

Carlisle City Council

Report to Executive

Meeting Date: 22nd November 2021
Portfolio: Finance, Governance & Resources
Key Decision: Yes
Policy and Budget Framework: Yes
Public / Private: Public

Title: LOCAL GOVERNMENT REORGANISATION –
IMPLEMENTATION RESERVE
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD54/21

Purpose / Summary: This report summaries the resources required to fund the implementation costs of Local Government Reorganisation (LGR) within Cumbria, and requests appropriate delegations to the Council's S151 Officer to identify a funding source from earmarked reserves held by the Council in order to contribute up to £1.6million to a County wide Implementation Reserve.

Recommendations: Members are asked:

1. to note the requirement for a county wide LGR Implementation Reserve;
2. approve the release of £500,000 earmarked reserve for LGR and retain this in order to fund any costs which the Council may incur itself which are outwith the eligibility criteria for the Cumbria Wide Implementation Reserve;
3. approve, for recommendation to Council, the establishment of an implementation reserve/budget provision of up to £1.6million, as the City Council's contribution to the LGR implementation costs, subject to contributions being approved by all of the other the Cumbrian authorities;
4. delegate responsibility to the Corporate Director of Finance and Resources (S151 Officer) to identify a funding source for (3) from earmarked reserves but initially approve the funding from the £3.2million Operational Risk Earmarked Reserve;
5. authorise the Corporate Director of Finance and Resources to pay the contribution (or the appropriate proportion thereof) in (3) to Cumbria County Council in January 2022;
6. note the governance arrangements and scheme of delegation regarding the use of the reserve as set out in the report (Paragraph 2.3 and associated appendices); and

7. delegate responsibility to the Corporate Director of Governance and Regulatory Services following consultation with the Leader, the Portfolio Holder for Finance, Resources and Governance and the Corporate Director of Finance and Resources, to agree the terms contained within the Memorandum of Understanding, with all the other Cumbrian authorities, for the Implementation Reserve and sign the same.

Tracking

Executive:	22nd November 2021
Scrutiny:	Not applicable
Council:	4th January 2022

1. BACKGROUND

- 1.1. Following the Secretary of State's invitation, of 9th October 2020, to submit proposals on Local Government Reorganisation (LGR) in Cumbria, a consultation on the said proposals was launched which ran for eight weeks and ended on 19th April 2021.
- 1.2. On 21st July 2021 the outcome of the consultation was announced. Each local authority within Cumbria was notified that, subject to Parliamentary approval, two new unitary authorities would replace the current local government structure in Cumbria, with the Allerdale, Carlisle and Copeland areas being the footprint for a new unitary authority covering the west of the County, and Barrow, Eden and South Lakeland, being a footprint for a new unitary authority covering the east of the County, effective from 1st April 2023. All six districts and Cumbria County Council will cease to exist in their current format on 31st March 2023.
- 1.3. The East/West submission suggested that estimated annual savings of between £19.1million and £31.6million would be achieved and that the transition (implementation) would require a total one-off investment of between £17.6million and £23.8million.
- 1.4. Following the announcement, the Cumbria Chief Finance Officer's Group, attended by all S151 Officers of the seven Cumbrian authorities, have undertaken a high-level assessment of the financial impact of LGR and provided some indicative figures for implementation which have also been sense checked against other authorities which have been through the LGR process.
- 1.5. This report, therefore, provides an update to the indicative cost of implementation. It also covers the establishment of a County Wide LGR Implementation Reserve including governance arrangements, funding proposals and the required scheme of delegation for relevant officers.
- 1.6. This report does not deal with the costs of transformation nor how these will be funded, nor the level of savings these could generate, as these will be decisions for the new shadow authorities, once established, and will be dealt with at a later date.

2. PROPOSALS

2.1. Costs of Implementation

- 2.1.1. The indicative, and high level, budget for implementation of "safe and legal" authorities on 1st April 2023 is £18.920million as set out in the table overleaf:

East/West Unitary Authorities Indicative Implementation Costs	£
Implementation	2,266,667
External Support Costs	5,500,000
Internal Programme Management	4,000,000
ICT Costs	4,000,000
Sub- total	15,766,667
Contingency (20%)	3,153,333
Total Estimated Implementation costs	18,920,000

Table 1: Indicative Implementation costs

- 2.1.2. These costs and assumptions will continue to be updated as the financial modelling develops and the workstreams and themes, established by the LGR Programme Board, commence their work, and identify the level of resources required for delivery.
- 2.1.3. It is likely that the spend may be incurred over three financial years (2021/22 – 2023/24) with some costs incurred after vesting day. Work is ongoing to fully understand the legacy position and how this will be supported.
- 2.1.4. For each of the categories of spend above, detailed definitions are being developed in order to ensure consistency of approach for any expenditure incurred; **Appendix A** provides the detail to date.
- 2.2. Implementation Reserve**
- 2.2.1. It is therefore proposed that a County Wide Implementation Reserve be established, hosted by Cumbria County Council, in order to effectively and efficiently record, manage and monitor spend on the implementation of the new authorities. This is the preferred choice of the LGR Programme Board supported by the Finance and Commercial Programme Board, especially given the level of contribution being made by the County Council.
- 2.2.2. It is further proposed that all seven Cumbrian authorities contribute to the reserve with the County Council contributing 50% and the remaining 50% split equally between the district authorities. Therefore, the City Council's contribution will be up to £1.6million.

2.2.3. Following approval by the individual authorities, it is proposed that the reserve be established for January 2022 and be utilised in accordance with the governance arrangements set out below and in the associated appendices.

2.3. **Governance Arrangements of Reserve**

These governance arrangements are to be agreed by each Council through their own relevant arrangements and the following will form part of the delegated requirements:

2.3.1. **Purpose of Reserve** - To provide funds to resource the indicative implementation costs associated with LGR in Cumbria. **Appendix B** sets out more detail on the criteria to be used to determine whether the costs are eligible and are an appropriate charge to the Reserve.

2.3.2. **Conditions of Use** – Once paid over to Cumbria County Council, the management of the Reserve rests with the Senior Responsible Officer (SRO) for LGR. Approval to release funds from the reserve to individual themes and workstream programme boards (allocation being dependent upon their activity and responsibility) can only be given by the SRO (or a suitably appointed alternate officer) via an Officer Decision notice, under delegated powers. A scheme of delegation will need to be established by Cumbria County Council for the use and monitoring of the reserve.

- Allocations will be agreed to individual themes and workstream programme boards prior to January 2022 so that they can progress with spend on essential support prior to that date;
- Any advance spend incurred by individual authorities prior to January 2022 will be funded by each authority and recorded as such until such time that the collective reserve is established and the costs be fully charged against the reserve through a net payment being made after appropriate deductions (hence the reference to proportions in the recommendations);
- Throughout the transition process, and the use of the reserve for the programme delivery, compliance with relevant procurement legislation will be required and adherence to the County Council's internal governance arrangements post January 2022; and
- Individual spending and virement limits will be detailed in the scheme of delegation.

- 2.3.3. **Monitoring of the Reserve** – Spending delegations will be made to the individual Workstream Sponsors as set out in the draft Scheme of delegation, with monthly reporting of spend to the LGR Programme Board via the Finance and Commercial Programme Board. From the January 2022 a regular report on a monthly basis will be taken to the Programme Board group of commitments and actual expenditure against the Implementation Reserve as a whole and against individual budgets. These will come from the individual Boards for the themes and workstreams. These reports will also be made available to each individual authority.
- 2.3.4. A Memorandum of Understanding (MOU) will need to be prepared, agreed and signed by all the Cumbrian Councils which will set out clear roles and responsibilities in relation to the Implementation Reserve and delegations in this respect are sought. This MOU will reflect the principles as set out in this report and associated appendices.
- 2.3.5. At the end of the programme any Implementation Reserve not utilised will be equally allocated to the two new Unitary authorities. This will be as part of the initial establishment of the Unitary authorities with one Unitary hosting the ring-fenced reserve initially until all commitments and expenditure have been fully accounted for. It is expected implementation costs will continue to be incurred after vesting day.
- 2.3.6. There will need to be formal secondment mechanisms for staff who will become part of the programme to enable appropriate costs to be covered so that host authorities' budgets can then fund any backfill arrangements.
- 2.3.7. The accounting treatment of the reserve for the 2021/22-year end accounts is being considered to ensure that all authorities comply with relevant accounting standards and generally accepted accounting practice. This will form part of the outturn reports and Statement of Accounts for 2021/22 and 2022/23 as presented to Members.
- 2.4. **Funding Proposals**
- 2.4.1. Individual authorities will need to identify a funding source whether this be via a review of general and earmarked reserves, the submission of a capitalisation direction to MLUHC (utilising capital receipts and/or prudential borrowing) and/or alternative sources of funding. The Executive is asked to delegate responsibility to the S151 Officer to identify a funding source which will be reported to the next available Executive meeting but initially approve, for recommendation to Council, the use of the £3.2million Operational Risk Reserve earmarked as part of the 2020/21 outturn report.

3. RISKS

3.1. There are several risks to consider in terms of the Implementation Reserve which Members should be aware of:

- The estimated costs, as set out at Table 1, are only indicative at this stage and the position will continue to be updated as the financial modelling develops and the workstreams and themes, established by the LGR Programme Board, commence their work, and identify the level of resources required for delivery.
- Spend is not managed effectively; however, by having a collective reserve which is managed and monitored centrally in line with approved delegations and robust governance arrangements, this risk will be mitigated.

4. CONSULTATION

4.1. None

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

5.1. To approve the County Wide Implementation Reserve to support LGR in Cumbria and to approve the required delegations and governance arrangements for the reserve.

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

6.1. To ensure effective service delivery for the residents and businesses of Cumbria.

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Appendices Appendix A – Categories of Spend (draft)

attached to report: Appendix B – Eligibility Criteria (draft)

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS:

LEGAL – It is necessary to have sufficient funding to deliver LGR. It is also appropriate that there are relevant checks and controls on the use of the City Council's funds and these are to be put in place via the Memorandum of Understanding and the Scheme of Delegation referred to in the report.

PROPERTY SERVICES – No Property implications

FINANCE – An earmarked reserve was established as part of the 2020/21 outturn report which allocated £500,000 to support LGR, and this will be retained in order to fund any costs which the Council may incur itself and therefore outwith the eligibility criteria for the Cumbria Wide Implementation Reserve. Therefore £1.6million will need to be identified to ensure that funds are available to support the implementation work, as set out in this report. A review of earmarked reserves is therefore required, and this will be carried out by the S151 Officer supported by the Finance Team and the Senior Management Team. However, Members will recall that £3.2million was set aside in an Operational Risk Earmarked Reserve as part of the 2020/21 outturn report and it is proposed that this be used initially to fund the Council's contribution.

EQUALITY – None

INFORMATION GOVERNANCE – None

High Level Estimate of Implementation and Transformational Costs: 2 Unitaries, Cumbria

Potential

Implementation Reserve	£
Implementation	£2,266,667 Including election costs
External Support Costs	£750,000 Legal support £1,000,000 Audit & finance support (including VAT, treasury management, MTFP, council tax harmonisation) £500,000 HR support £1,000,000 Skills / learning costs £2,250,000 Other specialist advice
Internal programme management	£4,000,000 Programme Team, Organisational Design and Change Programme, Business analyst and business support for each Council
ICT Costs	£4,000,000
Sub-total Transition Costs	£15,766,667
Contingency 20% Transition Costs	£3,153,333
Estimated Implementation Costs inc Contingency	£18,920,000

Local Government Implementation Reserve – Criteria to determine eligibility (Draft)

1. To deliver the creation of 2 unitary authorities within Cumbria, a single Local Government implementation reserve will be created.
2. The following principles will be used to determine expenditure eligible to be met from the reserve:
 - a) Costs of creating the shadow unitary authorities (test: would this cost be incurred if LGR were not occurring?); or
 - b) Costs of establishing the safe and legal new unitary authorities including the aggregation and disaggregation of services, assets, liabilities and funding; or
 - c) Costs of staff seconded to the LGR programme team.
 - d) Examples of eligible expenditure against the reserve being, but not limited to, the following:
 - i. Additional staff capacity to deliver the programme
 - ii. Procurement of specialist support and advisory services
 - iii. Communication and public consultation
 - iv. Systems and Information Technology
 - v. Election costs with regards to the two new unitary authorities
 - vi. Running costs related to the shadow authorities
 - vii. Rebranding, implementation and creating the two new unitary authorities
3. The following costs will **not** be eligible for funding from implementation funding:
 - i. Costs of continued functioning of Council services and operations to vesting day; or
 - ii. Costs relating to transformation and investment to deliver savings; or
 - iii. To clarify, costs of creation of new entities including parish or town councils ahead of decisions by shadow authorities are not eligible.
 - iv. Costs beyond 1 April 2023 unless otherwise approved and falling into 2) above.
4. Any changes to the scope of the activity which can be funded from the reserve will only be made with the agreement of the County Council and all the District Councils.