

APPENDIX A

Financial modelling and assumptions

Purpose - To summarise the assumptions and outputs from the financial modelling undertaken to inform the Local Government Reorganisation in Worcestershire options appraisal.

Assumptions - All options were modelled on Revenue Outturns 2023/24, with all figures inflated so that the total Council Tax requirement for all Worcestershire councils was equal to the Council Tax requirements agreed by each council as part of the 2025/26 budget setting processes.

Within this report, 5 options are considered. The first three are those being considered within the options appraisal (options A, B1 and B2). The final two (Ref 1 LA and Ref 2 LA) refer to the options and associated calculations provided within the Future Worcestershire - Local Government Reorganisation in Worcestershire Options Appraisal and Draft Interim Plan (considered by Worcestershire County Council Cabinet on 20th March 2025). The full list of options referred to in this report are as follows:

- Option A - A new unitary council for the whole county of Worcestershire.
- Option B1- Two new unitary councils (North Worcestershire and South Worcestershire) with full disaggregation of services.
- Option B2 - Two new unitary councils (North Worcestershire and South Worcestershire) with a shared service/hybrid model (adult social care, children's services, education, adult learning, transport).
- Ref 1 LA - Future Worcestershire model - single new unitary council (adjusted for redundancy, please see below for detail); considered by Worcestershire County Council Cabinet on 20th March 2025
- Ref 2 LA - Future Worcestershire model - two new unitary councils (adjusted for redundancy); considered by Worcestershire County Council Cabinet on 20th March 2025.

Throughout this options appraisal, all savings are considered against a 'stand-still' position. Savings are projected against current needs, current costs and current allocations of grants. None of the options considered include assumptions relating to changes in levels of future needs or changes to resource allocation; these factors are assumed to have the same impact on each option. This approach is required to demonstrate the varying performance of each option to generate efficiencies and realise savings. Similarly, this options appraisal is focussed on appraising structural proposition, rather than appraising detailed system wide, organisational and service level designs. As such, broad but evidence-based assumptions have been used to inform the financial models for each option, including findings from previous LGR programmes, projections from successful recent LGR proposals and Interim LGR Plan proposals for other two-tier areas.

General efficiencies - Areas for savings were as categories of service department expenditure where there is an overlap of spending between Districts councils and the County Council, split between staffing, other expenditure and fees and charges income and other income. The following table sets out the modelled saving targets for each option:

	A	B1	B2	Ref 1 LA	Ref 2 LAs
Staff saving	3.25%	3.05%	3.05%	4.50%	4.00%
Non-staff saving	3.25%	3.05%	3.05%	4.70%	2.90%
Fees & Charges Income	1.00%	1.00%	1.00%	0.00%	0.00%

Ongoing additional costs / savings - The next consideration was to look at whether the specifics of any individual option gives rise to ongoing additional costs (such as costs for more members) or leads to ongoing savings (for example through prevention). The following table sets out the net ongoing costs

and savings (£m's) assumed in each option. These are taken to adjust the general level of savings as suggested above.

	A	B1	B2	Ref 1 LA	Ref 2 LAs
Ongoing disaggregation costs	0	5.370	4.620	0	5.370
Existing efficiencies - shared services	3.000	3.000	3.000	0	0
Democratic services	0	0	0	0.445	0.890
Management teams *	(1.000)	2.000	1.750	(1.000)	3.180
Members	(0.633)	(0.633)	(0.633)	(0.633)	(0.633)
Enhancing local democracy	0.500	0.500	0.500	0	0
TOTAL additional costs / (savings)	1.867	10.237	9.237	(1.188)	8.807

* These are costs / (savings) over and above the general %age staff savings based upon streamlining the executive levels of staff

Long-term impact of these savings combined - Combining the impact of these two sets of savings shows the potential long-term savings from each of these models, based upon these over the various categories of income and expenditure – at this stage in the process, figures are presented for all new Councils combined; for the purposes of this analysis no attempt is made to apportion costs and savings to specific newly formed councils.

Option A - A new unitary council for the whole county of Worcestershire

Category	2023/4 Outturn inflated (£m)	General efficiency (£m)	Further specific costs / (savings) (£m)	Projected expenditure / (Income) (£m)	Ongoing saving (£m)
Employee Costs	403.581	(4.734)	(0.633)	398.214	5.367
Running Expenses	1,017.006	(8.889)	2.500	1,010.617	6.389
Fees & Charges	(174.497)	(0.953)	0.000	(175.449)	0.953
Other Income	(177.308)	0.000	0.000	(177.308)	0.000
Non-Dept (Inc) / Exp *	(655.136)	0.000	0.000	(655.136)	0.000
Council Tax Req	413.649	(14.575)	1.867	400.939	12.710

Option B1- Two new unitary councils (North Worcestershire and South Worcestershire) with full disaggregation of services

Category	2023/4 Outturn inflated (£m)	General efficiency (£m)	Further specific costs / (savings) (£m)	Projected expenditure / (Income) (£m)	Ongoing saving (£m)
Employee Costs	403.581	(4.443)	5.052	404.191	(0.609)
Running Expenses	1,017.006	(8.342)	5.185	1,013.849	3.157
Fees & Charges	(174.497)	(0.953)	0.000	(175.449)	0.953
Other Income	(177.308)	0.000	0.000	(177.308)	0.000
Non-Dept (Inc) / Exp *	(655.136)	0.000	0.000	(655.136)	0.000
Council Tax Req	413.649	(13.737)	10.237	410.147	3.501

Option B2 - Two new unitary councils (North Worcestershire and South Worcestershire) with a shared service/hybrid model (adult social care, children's services, education, adult learning, transport).

Category	2023/4 Outturn inflated (£m)	General efficiency (£m)	Further specific costs / (savings) (£m)	Projected expenditure / (Income) (£m)	Ongoing saving (£m)
Employee Costs	403.581	(4.443)	4.552	403.691	(0.109)
Running Expenses	1,017.006	(8.342)	4.685	1,013.349	3.657
Fees & Charges	(174.497)	(0.953)	0.000	(175.449)	0.953
Other Income	(177.308)	0.000	0.000	(177.308)	0.000
Non-Dept (Inc) / Exp *	(655.136)	0.000	0.000	(655.136)	0.000
Council Tax Req	413.649	(13.737)	9.237	409.147	4.501

Ref 1 LA - Future Worcestershire model - single new unitary council

Category	2023/4 Outturn inflated (£m)	General efficiency (£m)	Further specific costs / (savings) (£m)	Projected expenditure / (Income) (£m)	Ongoing saving (£m)
Employee Costs	403.581	(6.555)	(1.633)	395.394	8.188
Running Expenses	1,017.006	(12.717)	0.455	1,004.733	12.272
Fees & Charges	(174.497)	0.000	0.000	(174.497)	0.000
Other Income	(177.308)	0.000	0.000	(177.308)	0.000
Non-Dept (Inc) / Exp *	(655.136)	0.000	0.000	(655.136)	0.000
Council Tax Req	413.649	(19.272)	(1.188)	393.187	20.461

Ref 2 LA - Future Worcestershire model - two new unitary councils

Category	2023/4 Outturn inflated (£m)	General efficiency (£m)	Further specific costs / (savings) (£m)	Projected expenditure / (Income) (£m)	Ongoing saving (£m)
Employee Costs	403.581	(5,826)	5.232	402.987	0.594
Running Expenses	1,017.006	(7.795)	3.575	1,012.786	4.220
Fees & Charges	(174.497)	0.000	0.000	(174.497)	0.000
Other Income	(177.308)	0.000	0.000	(177.308)	0.000
Non-Dept (Inc) / Exp *	(655.136)	0.000	0.000	(655.136)	0.000
Council Tax Req	413.649	(13.621)	8.807	408.833	4.814

* This includes all other elements of Council Income and Expenditure, including Housing Benefits, Levies, Capital Financing, Non-service grants and appropriations / use of reserves (elements considered outside service reporting on Government – Revenue Outturn forms)

The following table sets out the ongoing savings as a percentage. This is calculated in three ways:

- As a percentage of gross service costs (i.e. employee costs and running expenses)
- As a percentage of net service costs (i.e. employee costs and running expenses less service income)
- As a percentage of Council Tax requirement (i.e. all costs including non-service specific grants, financing costs, precepts and use of reserves)

Category	A (£m)	B1 (£m)	B2 (£m)	Ref 1 LA (£m)	Ref 2 LAs (£m)
Ongoing saving	12.710	3.501	4.501	20.461	4.814
Savings as a percentage of:					
Gross Service Cost (£1,420.587m)	0.9%	0.2%	0.3%	1.4%	0.3%
Net Service Cost (£1,068.785m)	1.2%	0.3%	0.4%	1.9%	0.5%
Council Tax Requirement (£413.649m)	3.1%	0.8%	1.1%	4.9%	1.2%

One-off costs and time to realise savings Each option was considered for one-off costs and how quickly savings could be achieved. The breakdown of these costs varies from option to option and can be seen within the model. For most costs these were given a direct cost. The exception was redundancy costs that were calculated as a percentage of employee costs saved (this forecast includes both the direct costs and any pension strain). A summary of these one-off costs per model are as follows.

	A	B1	B2	Ref 1 LA	Ref 2 LAs
Redundancy (%age of employee costs saved)	120%	120%	120%	120%*	120%*
Other one-off cost (£m)	16.900	23.100	17.500	9.815	14.026

Although an indicative breakdown of transition costs is given, it is considered that the overall quantum is more important than the specific categories. Local decisions will determine how much of this work is carried out in-house compared to with external support, which in turn may adjust the allocation of these budgets. These costs are broken down as follows:

Category	A (£m)	B1 (£m)	B2 (£m)	Ref 1 LA (£m)	Ref 2 LAs (£m)
Redundancy Costs	5.681	5.331	5.331	7.865	6.992
Rebranding / Comms	0.500	0.750	0.500		
Public consultation	0.400	0.600	0.400	0.275	0.412
Transition support / remodelling costs	4.000	6.000	4.500	4.640	6.950
Programme Management	2.000	3.000	2.000	1.900	2.859
Legal costs (contract novation, new constitutions)	0.500	0.750	0.600		
ICT costs	3.000	4.000	3.000	2.140	2.390
Contingency	4.000	5.000	4.000	0.244	0.488
Shadow operations	1.000	1.500	1.000	0.311	0.622
Additional agency year 1	0.750	0.750	0.750		
HR Support for transition / TUPE etc	0.750	0.750	0.750		
Closedown				0.305	0.305
Sub-Total Non-Redundancy Costs	16.900	23.100	17.500	9.815	14.026
Total One-off Costs	22.581	28.431	22.831	17.680	21.018

Consideration was also given to how quickly expected savings would be realised. Greater disaggregation of existing county-level services results in a longer projected time to fully realise savings, with the assumptions and impact on early-year savings projected below:

	A	B1	B2	Ref 1 LA	Ref 2 LAs
%age saved - Year 1	40%	30%	40%	50%	50%
%age saved - Year 2	20%	30%	20%	25%	25%
%age saved - Year 3	20%	20%	20%	25%	25%
%age saved - Year 4	20%	10%	20%		
%age saved - Year 5		10%			
Saving before one-off costs	£m	£m	£m	£m	£m
Ongoing saving - Year 1	5.084	1.051	1.801	10.231	2.408
Ongoing saving - Year 2	7.626	2.101	2.701	15.347	3.612
Ongoing saving - Year 3	10.168	2.802	3.601	20.461	4.814
Ongoing saving - Year 4	12.710	3.152	4.501	20.461	4.814
Ongoing saving - Year 5 (and ongoing)	12.710	3.501	4.501	20.461	4.814

* These were calculated at approximately 30% in the initial alternative modelling carried out on behalf of Worcestershire County Council - based upon recent examples of costs elsewhere and assumptions used in other current proposals we believe that this would significantly understate redundancy costs.

Summary of financial modelling - The following table sets out the key metrics from each of the options:

	A	B1	B2	Ref 1 LA	Ref 2 LAs
One-off costs (£m)	22.581	28.431	22.831	17.680	21.018
Ongoing annual savings (£m)	12.710	3.501	4.501	20.461	4.814
10 Year Savings (£m)	89.269	1.685	16.786	171.595	23.531
Payback period (years)	3	10	7	2	6 *

* This was presented as 11+ years in the actual report, however the savings and costs did not appear to support this calculation

Differences between models - The key differences between assumptions in this modelling compared to Worcestershire County Council's modelling are summarised below:

- Redundancy costs are much greater within this model for all options (120% of employment costs saved compared to c30% in the county's modelling) - our assumption is based upon experience at previously combined councils and includes pension strain for people taking redundancy.
- Lower additional ongoing costs for social care following disaggregation – informed by the findings of the Impower report commissioned by DCN (<https://www.districtcouncils.info/wp-content/uploads/Impower-DCN-ASC-LGR-Report-2025-FINAL-compressed-version.pdf>) – which states “*There are no economies of scale in delivering social care, and in some cases, there is evidence that larger systems introduce diseconomies*”; allowances have still been made for additional leadership roles and ICT relating to running an additional ICT system.
- Lower ongoing savings modelled across all options and a longer time to realise these – informed by findings in previous merged councils showing that savings took longer to achieve than anticipated and were overestimated. As an example: <https://www.westmorlandandfurness.gov.uk/your-council/finance/westmorland-and-furness-council-productivity-plan> is projecting £1.293m of unitary specific efficiencies after 4 years of operations (this being one of two new unitary councils formed in Cumbria).
- This model includes a modest increase in income based upon reviewing and aligning fees & charges; this increase is consistent with previous reviews of fees & charges in single authority situations (there should be a greater ability to raise income as there is already differential in fees charged across the existing councils).

- This model makes explicit adjustments for savings already realised in terms of shared services and makes an expenditure allowance for enhanced localised democracy across all options; the county council's model does not make such allowances.
- This model assumes greater transition costs across all options than the county council model, again based upon experience of costs from previous reorganisation; although the split of these costs is different between models, this split is highly dependent upon how the new organisation(s), choose to resource the required transformation and the reliance on internal versus external support (Westmorland and Furness, as one of two new councils in the region were themselves allocated £10m to facilitate transformation in Cumbria as referenced in the same report as linked above). Grant Thornton referenced an example of transformation costs reaching over £50m (see box 1 below):

Box 1: Example of under-estimation and transformation costs associated with LGR

Transformation needs to be fully costed and those costs kept under control. For example, in one council the estimated transformation programme costs increased significantly from £29.5 million in November 2019 to £52.12 million by February 2024. Transformation programmes need effective programme management and regular progress reporting in public to elected members is essential. Elected members need enough evidence to challenge delivery and ensure officers are taking corrective action if needed.

Source: https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2024/report---learning-from-the-new-unitary-councils_v08.pdf

Conclusion - When consistent and more realistic cost saving assumptions are applied to each option, we believe that there is a c£8-9m per annum additional saving by having a single new unitary council, compared to options associated with two new unitary councils. These savings should however be considered alongside wider economic benefits and disbenefits to the region (such as changes to health, investment, job creation / retention, culture and tourism) to get a fairer overall reflection of the impact of changes to the region. Initial analysis suggests that Option B1 has the potential to realise the greatest level of wider economic benefits. Further development of these outcomes and the anticipated economic benefits is required during the development of the full LGR proposal.