the 4 unitary option.
- Is it reasonable that there would be fewer savings and more costs in a 5 UA option compared to 3 UA and 4 UA options? Yes, because the scope for aggregation of district services is reduced in a 5 UA option, and there is also the additional cost of a fifth unitary (with its associated leadership and management costs and additional back office and infrastructure costs etc.)
- Would the set-up costs be different across the options? Yes, because:
    - the 3 UA option involves a reduction of one ‘upper tier’ on the mainland through bringing together Southampton and Portsmouth, this would be a complex undertaking;

- the 4 UA option builds on and capitalises on the existing infrastructure of the existing upper tier organisations (Hampshire, Southampton and Portsmouth); in particular they have the upper tier (and district in the case of Southampton and Portsmouth) systems, processes, infrastructure in place, so should make transition both less risky and less costly;
- the 5 UA option involves the creation of a new authority on the mainland for the delivery of services (which is costly to create) and also involves the most amount of disaggregation of Hampshire County Council's upper tier services.

b) Key Assumptions

Implementation Costs

Whatever form LGR takes it will be a complex undertaking. New democratic and organisational structures and processes will need to be established. Staff will need to transfer to the new organisations and adapt to working in new organisational cultures. IT systems will need to be introduced or changed, and complex data transfers will need to take place. This will all need to be done to a challenging timetable while ensuring that the delivery of services is not compromised.

The table below sets out broad cost assumptions based on reviewing the differing impacts in each of the options modelled. Further details on the more significant cost differentials are provided beneath the table.

Component	3UA (£m)	4UA (£m)	5UA (£m)
New unitaries setup and closedown costs	15.3	14.0	17.5
IT and systems costs	45.0	30.0	65.0
Service / operating model design and implementation costs	22.5	15.0	30.0
Redundancy costs	33.3	15.2	8.7
Contingency	8.3	5.9	11.2
TOTAL IMPLEMENTATION COSTS	**124.4**	**80.4**	**132.4**

IT and systems costs

<u>3UA</u>

IT and systems costs are forecast to be higher in a 3UA than a 4UA due to the need to transfer larger volumes of data and to consolidate back office and key service

delivery systems and infrastructure, through the reduction from the existing 3 to 2 mainland upper tier authorities.

4UA

In a 4UA model the existing systems of the upper tier / unitary councils would serve as the building blocks for the transition. There will still be significant costs in rationalising current district systems and in transferring data and aligning infrastructure.

5UA

IT and systems costs are forecast to be significantly higher in a 5UA model. This is because of the lack of existing infrastructure to build from for the new 'greenfield' authority and therefore the need to implement new systems. As recognised by the District Councils' Network (DCN) in a recent report[1], infrastructure cannot simply be cloned or partitioned.

Although existing district councils will have back office systems, their underlying infrastructure may not be scalable to manage the demands of a significantly larger organisation, leading to major infrastructure investment likely to be required. By way of exemplifying this issue, Hampshire County Council has an annual revenue budget for the delivery of IT of circa £32m per annum (and the average across the 3 mainland upper tiers is £17m), underpinned by an infrastructure which would cost circa £16m to create from scratch.

Key and new upper tier line of business systems, particularly relating to Adult and Children's Social Care and Special Educational Needs and Disability, Libraries, waste, highways etc will need to be procured and implemented. Additionally, there will be costs to develop the necessary IT infrastructure and security for a larger organisation.

The existing district IT set up also won't have in place existing system integrations for upper tier systems e.g. social care case management system interfaces into an ERP, which is why we have built significant costs into transition for the purchase, set up and integration of these new line of business systems.

Service / operating model design and implementation costs

Similarly, costs are forecast to be highest in a 5UA option and lowest in 4UA option. Again, this reflects the importance of existing upper tier structures in the 4UA as building blocks, and conversely in a 5UA the challenge of developing new services from the ground up, or merging existing upper tier services in a 3UA.

Redundancy costs

These are highest in the 3UA model to reflect the greater potential savings and higher level of assumed staff reduction from the model (which effectively reduces the number of mainland authorities from 14 to 2) and lowest in the 5UA model as

[1] The power of prevention and place in new unitary councils Report, Adult Social Care and Local Government Reorganisation, available here.

potential savings from staffing reductions are lowest (14 mainland authorities reducing to 4). Actual redundancy costs could be lower with careful management of turnover and potential redeployment.

There is also an assumption that where there are senior leadership savings, redundancy costs will be significant and potentially with a greater incidence of higher pension strain costs, higher salaries, likely to have long length of service and less opportunity for redeployment.

Contingency
This has been set at 10% of forecast implementation costs excluding redundancy.

Phasing
For the purposes of modelling, it is assumed that all implementation costs are incurred in year 1. In reality, some of the costs will be incurred prior to year one and some will be incurred in future years. However, costs being incurred in year one is a reasonable assumption for modelling purposes (where discounting of cash flows is not taking place) and has been consistently applied to all options.

Recurring costs and savings – reorganisation and transformation

Total net forecast reorganisation costs/savings and transformation savings are set out in the table below. Due to the complexity of the required changes and the uncertainty about decisions that will be taken by the new unitaries, they are presented as ranges.

	3UAs (£m)			4UAs (£m)			5UAs (£m)		
Area	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**
Senior management	6.5	8.7	10.9	5.3	7.0	8.8	3.9	5.2	6.5
Elected members	1.5	2.0	2.5	1.1	1.5	1.9	(0.3)	(0.4)	(0.5)
Back office	34.1	45.5	56.9	13.1	17.5	21.9	(8.0)	(10.6)	(13.3)
IT	8.8	11.7	14.6	-	-	-	(10.6)	(14.1)	(17.6)
Other staffing	37.9	50.5	63.1	20.3	27.1	33.9	2.6	3.4	4.3
Third party spend	11.6	15.4	19.3	0.8	1.0	1.3	(11.1)	(14.8)	(18.5)
Total Net saving/(cost)	**100.4**	**133.8**	**167.3**	**40.5**	**54.0**	**67.5**	**(23.5)**	**(31.3)**	**(39.1)**

Reorganisation costs and savings are those that are attributable to the structural changes resulting from LGR. The impacts on current district functions have been considered separately from the impacts on current upper tier and unitary functions.

It is recognised that considering upper tier and unitary together overlooks the district functions provided by the unitary councils but given the relative size of the functions and the challenges of splitting functions out, this is felt to be a reasonable approach.

Aggregation savings - Within LGR, aggregation of services and organisations is a driver of savings. The key financial benefits from aggregation are primarily the

efficiencies which can be achieved through the amalgamation of district council services, which will include reduced management overhead, optimisation of service delivery over a wider geography and the potential to drive out savings in procured spend through greater purchasing power.

Disaggregation costs - Offsetting the benefits of aggregation, will be cost of disaggregation of upper tier services. This is a widely accepted consequence of in particular disaggregation in County areas, where existing county councils will be disbanded with their upper tier responsibilities disaggregated across multiple unitaries.

Macro level modelling - modelling has been undertaken at a macro level, the impact on individual future UAs has not been considered. The forecast impacts on current district services (where there is aggregation in all options, albeit to different degrees) and current unitary / upper tier services have been considered separately.

The table below sets out the impacts of aggregation and disaggregation:

	3 UA	4 UA	5 UA
Current district	Aggregation benefits	Aggregation benefits	Aggregation benefits
Current unitary / upper tier	Aggregation benefits	No impact	Disaggregation costs

Transformation benefits - changes that are not simply linked to structural change, although LGR may be an important catalyst for change.

We have assumed that transformation benefits will only begin to be delivered once organisations have reorganised and are stable. The extent of transformation that is possible will depend on the maturity of transformation across the system (i.e. how much of the work has already been done) and will also be dependent on a successful and stable transition – but, undoubtedly, there will be scope for further transformation.

Aggregation and disaggregation: categories of costs and savings and assumptions

Costs and savings have been modelled against different types of cost. The base costs have been taken from the data stack. The impact of reorganisation on current district and current upper tier / unitary services has been considered separately.

Cost / saving categories	Assumptions / rationale
Senior management	The financial analysis assumes that significant savings will be made in senior management. The average cost of senior management in current upper tier / unitaries has been used as a basis for forecasting the costs of future senior management, with an uplift to recognise additional scale or scope vs current UTLAs. One senior management team has been assumed per future UA. These forecast costs have been compared against the current costs of senior management across the Hampshire UTLAs, to determine the potential saving.
Elected members	The costs of elected members are not considered material in the context of overall local authority spend. The model assumes that having a larger number of UAs will mean a larger number of elected members per authority, but with an overall reduction against the current elected member costs forecast in the 3UA and 4UA model, with a modest increase in a 5UA model.
Back office (excluding IT)	The data collection tells us that the average costs of back-office functions in district councils is significantly lower than in current upper tier / unitary councils: the average UTLA back-office cost is £37.1m per annum, the average district back-office cost is £3.9m per annum. The financial analysis assumes that back-office costs in the new UAs will be in line with the current upper tier / unitary council costs as they are more similar organisations in scale and complexity. In all models, it is assumed that there will be savings through consolidating back-office costs from across the existing 14 organisations down to either a 3UA, 4UA or 5UA model. However, in the 5UA model it is assumed that the savings in district back-office costs will be more than outweighed by the costs of running a much enlarged back office for the new UA.
IT costs	IT is a key enabler of organisational productivity. It is challenging to forecast IT costs with certainty as technology evolves at a fast pace. **3UA:** There are some assumed savings, driven by the consolidation of infrastructure and key line of business and corporate systems, as the mainland UTLAs reduce from 3 to 2, releasing IT savings.

	4UA: It is assumed that in a 4 UA model there will be no additional recurring costs or savings relating to IT. This is based on the rationale that on the mainland the upper tier systems will already be in place in the existing UTLAs and, whilst there will be consolidation of existing district systems, reducing costs, there will be new requirements for enhancing existing infrastructure that will balance out the potential for savings. This option also assumes that there will be a sustained period of IT change and consolidation, so there is no assumption that there will be staffing reductions across the IT system. **5UA:** It is assumed there will be additional ongoing infrastructure costs (likely to cost significantly more to operate than any savings from consolidation of district IT systems), and the need to duplicate key line of business and corporate systems increase costs, e.g. a new children's social care system, adults' social care system, highways system etc, and their necessary integrations with the ledger system.
Other staffing	The majority of staff (front line service delivery), excluding back office or senior management, deliver services to the public that will be primarily unaffected by reorganisation. However, there will be some roles where there is some reduction due to duplication in existing organisations. For example, staff who manage and supervise teams that will be merged or staff who manage contracts that will be rationalised. **3 UA:** A modest saving is assumed from the merging effect for both upper tier / unitary services and district services. **4 UA:** A saving is assumed only from district services as there is limited merging of upper tier services. **5 UA:** A saving from district services remains. However, there is an offsetting pressure from the need to introduce additional management and supervision and contract management capacity for the disaggregated upper tier / unitary services that will be required in the new unitary. Due to the relative size of the staff bases of these organisations, the forecast disaggregation cost outweighs the aggregation saving.
Third party spend*	The level of third party spend across all authorities is significant, but this is heavily weighted to existing UTLAs: districts only account for 5.28% of all third party spend. A significant proportion of UTLA expenditure is for social care and school transport, as well as for the delivery of the waste tripartite contract and for highways. An underlying assumption in our modelling with PwC is that the scope for significant savings in social care third party spend,

where significant work has already been undertaken to manage the market, is limited and not substantial; and that if such savings were easily achievable, the existing UTLAs would be driving these out already given the respective challenging budget positions.

Aligned to this, it is assumed that the scope for savings on other large areas of contractual spend for upper tier services is either already factored in to existing budget plans or not obviously going to deliver significant savings through either consolidation or re-procurement.

3 UA: It is assumed that there will be a modest saving on both district and unitary / upper tier spend.

Unitary / upper tier spend will be aggregated, leading to a potential modest benefit due to greater economies of scale and a stronger position within the market for some services. Due to the relative size of unitary / upper tier spend, even a modest percentage assumption equates to a significant saving. There will be the opportunity to consolidate a range of district TPS and contractual arrangements, which will as above enable modest savings to be delivered.

4 UA: It is assumed that there will be opportunities to aggregate current district spend. However, upper tier / unitary spend will remain with three unitary authorities on the mainland, albeit redistributed from the current upper tier / unitary authorities, so there will be no significant opportunity to consolidate the UT element.

Based on the experience of the County Council, it has been assumed that savings on third party spend will be modest as work to procure effectively and to work with the market has already been completed or is underway. Many of the markets that local government organisations work in are challenging and so the options to drive out significant further savings from reorganisation are limited.

The model therefore assumes that in a 4 UA model, there will be a modest saving from the aggregation of district spend and no change to unitary / upper tier spend as a result of LGR.

5 UA model: It is assumed that an aggregation benefit from district third party spend remains. However, there is a modest forecast increase in the costs of upper tier / unitary spend due to dis-economies of scale, the disaggregation of upper tier TPS and buying power and the introduction of more competition in the market chasing limited market supply, particularly in social care.

*The level of third party spend across the area is significant, but the proportion is heavily weighted to the existing UTLAs (spend as per the finance data stack, 2023/24 outturn):

	Districts	Unitary	Hampshire CC	Total
	£m	**£m**	**£m**	**£m**
Third party spend (TPS)	99.4	560.9	1,223.6	**1,883.9**
% of TPS	**5.28%**	**29.77%**	**64.95%**	**100%**

Transformation savings: assumptions

Following a successful transition to new unitaries, work on transforming services can begin.

The County Council has delivered nearly £800m of transformation and efficiency savings since 2008. Therefore, the professional assessment of officers is that the ability to deliver significant additional transformation savings is limited, assuming that other organisations are at a similar stage of their transformation journeys.

Transformation opportunities will also be limited by working from the smaller cost base left once reorganisation savings have been removed.

However, there will undoubtedly be opportunities to still pursue and deliver service transformation and savings, and bringing together the upper tier and district services will provide an opportunity to maximise synergies where services are complimentary to each other e.g. housing and social care.

However, for the above reason, and linked with an element of prudence and not chasing inflated savings, transformation savings assumed in this financial modelling are both modest as a share of the overall savings numbers for each option, and their delivery is only assumed to achievable post stabilisation of the delivery of reorganisation savings, so are phased in from year 3 of the model onwards.

The opportunity to deliver savings from transformation is considered to be greatest where there is the most significant quantum of cost, and the most significant consolidation of services, on that basis:

- **3UA** – The opportunity set for transformation is greater in the 3UA, as the mainland UAs would be the largest by scale, and involve the most aggregation of service, which should provide an opportunity to effect large scale service transformation.
- **4UA** – The opportunity set for transformation is more limited than in the 3UA option, as the mainland UAs will be smaller, and involve less aggregation of service – but still greater than in a 5UA scenario. It is assumed there will remain opportunity to effect service transformation.

- **5UA** – The new unitaries will be smaller in scale with less quantum of cost from which to drive transformation savings, and also will involve the least amount of district service consolidation, hence the opportunity set for transformation savings is considered the most limited in this option.

c) Confidence factor

The changes needed to deliver the forecast savings in the 3 UA and 4 UA models will be significant and challenging for the new unitaries. Confidence factors have been applied to forecast savings as a prudent measure as per the table below:

	3UAs (£m)	4UAs (£m)	5UAs (£m)
Area	**Mid**	**Mid**	**Mid**
Saving / (cost)	133.8	54.0	(31.3)
Confidence factor	0.7	0.9	N/A
Adjusted saving	**93.7**	48.6	**(31.3)**

For the 3 UA option, the assessed level of savings are high due to the reduction in the number of UTLAs from 3 to 2, and the significant opportunity for aggregation of district services; but it is also a complex option, which involves the combining of two existing unitary authorities, and disaggregation of county services, plus the largest level of system integration through a reduction from 14 mainland authorities to just 2 mainland authorities. For these reasons, the confidence in delivery of the savings in the first 5 years is assessed as only 70%.

As the 4 UA option maintains the existing number of UTLAs, and on the assumption that the new unitary authorities would build on existing anchor services and frameworks, this option has a higher level of confidence that the assessed savings can be delivered, and with more certainty than the more complex 3 UA option. For these reasons, the confidence in delivery of the savings in the first 5 years is assessed as 90%.

For the 5 UA, there are no net savings, so no confidence level has been applied.

d) Cost and benefit phasing

For the purposes of modelling, it is assumed that all implementation costs are incurred in year 1. In reality, some of the costs will be incurred prior to year one and some will be incurred in future years. However, costs being incurred in year one is a reasonable assumption for modelling purposes (where discounting of cash flows is not taking place) and has been consistently applied to all options.

The table below sets out forecast phasing for delivery of savings and forecast timings for the recurring costs to be incurred:

Area	Category	Shadow year (FY 27/28) %	Year 1 (FY 28/29) %	Year 2 (FY 29/30) %	Year 3 (FY 30/31) %	Year 4 (FY 31/32) %	Year 5 (FY 32/33) %
Reorganisation savings	Senior management	-	80	100	100	100	100
	Elected members	-	100	100	100	100	100
	Back office	-	25	90	100	100	100
	IT	-	-	-	25	75	100
	Other staffing	-	50	75	100	100	100
	Third party spend	-	25	50	75	100	100
Transformation savings	Other staffing - Transformation	-	-	-	50	75	100
Reorganisation costs	Elected members	-	100	100	100	100	100
	Back office	-	100	100	100	100	100
	IT	-	100	100	100	100	100
	Other staffing	-	100	100	100	100	100
	Third party spend	-	25	50	75	100	100

The phasing of savings reflects both the opportunities and complexity of delivery. For example:

Senior Management - it is assumed that the senior management structures will quickly be arrived at for the new UAs, allowing the saving to be largely realised from year 1.

Other staffing - savings will take longer to deliver as restructures continue to be undertaken and completed post vesting day.

Third party spend - savings are assumed to accrue more gradually as contracts will be renegotiated as they become due.

Transformation savings - are phased from year three onwards as they to a large extent contingent on the successful delivery of reorganization before they can be realised.

Generally, **reorganisation costs** are expected to be incurred from year one as these are essential costs for the effective running of services from day one. However, where contracts for the third party spend are disaggregated, the same assumption is made i.e. that the diseconomies of scale from the renegotiation of contracts will accrue gradually as contracts are renegotiated.

6. Council Tax Harmonisation

a) Introduction

Council Tax harmonisation refers to the process of aligning council tax rates across different areas within a new unitary when local government structures are reorganized – such as when multiple councils merge into a single unitary authority. When councils merge, each predecessor area may have had different council tax rates, meaning that, without harmonisation, residents in different parts of the new authority would continue paying different amounts for the same services, which is seen as unfair.

Harmonisation to a single rate of council tax is a legal requirement of Local Government Reorganisation.

The Local Government Finance Act 1992, and subsequent regulations, set out that newly formed councils are allowed to gradually increase council tax rates over a period of up to seven years: this is known as the harmonisation period.

b) Approaches

Key requirements for harmonising council tax include:

- In two-tier areas, the starting point is the final combined band D charge of the outgoing district and county council in each predecessor areas.
- The new authority can set different amounts of council tax in its predecessor areas for 7 years.
- A uniform level of council tax must be set by year 8.
- Each year, the gap must narrow between the highest charging predecessor area and the others (there is no minimum narrowing requirement).
- Increases remain subject to referendum principles, but in a more flexible way. The new authority can choose to apply the referendum principles to the amounts set in each predecessor area or to the overall weighted average Band D.

For the most recent round of local government structural change, in 2023/24, the process of how to harmonise council tax and the time period taken was a decision of the Shadow Authority; it is the shadow authority which also determines whether council tax will be harmonised to:

a. the lowest predecessor council tax charge;
b. the highest predecessor council tax charge; or
c. a weighted average.

Whilst the decision on council tax harmonisation will be a decision for the new unitary authorities, our modelling has demonstrated that applying the harmonisation of council tax based on the weighted average is the most beneficial approach financially, and for the below modelling it is assumed that council tax would be harmonised in year 1.

c) Modelling impact

To illustratively demonstrate the benefit, based on using the weighted average council tax and year 1 harmonisation, the additional income gain to each unitary option (based on 2025/26 council tax and rolling forward to 2026/27, with no change in council tax base) would be:

OPTIONS - HARMONISATION BENEFITS

	3UA	4UA(A)	4UA(B)	5UA
	£M	£M	£M	£M
North	1.36	1.06	0.88	0.54
South	0.64			
SW		0.42	0.60	0.42
SE		0.52	0.52	0.52
Central				0.52
Total Benefit of Harmonisation	**2.00**	**2.00**	**2.00**	**2.00**

Whilst there is a benefit from council tax harmonisation in terms of the total precept income, the benefit, whilst welcome, is not significant in the context of the overall budget deficit position.

From a Shadow Authority perspective, it would be their decision as to whether the required increases to achieve this model of harmonisation were acceptable, or whether they chose to go for a lower increase in year 1 and harmonise over a longer timeframe.

7. Business Case Comparison

a) Introduction

The business case presented by the other local authorities in Hampshire and the Solent area draws materially different conclusions about the financial implications of LGR. This section explores differences in methodology, assumptions and outputs between the two cases.

b) Methodology

As set out in the sections above, the aim of the HCC / EHDC financial analysis has been to consider the potential comparative impacts of LGR for the different options

under consideration. As the 12 authority case only considers 5UA options there is very limited comparison, as there are no comparator options; within the comparison of their 5UA models, the only financial difference modelled is a minor increase in implementation costs for the options that include boundary changes.

In the original 12 authority analysis Option K, a 4UA model comparable to our preferred Option B2 4UA, scored highest for 'financial efficiency, capacity and withstanding financial shocks' and for 'impact on crucial services' (being able to deliver high quality and sustainable public services). Seeing the financial implications of this model, even if just as a comparator, would have enabled a more meaningful comparison of the two cases.

Aggregation savings

The basis of the savings assumptions in the 12 authority business case in set out in Appendix 5 (Financial Technical Appendices) to their business case (page 150 onwards of the appendices document).

The methodology set out is as follows:

- The overall savings assumptions for the current reorganisation have been calculated based on the outlined savings of prospective unitary authorities within previous local government reorganisation documentation. The alternative case was based on 14 previous LGR business cases (which on review we believe is 9 previous LGR proposals, 7 of which were implemented) ranging from cases submitted between 2009 and 2023. Of these 9 cases, 4 involved aggregation of authorities only (i.e. no disaggregation of a UTLA) and 2 were never implemented.
- The data included Low Case and High Case savings. For each individual previous case, an average savings per population base was calculated for Low and High Case savings, with the average of these reflecting the Base Case savings. These were subsequently indexed up from the relevant transition year (per the previous case for change) to April 2025 prices.
- A simple arithmetic average of the previous 14 cases for change indexed savings per population base informed the overall average indexed saving per population, which was then used to calculate the total 'top-down' savings. The savings were reduced by 10% to reflect the erosion of benefits from having four new mainland unitaries.
- The top-down savings were split into underlying savings categories using a percentage allocation mix based on internal discussions and experience.
- A bottom-up approach was also undertaken, which sought to identify total overall spend against each of the savings categories, and a corresponding high-level saving, in percentage terms, for each. Savings were then aligned across the top-down and bottom-down approaches, continuing to assume a 10% erosion of savings due to proposing four mainland unitaries.

- The appendix 5 does not include details of any adjustment made to the quantum of savings using the bottom up approach.

The approach used to arrive at the quantum of savings is overly simplistic and has several limitations:

1. The savings are based on **forecast** not actual savings from the stated 14 previous LGR business cases (which on review we believe is 9 previous LGR proposals, 7 of which were implemented, 4 of which did not involve disaggregation of UTLA services).

2. Using historic estimates of savings per head of population, and indexing to a 2025 price base as the basis for establishing the potential quantum of savings is likely to **significantly overestimate** the potential for savings.

   The Institute for Fiscal Studies (IFS) report 'How have English councils' funding and spending changed? 2010 to 2024' concluded that:

   'Taking the period 2010–11 to 2024–25 as a whole, councils' overall core funding is set to be 9% lower in real terms and 18% lower in real terms per person this year than at the start of the 2010s'

   The IFS report also sets out (in section 4 'Conclusion') that:

   'The share of councils' spending allocated to social care services has continued to rise. In 2023–24, adults' and acute children's social care services are likely to account for 65% of councils' non-education spending, up from 63% in 2019–20, 58% in 2015–16 and 50% in 2010–11. Indeed, total per-person spending on social care services could be around 17% higher in 2023–24 than in 2010–11. In contrast, spending on those service areas that faced the largest cuts during the first half of the 2010s will not have recovered: spending on housing is still down by a third; spending on highways and transport, culture and leisure, and planning all down by more than 40%; and spending on youth services and Sure Start down by 70% since 2010–11.'

   Based on this analysis by the IFS, estimating the level of savings which can be achieved per head of population, based on historic business cases and indexing up to 2025 prices is a flawed approach, given that the empirical evidence is that the spend per head of population has significantly reduced by 19% over the similar time horizon. Additionally, the IFS analysis sets out that the spend per person on social services is 17% higher in 2023/24 than in 2010/11.

   The overall analysis is stark; non-social care spend per person is significantly reduced (by 19%), whilst social care spend now accounts for 65% of non-education spending and has increased by 17% per person. The change in total and split of local government spend undermines the use of a backward-

looking approach.

3. The **analysis is not rooted in the local experience of Hampshire and the IOW**. It does not start with the current structure of local government in Hampshire or the extent of transformation, efficiencies and service reduction that have already been delivered. Local factors that impact significant areas of local government spend – for example the impact of significant proportions of "self funders" on the care market – are not considered.

4. The **drivers of cost in local government are more complex and nuanced than simply population**. There are significant fixed organisational costs and there is a complex relationship between demographic factors and demand for and costs of services. It is therefore too simplistic to assume that the driver of savings is population.

Disaggregation costs

The additional costs of the creation of a new unitary (described as inefficiencies in the business case) have been calculated by taking a percentage of the existing annual HCC budgeted costs from the data stack and applying as follows:

Area of cost	Cost increase	
Adult social care	1.6%	£10.2m
Children's services	0.9%	£2.9m
Place services	1.4%	£2.5m
Corporate and support services	3.8%	£2.3m
Total		**£17.9m**

The narrative explains that these costs are to cover new management roles, ICT and systems, performance and strategy, back office roles and in the case of place services, new contracts.

Implementation costs

Implementation cost assumptions were determined using only a top-down approach:

- The analysis utilised the costs outlined by authorities in previous local government reorganisation documentation.
- The data included Low Case and High Case costs. For each individual previous case, an average one-off implementation cost per population base was calculated for Low and High Case costs, with the average of these

reflecting the Base Case costs. These were subsequently indexed up from the relevant transition year per the previous case for change) to April 2025 prices.

- A simple arithmetic average of indexed one-off implementation costs per population base informed the overall average indexed one-off implementation per population.
- The one-off implementation costs were then adjusted for an increase of £11.8m to reflect that there will be four new mainland authorities, with each new authority requiring its own setup processes including establishing governance structures, IT systems and administrative frameworks, leading to higher cumulative transition costs.
- An additional 25% increase in costs was applied to reflect optimism bias risk.
- The final total figure was then apportioned across cost categories underpinning costs, as follows:

Category	% of total implementation costs
Workforce – Exit	30%
Workforce – Development	4%
Transition – Team	11%
Transition – Culture and Communications	4%
Transition – Processes	4%
Consolidation – Systems	31%
Consolidation – Estates and Facilities	8%
Continency	8%
Total	**100%**

The same limitations of a per head approach apply to the assessment of the quantum of implementation costs.

c) Comparison of analysis outputs

Given the different methodologies adopted, the outputs of the financial modelling in the two business cases are significantly different. This section compares the 5UA example from both cases. It would be helpful to see a comparator of the costs and benefits of a 4UA using the methodology from the alternative case, but this is not available.

The following table sets out the different outputs from the models, showing that the alternative case assumes net benefits are £95.2m higher:

	HCC / EHDC	Alternative	Difference
	Option C (5 UA)	5 UA (no boundary changes)	
	£m	£m	£m
Savings from reorganisation and transformation	35.1	81.8	46.7
Disaggregation costs	(66.4)	(17.9)	48.5
Net saving / (cost)	**(31.3)**	**63.9**	**95.2**
One-off implementation and transition costs	(132.4)	(128.2)	4.2

Savings from reorganisation and transformation are significantly higher in the alternative case, while disaggregation costs are significantly lower, leading to a net difference of £95.2m. Implementation costs are broadly similar in both cases.

To explain differences in the outputs, different categories of spend / costs need to be considered separately.

Third Party Spend / Service Contract Consolidation

The most significant factors in the difference between savings assumptions are:

	HCC / EHDC	Alternative
	£m	£m
Savings:		
Third party spend / service contract consolidation	0.5	24.5
Costs:		
Third party spend	(15.3)	-
Net impact (cost) / saving	**(14.8)**	**24.5**

The saving on third party spend / service contract consolidation in the HCC / EHDC case is based on a prudent estimate of the potential saving due to the aggregation / consolidation of district council contracts. There is no saving assumed for upper tier /

unitary contracts as there will be a **net disaggregation** of these contracts. The alternative case assumes a far more significant saving as follows:

'Assumes merging of contracts (waste, highways, care) and renegotiation over time. Dependent on contract cycles, procurement capacity and provider cooperation'

The HCC / EHDC financial case also assumes that savings can be made on social care in a 3 UA model where contracts will be consolidated. Consolidation savings cannot be reasonably assumed when contracts are being disaggregated not consolidated. This raises significant concerns that:

- The saving would not be deliverable; OR
- It would need to be delivered solely from current district spend where there is the potential for consolidation. This level of saving would represent approximately one quarter of all current district council third party spend.

There is undoubtedly scope for increased strategic procurement of services across the area, with the tripartite waste disposal contract being a good example. However, these arrangements are complex and would be made more challenging by the introduction of a fourth provider of current upper tier services. It is important to be clear that these savings would not be a natural consequence of LGR and cannot be assumed to automatically result from changes to structures.

The HCC / EHDC case assumes that disaggregation will modestly increase the costs of third-party contracts, due to diseconomies of scale, additional competition in markets and additional complexity for suppliers. There are no cost increases assumed from disaggregating contracts in the alternative case.

Back-office costs / centralising corporate services / other staffing / right sizing the organisation

The following table summarises the differences between the cases in the above categories:

	HCC / EHDC (£m)	Alternative (£m)
Savings:		
Back office / centralising corporate services	11.6	0.8
Other staffing / right sizing the organisation	17.7	32.7
Subtotal – savings	**29.3**	**33.5**
Costs:		
Back office & IT / corporate & support services to the council	(36.4)	(2.3)

	HCC / EHDC (£m)	Alternative (£m)
Other staffing / Adult social care / children's services / place services inefficiencies	(14.2)	(15.6)
Subtotal – costs	**(50.6)**	**(17.9)**
Net impact (cost) / saving	**(21.3)**	**15.6**

The table illustrates that savings assumptions are broadly similar. However, the proposed methods of achieving these savings are quite different. In the HCC / EHDC case, the saving is assumed to be achieved largely by the benefits of removing duplicated back office, management and contract management staff during initial reorganisation, and by transforming services in later years.

In the alternative case, the description of the savings is as follows:

'5% of workforce (primarily back office/admin roles) reduced through consolidation, automation and voluntary redundancy.'

The saving is described as a 5% saving across the workforce. The impact of the LGR will be limited for many front line delivery staff, such as those providing care in HCC's care homes. Therefore the impact will be significantly higher than 5% in some areas of the workforce.

The forecast costs are broadly the same for other staffing (HCC / EHDC language) and inefficiencies from a new unitary (alternative case language).

However, there is a significant difference in the assessment of the impact on back office and corporate IT costs. The alternative case recognises this cost but assumes a very modest impact of £2.3m per annum. The HCC / EHDC case assumes significantly higher costs (£36.4m). This assumption is based on the current costs of providing back office and IT in upper tier / unitary councils.

While some back office and IT costs are driven by variable factors, such as the number of employees, others are largely fixed for an organisation. For example, in the case of IT, reducing the number of employees that an organisation has will clearly reduce some costs, such as the costs of software licencing and devices. But some other costs will not reduce or only marginally reduce. For example, the costs of cyber security will not materially change as each of the new unitaries will continue to be large organisations dealing with very sensitive data. The same is true for most significant infrastructure costs. Similarly, the demand for and therefore cost of delivering IT change projects, a crucial enabler of savings, is unlikely to be significantly lower.

The alternative case understates the fixed costs of providing back office services for large and complex organisations.

Assets / customer engagement / fleet

In the HCC / EHDC case no explicit saving was assumed for assets / customer engagement / fleet, although implicitly savings on these areas would make up parts of the 'other staff savings' and 'third party spend' savings. The alternative case assumes savings of £11.1m in these areas. It is not possible to comment on the basis of this saving as this data was not captured in the data stack.

Risk / sensitivity

The HCC / EHDC applied a confidence factor to the savings forecast from the 3 UA and 4 UA models. This was in recognition of the complexity of the work needed to deliver these savings. The analysis is clearly presented as providing a comparative view of savings, not absolute savings.

Risk is recognised in the alternative case by:

- Reducing the per head savings forecast based on previous LGR experience by 10% to account for the creation of a new unitary
- Applying a 25% optimism bias factor to the implementation costs.

Time scale for delivery

The HCC / EHDC case assumes benefits are fully realised within 5 years. The alternative case assumes a shorter, three-year time scale for the delivery of benefits. Based on the significant disaggregation and integration of complex services, infrastructure and systems, alongside the creation of a new Upper Tier organisation for the area, a three-year time horizon for all benefits realisation appears to be exceptionally optimistic.