

Report of: Chief Executive/Strategic Director Finance and Corporate Services

To: Executive Board

Date: 20 November 2006

Item No:

Title of Report : Unitary Status – Finance Issues



Summary and Recommendations



Purpose of report: To inform the Executive Board about:



- The Government's approach to changing local government structures as set out in the recent White Paper
- Oxford City Council's proposed way forward.



Key decision: Yes

Portfolio Holder: Councillor John Goddard



Scrutiny Responsibility: Finance

Ward(s) affected: All

Report Approved by:



Councillor John Goddard - Portfolio Holder



Penny Thomas - Legal Services

Penny Gardner - Financial Services



Policy Framework:



Recommendation(s):

Executive Board to:

1. To endorse the approach set out in this report.



Recommend to Council to use of up £60,000 of General Fund balances for preliminary work and (if agreed in January) to support our case to Government.



Background

1. The Chief Executive's paper to the Executive Board on 3 April 2006, reported progress on the debate on local governance initiated by David Miliband, the then Minister for Local Government.
2. Oxford City Council welcomed this debate, in particular the probability that unitary status would be back on the Government's agenda. The Chief Executive's paper, and Oxford's submission to the ODPM, restated our commitment to unitary status as a way of enabling Oxford to fulfil its potential as a key regional city, leading and empowering its communities, and working with partners to deliver high quality services.
3. On 26 October 2006, the Department of Communities and Local Government published its White Paper on local governance.
4. The Government White Paper accepts the widely-held criticisms of the two-tier system. However the Government does not intend to end the existing system of English local government. Instead the White Paper argues that the way forward is improved partnership working delivered through more effective Local Strategic Partnerships and Local Area Agreements. Ruth Kelly, the Secretary of State for Communities and Local Government, has stressed in interviews that two-tier governance will remain in most shire areas.
5. However, the White Paper includes an invitation to councils in England to make proposals for future unitary structures. Proposals must be in the form of a business case setting out how new arrangements will:
 - enhance strategic leadership, neighbourhood empowerment, value for money and equity
 - command a broad cross-section of support
 - be affordable, representing value for money, and meeting any costs of change from councils' existing resources.

Proposals must reach DCLG by 25 January 2007.

6. The Government has made clear that very few councils will succeed and, to this end, has deliberately set out extremely tough financial criteria.
7. Senior Members across party groups and officers discussed these issues on Monday 6 November in a workshop, facilitated by an external advisor. Members felt that they wanted the council to explore the possibility of submitting a proposal.

Purpose of this report

8. The first step is to determine whether we are able to meet the Government's financial criteria. There is no point going forward if we are

not able to do this. This paper surveys the financial issues involved and sets out the Council's proposed way forward.

Governance and risk

9. This will be one of the most far reaching and important decisions the City Council will make. The choice about unitary status will affect every resident of this city, potentially for a generation. It is essential that this decision is taken on robust and independently validated data, with options properly set out with risks and benefits appropriately assessed.
10. The City Council has started this work. We commissioned independent advice from the national experts in local government finance. This advice looked at what government grant a unitary city council would receive and what our costs are likely to be. The report concluded a unitary council has the potential to save money for Oxford taxpayers, partly through extra grant from central government. The net effect is in the region of £24 per Band D property, equivalent to yearly extra income and savings totalling approximately £1.1 million.
11. However this work has been done without having had access to unpublished information held by the County Council. Before making a final decision about progressing, we need to understand the financial implications more fully.
12. Professor Michael Chisholm has produced a report for the County Council Network. The report concludes that establishing a unitary authority is likely to cost between £100 and £121/resident. The report then calculates (by multiplying these figures by Oxford's 2005 resident population) that our transition costs would be in the region of £14.2 million to £17.2 million.
13. These figures are estimates and do not take account of actual potential costs for Oxford. These may be lower, higher, or about the same as the report. We should do our best to understand these before making a final decision on proceeding.
14. Crucially financial implications covers more than just costs and income. The County Council's published accounts also set out details of their assets, liabilities and indications of wider long-term commitments. For example their 2005-6 accounts show:
 - £1.5bn of assets including buildings and vehicles as at 31st March 2006.
 - Long-term loans of £340 million (up from £278 million the year previously).
 - Long-term commitments with other providers - eg management of 19 elderly people's homes.

15. We need to understand what our share of these, and the many other assets, liabilities and contractual commitments may be.

Financial criteria

16. The Government has said restructuring proposals must deliver value for money and be self-financing so that:

- The new unitary structure must, over time, generate savings to the taxpayer.
- The transition costs of setting up the new authority are recovered within 5 years.

17. If Professor Chisholm's estimates of our transition costs are broadly accurate, we will need to make additional savings to pay for setting up the new authority. Savings would be around £2 million a year for five years, *on top of any existing proposed economies in our budget*.

18. We need to commission external financial expertise to establish independently (as far as we are able):

- What will it cost to establish a new Unitary authority for Oxford.
- What costs, income, assets, liabilities and commitments would a unitary city council inherit.
- What it will cost to operate a unitary council in the city and crucially how, as a new City Authority, we can we deliver those services more efficiently and effectively.
- What are the longer-term financial implications of a unitary authority. This will involve looking at population trends - particularly of school age children and elderly (both social services and schools are heavily demand led services).

19. This work must be done in any case if we are to submit a proposal. It will also allow Members to take a final decision on whether a Unitary Oxford makes financial sense.

The work that needs to be done

20. There are two stages to the work.

- The first is the "due diligence" work to address the questions posed above. Having considered that information Members will be in a position to take a final decision about whether the financial case for a unitary authority has been made.
- If the decision is to proceed and to present a submission by the end of January, this work will be the foundation of our case - which we would need to have completed by the end January.

Financial implications of doing this work

21. We do not have the capacity or expertise to carry out this work in-house, within the tight timescales of end December and end January. We propose to use the acknowledged national experts in this field (we used them in doing the preliminary analysis) to review County Council costs and to address the questions in paragraph 18.
22. The cost of doing this work is likely to be about £60,000. If we decided to proceed further additional work would be required, the costs of which could be in the region of another £140,000.

Funding this preliminary work

23. Earlier this year we returned a £700,000 provision to general fund balances. I propose we use up to £200,000 of this amount to fund this work. This represents a material change to our budget, and would need to be authorised by full Council.

Recommendations

Executive Board is recommended to

1. Endorse the approach set out in this report.
2. Recommend to Council use of up to £60,000 of General Fund balances for preliminary work and (if agreed in January) in assembling our case to Government.

Name and contact details of authors:

Mark Luntley, tel. 01865 252394, email mluntley@oxford.gov.uk
Peter McQuitty, tel. 01865 252780, email pmcquitty@oxford.gov.uk

Background papers:

1. Oxfordshire County Council 2005-6 annual accounts.



Assessment by Rita Hale Associates.

3. Michael Chisholm, Local Government Reform? A critique of the April 2006 INLOGOV Document: *An Independent Review of the Case for Unitary Status Oxford, Norwich, Exeter and Ipswich Key Regional Cities*,



September 2006 http://www.lga.gov.uk/ccn/research/inlogov_critique.pdf