APPENDIX 4b

Local Government Reorganisation Financial Analysis
North Kesteven & South Kesteven Proposal

Executive Summary | Financial Analysis of LGR Options

October 2025

This **Executive Summary** brings together the analysis modules estimate the likely Year 1 position for the proposed new authorities. It shows both the costs and benefits of LGR and longer-term transformation.

The aim is **not to forecast the future**, but to give a transparent financial view of creating new authorities.

Additional appendices accompanying the Executive Summary include:

1. **Assumptions**
   The assumptions used for developing the financial model. These are set out in Appendix 4a
2. **Sensitivity Analysis**
   Testing the impact of key assumption variables. This is set out in Appendix X
3. **Council Tax Harmonisation**
   The outputs based on four different approaches and scheduled between 1 and 7 years. These are set out in Appendix 4d

Financial analysis prepared for North Kesteven District Council (NKDC) & South Kesteven District Council (SKDC) as part of their Local Government Reorganisation (LGR) Business Case.

Executive Summary | Contents

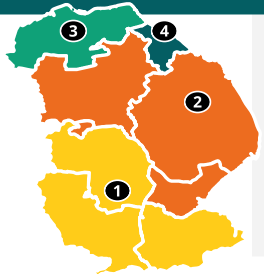
Introduction |

NKDC and SKDC have reviewed three options for LGR (outlined below) across the Lincolnshire area. This report outlines the financial analysis for the recommended option to support the preparation of LGR submission. The three options cover the current Lincolnshire County Council area and North Lincolnshire UA and North East Lincolnshire UA. with Option 1 including Rutland UA.

As Is - Existing County Council and Unitary Authority boundaries

Retention of existing two-tier model for Lincolnshire County Council and its seven Districts, and the North and North East Lincolnshire Unitary Authorities. This As Is option represents the baseline against which the costs and benefits of "Do Something" options are measured against.

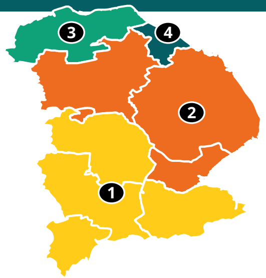
Recommended Option



- **UA 1:** North Kesteven, South Kesteven, South Holland
- **UA 2:** ***Boston,*** East Lindsey, West Lindsey and Lincoln
- **UA 3:** North Lincolnshire UA (unchanged)
- **UA 4:** North East Lincolnshire UA (unchanged)

Combined population:[1] 1,111,230

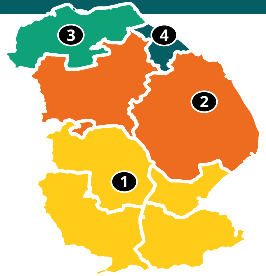
**Alternative Option - ** Rutland included in UA 1



- **UA 1:** North Kesteven, South Kesteven, South Holland, ***Rutland***
- **UA 2:** Boston, East Lindsey, West Lindsey and Lincoln
- **UA 3:** North Lincolnshire UA (unchanged)
- **UA 4:** North East Lincolnshire UA (unchanged)

Combined population:[1] 1,151,873

Alternative Option - Boston moved to UA 1



- **UA1:** North Kesteven, South Kesteven, South Holland, ***Boston***
- **UA 2:** East Lindsey, West Lindsey and Lincoln
- **UA 3:** North Lincolnshire UA (unchanged)
- **UA 4:** North East Lincolnshire UA (unchanged)

Combined population:[1] 1,111,230

1. Office for National Statistics. Estimates of the population for England and Wales.

Introduction | Overview of the financial analysis

Purpose:

- Uses latest local data, as far as is possible, and is consistent with the data sets collated for other financial modelling.
- Provides a "Year 1" directional estimate of income, expenditure, assets and liabilities.
- Tests assumptions through a series of modules aligned to major areas of income and expenditure.
- Includes indicative transformation benefits based on an assumption of future ambitions to drive change.

1. An estimated Year 1 Position

From local, published Medium Term Financial Strategies (MTFS) and Statement of Accounts, a baseline view of the potential new authorities is developed that includes:

- Income
- Expenditure
- Assets
- Liabilities

A view of potential Year 1 impact of Council Tax, Workforce and Democratic arrangements is included.

2. Analysis of structural change

Applies cost and benefit assumptions to outline the estimated impact of reorganisation:

- Staffing reductions and redundancy costs
- Asset rationalisation
- Contract and procurement savings
- Reduced democratic costs

3. Profiles estimated costs and savings for reorganisation and transformation over a five-year period which includes:

- Aggregation benefits
- One-off transition costs
- Recurring financial disbenefit from disaggregating LCC
- Payback period
- Long-term transformation benefits and implementation costs

Why this matters

This shows not just the benefits LGR could drive but also the likely cost of implementation. It also provides an estimate of the initial financial position for the new council(s) in order to help inform strategic and operational decisions that the shadow authorities would need to consider.

Note: Year 1 refers to Vesting Year (01 April 2028)

Introduction | Approach to the financial analysis (1/2)

The analysis undertaken and assumptions applied provides an estimate of forecast "Year 1" budgets and financial balance for the new Unitary Authorities options.

Forecast Budgets for new Unitary Authorities

Income including Council Tax

Expenditure

Impact of aggregation, disaggregation and transition

Recurring LGR aggregation benefits
- FTE consolidation (including senior leadership)
- Third party and property spend reduction
- Democracy and elected member cost reduction

Recurring LGR financial disbenefit from disaggregating LCC
- Additional FTE and overhead costs

One off transition costs
- Redundancies; IT migrations; contingency
- Engagement, design, transition and programme support
- Organisation closedown and establishment

Transformation
- Staffing and operating model transformation
- Third Party Spend
- Increase fees

Finance Balance for new Unitary Authorities

Assets (Non-HRA)
- Fixed Assets

Liabilities (Non-HRA)
- Short Term Borrowing
- Long Term Borrowing

Together, these outputs form the basis of the initial financial position (eg. FY 2028/29) for the new unitary authorities following their establishment.

This will also highlight areas of financial risk that should be the focus of mitigation efforts during the transition period.

Introduction | Approach to the financial analysis (2/2)

Set out below is the methodology and logic for assumptions applied. The complexity involved in creating multiple unitary authorities has been taken into account in the form of increased transition and disaggregation costs and reductions in economies of scale. To note, transformation costs and benefits are applied after reorganisation based on an assumed level of ambition and further change to realise the full benefit of unitirisation.

Reorganisation Benefits and Costs

Reorganisation Benefits

Recurring Aggregation Benefits: Savings achieved through consolidation e.g. management, systems and support functions. These are ongoing efficiencies generated through removing duplication and streamlining processes.

Economies of Scale: Larger single structures can operate more efficiently by sharing systems, centralising procurement, and pooling specialist capacity. In the current model, these savings are recognised but subsequently dampened to reflect the fact that breaking up the County into multiple unitaries reduces the achievable economies of scale.

Reorganisation Costs

One-off Transition Costs: Upfront investment needed to create new authorities. These are time-limited and occur during implementation.

Ongoing Disaggregation Costs or reduction in potential benefits: Reduction in economies of scale or where there is greater fragmentation which arises when services or teams are split across multiple new organisations. Each additional unitary authority introduces new overheads and reduces the advantage of economies of scale.

Transformation
Post-Vesting Day

Transformation Benefits

Efficiency and productivity improvements realised once new authorities are established and operating effectively.

Reflect long-term service redesign, innovation, and better outcomes for residents.

Transformation Costs

Investment required to modernise and redesign services (e.g. digitalisation, workforce reform, asset rationalisation).

Incurred after reorganisation and are distinct from transition costs. These are short-term costs intended to unlock longer-term service and financial improvements.

Introduction | Overview of the approach and methodology

Inputs	**County and District Council data**	Inputs provided by local authorities and / or through publicly available data	**Analysis assumptions**	Agreed during working sessions.
Modules	**Module 1 | Income**	Estimated Year 1 view of core funding from Medium Term Financial Strategies.	**Module 2 | Expenditure**	Estimated Year 1 view of net cost operating expenditure from Medium Term Financial Strategies.
	Module 3 | Council Tax	Updated council tax analysis until vesting day and potential harmonisation options.	**Module 4 | Assets**	Updated Year 1 view of estimated Asset portfolio informed by planned Capital Expenditure
	Module 5 | Liabilities	Estimated Year 1 view of liabilities, informed by capital finance Requirements in each Councils' MTFS.	**Module 6 | Members and Elections**	Updated savings from reduced Members and Elections costs using latest numbers (e.g. SRA, cost of elections etc).
	Module 7 | Third Party Spend	Updated estimated third party savings based on RO data.	**Module 8 | Workforce Salary Alignment**	Estimated Year 1 view of likely pay scale harmonisation impact.
Upd ates	**Transition costs (one off), recurring financial disbenefit cost (from disaggregating LCC), transformation costs (one-off), benefit profiling**			
Outputs	**Cost / Benefits**	A view of the the estimated costs and benefits (aggregation and transformation) based on each proposed unitary structure.	**Estimated Year 1 position**	An estimated Year 1 position based on all the modules aggregated together (covering income, expenditure, assets and liabilities).

New Unitary Authority UA 1	New Unitary Authority UA 2	Existing Unitary Authority UA 3	Existing Unitary Authority UA 4
North Kesteven South Kesteven South Holland	Boston East Lindsey West Lindsey Lincoln	North Lincolnshire UA (unchanged)	North East Lincolnshire UA (unchanged)

An estimated Year 1 income and net expenditure position is set out on this page

MTFS figures have been used to estimate forward-looking income and net expenditure for the purposes of developing the Year 1 position. The baseline position was agreed with the Deputy Chief Executive and S151 Officers for NKDC and SKDC on the 18 September 2025.

The Year 1 position is not intended to predict the outcome of national funding reforms or new grant schemes. A significant number of elements could impact the Year 1 position, including the Fair Funding Review, future settlements from government, inflation, political change nationally and locally. HMG is expected to provide more detail on the Fair Funding Review outcome in Autumn-25.

See accompanying 'Assumptions' document (appendix 4a) for full list of assumptions applied in developing the Year 1 position.

Estimated Year 1 Position

Modelling indicates that the proposed new councils will begin operations in the following financial position.

- **Opening deficits:** The combined opening position across the new UAs shows significant core funding pressures. All will start with an operating deficit, which is not unexpected as local government is operating in a challenging financial context.
- **Efficiency requirements:** To achieve a balanced budget, savings are required across multiple councils, with many needing recurring efficiency gains over the next 5 years. These are outlined in the notes below.
- **Strategic trade-offs:** Councils will face early policy choices: draw on reserves, amend Council Tax, or accelerate service transformation. Longer-term gains from LGR aggregation and longer-term transformation integration are a potential offset.
- **Fire Authority:** Assumes a standalone FA will be created and a portion of LCC Business Rates and Council Tax disaggregated.

	Option 2					
	UA 1 - North Kesteven, South Kesteven, South Holland	UA 2 - Boston, East Lindsey, West Lindsey and Lincoln	UA 3 - North Lincolnshire UA (unchanged)	UA 4: North East Lincolnshire UA (unchanged)		Standalone Fire Authority
Core Funding	-371.35M	-466.59M	-225.99M	-218.19M		-29.69M
Net Cost Operating Expenditure	380.2M	503.5M	238.4M	224.2M		31.1M
Budget Gap	8.8M	36.9M	12.4M	6.0M		1.4M

Authority	North Lincolnshire UA	North East Lincolnshire UA	Lincolnshire County Council	Boston Borough Council	East Lindsey District Council	City of Lincoln Council Council	North Kesteven District Council	South Holland District Council	South Kesteven District Council	West Lindsey district Council
Year Used	2027/28	2027/28	2028/29	2028/29	2028/29	2028/29	2027/28	2028/29	2027/28	2028/29
Source	Financial Strategy Budget 2025-26 Medium Term Financial Plan 2025-28. Pg 7.	Draft Budget and Medium-Term Financial Plan 2025/26 – 2027/28. Pg 10.	Council Budget 2025/26 'Budget Book. Pg 99.	BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2024/25-2028. Pg 22.	BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2025/26-2029/30. Pg 19.	MEDIUM TERM FINANCIAL STRATEGY 2025-2030. Pg 66.	NK Financial Plan 2025/26. Updated Appendix 1. Page 119 of report pack.	Appendix 1b - MTFS by Service, item 93. Pg 1.	Budget Proposals for 2025/26 and indicative budgets for 2026/27 and 2027/28. Sect 4.1.	BUDGET BOOK 2025/26 TO 2029/30.
MTFS Note	MTFS only goes up to 2027/28. Efficiency savings required to set a balanced budget. Gap increases to £13.4m if not achieved	MTFS only goes up to 2027/28. Savings needed to be achieved to manage within indicative budget envelopes.	Significant financial deficit exists across all four years of the financial plan currently, which increases annually.	Efficiency savings required to set a balanced budget over the next 5 years.	Efficiency savings required to set a balanced budget over the next 5 years.	Efficiency savings required to set a balanced budget over the next 5 years.	MTFS only goes up to 2027/28.	Efficiency savings required to set a balanced budget over the next 5 years.	MTFS only goes up to 2027/28. The need for a strong reserves position can be seen from the future forecast deficits.	Funding gaps identified over next 5 years. Council has a number of projects and initiatives which will help meet the future funding gaps

An estimated Year 1 assets and liabilities position is set out on this page.

The Year 1 Balance Sheet reflects General Fund (GF) assets and liabilities only. It includes:

- The Net Book Value (NBV) listed on the balance sheet within the Statement of Accounts. This includes: Surplus Assets, Assets under Construction, Other Land and Buildings and Community Assets. Infrastructure Assets and Investments assets are also included. **It does not include Council Dwellings and other HRA Assets.**
- Long-term and current liabilities (borrowing only) and Dedicated Schools Grant (DSG) deficit.

Both assets and liabilities reflect the estimated value in Year 1 informed by informed by Capital Finance Requirements and Planned Capital Expenditure.

See accompanying 'Assumptions' document (appendix 4a) for full list of assumptions used to develop the Balance Sheet.

Balance Sheet

Modelling indicates that the proposed new councils will begin operations in the following financial position.

- **Assets:** Set out below is an evidence-based estimate of what each new authority would be accountable for on Year 1, drawn from existing Statement of Account asset values, taking in planned and additional disposals of surplus assets into account. Assumption that asset value follows geography i.e. allocated by physical location.
- **Liabilities:** Also below is the financial obligations that would transfer into any new unitary councils. It brings together debt, borrowing, and the DSG deficit to provide a clear Year 1 picture of the liabilities position. Allocated following the same distribution profile as assets. In reality, the apportionment of debt will be worked through in detail as part of the implementation of any new authority.

	Option 2			
	UA 1 - North Kesteven, South Kesteven, South Holland	**UA 2 - Boston, East Lindsey, West Lindsey and Lincoln**	**UA 3 - North Lincolnshire UA (unchanged)**	**UA 4 - North East Lincolnshire UA (unchanged)**
Assets				
Fixed Assets	1210.4M	1883.3M	667.4M	423.1M
Liabilities				
Long Term Borrowing (GF only)	232.7M	352.5M	135.2M	158.0M
Short Term Borrowing (GF only)	4.6M	17.1M	50.0M	76.7M
Dedicated Schools Grant	-16.0M	-17.1M	-8.7M	-15.9M

Authority	North Lincolnshire UA	North East Lincolnshire UA	Lincolnshire County Council	Boston Borough Council	East Lindsey District Council	City of Lincoln Council Council	North Kesteven District Council	South Holland District Council	South Kesteven District Council	West Lindsey district Council
Sources (Asset)	*Draft Statement of Accounts FINANCIAL YEAR 2024/2025*	*Draft Statement of Accounts 2024/2025 Financial Year*	*Statement of Accounts - 2024/2025*	*Financial Statements for the year ended 31 March 2025*	*Financial Statements 2024-25*	*Statement of accounts for the year ended 31 March 2025*	*Unaudited Statement of accounts North Kesteven District Council 2024/25*	*Unaudited Financial Statements For the Year Ended 31 March 2025*	*SKDC 24/25 Statement of Accounts*	*Statement of Accounts and Annual Governance Statement 2024/25 (Unaudited Statement)*
Long Term Borrowing	*As above. Pg 19.*	*As above. Pg 17.*	*As above. Pg 36.*	*As above. Pg 53.*	*As above. Pg 29.*	*Provided by Duncan James (09/10)*	*Provided by Tracey Bircumshaw (09/10)*	*Provided by Duncan James (09/10)*	*Confirmed verbally by Richard Wyles (23/09)*	*As above. Pg 29.*
Short Term Borrowing	*As above.*	*As above.*	*As above.*	*As above.*	*As above.*	*As above.*	*As above.*	*As above.*	*As above.*	*As above.*

The estimated aggregation benefits as a whole are set out on this page.

- **Staffing:** Benefits from reduction in duplicated roles across leadership, front office, service delivery, internal and enabling services and strategic services.
- **Third Party Spend:** Benefits from reduction in addressable spend across all in-scope service areas.
- **Democracy:** Benefits from changing the number of councillors and streamlining elections.
- **Property:** Benefits from reduced operational expenditure spent on rationalised assets (i.e. surplus assets).

See accompanying 'Assumptions Log' document for full list of assumptions (appendix Z) used to develop the aggregation benefits.

Aggregation Benefits

		TOTAL (£)	UA 1 - North Kesteven, South Kesteven, South Holland	UA 2 - Boston, East Lindsey, West Lindsey and Lincoln	UA 3 - North Lincolnshire UA (unchanged)	UA 4 - North East Lincolnshire UA (unchanged)
Estimated Staffing Benefits						
Senior Leadership Structures savings	**Recurring**	**2.71M**	*0.72M*	*1.99M*	*0.00M*	*0.00M*
Front Office Reorganisation savings	**Recurring**	**0.71M**	*0.38M*	*0.33M*	*0.00M*	*0.00M*
Service Delivery Reorganisation savings	**Recurring**	**0.42M**	*0.23M*	*0.20M*	*0.00M*	*0.00M*
Internal and Enabling Services Reorganisation savings	**Recurring**	**1.14M**	*0.61M*	*0.53M*	*0.00M*	*0.00M*
Strategic Services Reorganisation savings	**Recurring**	**0.42M**	*0.23M*	*0.19M*	*0.00M*	*0.00M*
TOTAL FTE BENEFITS	**Recurring**	**5.40M**	2.17M	3.24M	0.00M	0.00M
Estimated Third Party Spend Benefits						
TPS Aggregation savings	**Recurring**	***10.62M***	*4.15M*	*6.47M*	*0.00M*	*0.00M*
Estimated Members' Allowances Benefits						
Allowances+SRA savings	**Recurring**	***0.50M***	*0.29M*	*0.21M*	*0.00M*	*0.00M*
Estimated Election Benefits						
Election Costs savings	**Recurring**	***1.40M***	*0.70M*	*0.70M*	*0.00M*	*0.00M*
Estimated Property Benefits						
Property OpEx savings	**Recurring**	***0.12M***	*0.03M*	*0.10M*	*0.00M*	*0.00M*
Total Aggregation Benefits	**Recurring**	**18.05M**	**7.33M**	**10.72M**	**0.00M**	**0.00M**

Benefit as a % of Net Cost Operating Expenditure for UA1 and UA2	1.93%	2.13%	0%	0%

Aggregation benefits phasing					
	Y1	**Y2**	**Y3**	**Y4**	**Y5**
Aggregation benefits profile	**60.00%**	**80.00%**	**90.00%**	**100.00%**	**100.00%**

Aggregation benefits over a 5 year period					
	Y1	**Y2**	**Y3**	**Y4**	**Y5**
Total Aggregation Benefits (£M)	**10.83M**	**14.44M**	**16.25M**	**18.05M**	**18.05M**

The estimated transition costs <u>as a whole</u> are set out on this page.

- **New unitarites setup & closedown costs:** Spend to design the new UA and manage the change (training, comms, process redesign).
- **IT & Systems costs:** Spend on new / upgraded systems to support a single UA (e.g. finance, HR, CRM).
- **External transition, design and implementation support costs:** Resources needed to run the transformation programme (e.g. Project management)
- **Redundancy Costs:** Payments and support for staff reductions due to structural changes.
- **Contingency:** A buffer for unexpected costs, reflecting risk and **complexity.**

See accompanying 'Assumptions" document (appendix 4a) for full list of assumptions used to develop the aggregation costs.

Transition Costs

One off transition costs for <u>Option 2 as a whole</u>	Total (£)	Notes
New unitarities setup & closedown costs	2.65M	• **Creating the new council:** Activities needed to stand the new organisations up such as drafting constitutions, aligning organisational policies, setting up new democratic structures, and setting up localities for four large UAs. • **Organisation Closedown:** It will be more complex in UA1 and UA2 to settle accounts, change financial codes, and close multiple councils with different legacy systems. • **Internal Programme Management:** Extra capacity is needed to run all the planning, operating model design, data work, and mobilisation in a short timescale.
IT & Systems Costs	2.25M	• **Councils will run many different core systems.** Higher costs will come from migrating and cleaning data, hramornsing infrastructure, setting up shared identity and integration platforms.
External transition, design and implementation costs	8.75M	• **More work needed in UA1 and UA2 because of the wider scope of change** across governance, HR, finance, ICT, and service design, and the need to involve partners like the NHS and emergency services (i.e. setting up new Fire Authority)
Redundancy costs	3.67M	• **Estimated number of reduction in FTE (Leadership and Core Roles) x Average Median Salary Point for Councils**. • Note: Given redundancy costs within local government are highly specific and dependent on personal circumstances, making it difficult to calculate exact outcomes at this stage. This approach was outlined with NSK during development of staffing module.
Contingency	5.20M	• **All options include a contingency amount which is 30% of the total costs**. This extra provision is sensible in all options because of risks like supplier delays, poor data quality, and the need to protect statutory services during transition.
Total	**22.52M**	

Cost as a % of Net Cost Operating Expenditure for UA 1 and UA2	2.55%

Transition costs over a five year period

	Y1	Y2	Y3	Y4	Y5
Total One-Off Transition Costs (£M)	**-22.52M**	**0.00M**	**0.00M**	**0.00M**	**0.00M**

Transition costs phasing

	Y1	Y2	Y3	Y4	Y5
Aggregation cost profile	**100%**	**0%**	**0%**	**0%**	**0%**

Disaggregating top tier services into two authorities will mean increased costs or a reduction in benefit which arises primarily from the loss of economies of scale.

These disbenefits represent additional costs which are recognised within the financial case.

See accompanying 'Assumptions' document (appendix 4a)for full list of assumptions used to develop the disaggregation costs.

Disaggregation of top tier services

Potential increased cost of reduction in benefit incurred as a result of creating multiple unitary authorities	
	Cost (£)
Impact of disaggregating top tier services	12.94M

Cost as a % of Net Cost Operating Expenditure for UA1 and UA2	1.46%

The proposals under consideration would require top tier services to be disaggregated across two unitary authorities.

- These efficiencies arise because costs and resources are spread across a larger organisational base, enabling stronger purchasing power, greater discounts, and the ability to sustain specialist expertise within central teams.
- By creating multiple unitary authorities, these economies of scale are reduced. Each new authority will need to enter into its own contracts, maintain its own systems and licences, and manage its own corporate infrastructure. This results in higher unit costs and reduced purchasing power.
- Importantly, this represents an *ongoing financial pressure (i.e. cost)*. That is, the potential loss of benefit through a reduction in economies of scale will continue beyond the transition to the new Unitarity Authorities. It is therefore treated separately and in addition to the one-off implementation costs associated with the reorganisation itself.
- Examples of where these ongoing disbenefits may arise:
    - Reduced purchasing power and higher prices on third-party spend and contracts
    - Stranded overheads and duplication of roles
    - Increased ICT costs due to duplicate licences and systems
    - Fragmentation of shared services, leading to inefficiencies and higher overheads
    - Loss of opportunities to achieve further efficiencies that could have been realised under a single, larger authority.

Transformation Benefits

The estimated transformation benefits are set out on this page.

These are additional benefits which the new UAs could achieve post-vesting day through transformation for example, by implementing digital technology, AI, automation, and redesigned operating models.

These potential savings are over and above aggregation benefits identified above (previous slide).

The scope of transformation savings would need to be refined by the new authorities including identifying individual opportunities and establishing programmes of work.

See accompanying 'Assumptions ' document 9appendix 4a)for full list of assumptions used to develop the transformation benefits.

Benefit Area	UA 1 - North Kesteven, South Kesteven, South Holland (Baseline)	UA 2 - Boston, East Lindsey, West Lindsey and Lincoln (Baseline)	UA 3 - North Lincolnshire UA (unchanged) (Baseline)	UA 4 - North East Lincolnshire UA (unchanged) (Baseline)	UA1 & UA2 Savings Assumption	UA3 & UA4 Savings Assumption	UA 1 - North Kesteven, South Kesteven, South Holland (Benefit)	UA 2 - Boston, East Lindsey, West Lindsey and Lincoln (Benefit)	UA 3 - North Lincolnshire UA (unchanged) (Benefit)	UA 4 - North East Lincolnshire UA (unchanged) (Benefit)
Front Office FTE	13.71M	16.01M	10.54M	7.24M	2.00%	0.00%	0.27M	0.32M	0.00M	0.00M
Service Delivery FTE	24.41M	28.52M	18.78M	12.90M	1.00%	0.00%	0.24M	0.29M	0.00M	0.00M
Internal and Enabling Services FTE	23.00M	26.87M	17.69M	12.16M	2.00%	0.00%	0.46M	0.54M	0.00M	0.00M
Strategic Services FTE	8.09M	9.45M	6.22M	4.28M	2.00%	0.00%	0.16M	0.19M	0.00M	0.00M
Addressable Third Party Expenditure	340.54M	492.60M	181.56M	208.83M	2.00%	0.00%	6.81M	9.85M	0.00M	0.00M
Sales, Fees and Charges	25.74M	42.72M	32.32M	40.06M	1.00%	0.00%	0.26M	0.43M	0.00M	0.00M
Benefit as a % of Net Cost Operating Expenditure for UA1 and UA2					2.24%		**8.21M**	**11.61M**	**0.00M**	**0.00M**
										19.82M

Benefit Area	Rationale on long-term transformation benefit areas and key inputs used for the baseline
Post Aggregation Staffing	**Long-term staffing benefits will result from continued service transformation, process automation, and organisational redesign that enables a leaner workforce beyond initial aggregation savings.** These reflect a shift from one-off structural integrations to long-term workforce optimisation through digital, standard processes and new operating models. • **Baseline data is from Module 8: Workforce Salary Alignment.** Year 1 new salary structures multiplied by the proportion of in-scope staffing within each discipline area as identified in the Staffing & Pay Module. • **Proportion of roles deemed 'out of scope' for calculating aggregation benefits are also deemed out of scope for calculating transformation benefits.** This equates to approximately 42% of all roles. Saving assumptions have been applied to the remaining approximate 58% of roles and the estimated FTE within each area.
Post Aggregation Addressable Third Party Expenditure	**Long-term TPS benefits will arise from embedding strategic procurement practices, data-driven spend management, and redesigned service delivery models that reduce external costs beyond initial aggregation savings.** These reflect a shift from short-term contract consolidation to a mature, category-led approach that delivers long-term commercial leverage. • **Baseline data is from Module 7: Third Party Expenditure.** Running Expenses from RO Data. • **Spending deemed 'out of scope for calculating aggregation benefits also deemed out of scope for calculating transformation benefits.** This includes fire. • **Forecasted TPS figures from Districts and the County MTFS have been used to project future growth.** Year-on-year growth of 2.5% has been applied to baseline figures to project the expected TPS through to vesting day. This is the average growth projection outlined within MTFS.
Sales, Fees and Charges	**After reorganisation, the new UAs will be able to review and harmonise the inherited fee structure from former districts.** Districts typically have inconsistent pricing policies for similar discretionary services (e.g. garden waste, licensing, planning). Aligning to a single charging framework creates an opportunity to raise underpriced areas to market rates. • **Baseline data has not been required within modules.** It is drawn from MTFS, Budget Setting Report or Statement of Accounts. • **Figures project expected income in Year 1.** Year-on-year growth of between 0.4% to 5.0% has been applied to the baseline figures to project the expected fees and charges through to vesting day. • **AIL LCC and RCC fees and charges have been removed.** This is because upper tier authorities have low to moderate discretion to increase their fees and often constrained by statutory frameworks and national policy.

Transformation benefits phasing

	Y1	Y2	Y3	Y4	Y5
Transformation benefits profile	0%	20%	50%	100%	100%

The estimated transformation costs are set out on this page.

These are the costs associated with the additional benefits which the new authority(ies) could achieve post-vesting day.

The scope of transformation savings and therefore costs would need to be refined by the new authorities including identifying individual opportunities and establishing programmes of work.

See accompanying 'Assumptions ' document (appendix 4a) for full list of assumptions used to develop the transformation costs.

Transformation Costs

Transformation Benefit	UA 1 - North Kesteven, South Kesteven, South Holland (Benefit)	UA 2 - Boston, East Lindsey, West Lindsey and Lincoln (Benefit)	UA 3 - North Lincolnshire UA (unchanged) (Benefit)	UA 4 - North East Lincolnshire UA (unchanged) (Benefit)
	8.21M	11.61M	0.00M	0.00M
				19.82M

Transformation Cost	UA 1 - North Kesteven, South Kesteven, South Holland (Benefit)	UA 2 - Boston, East Lindsey, West Lindsey and Lincoln (Benefit)	UA 3 - North Lincolnshire UA (unchanged) (Benefit)	UA 4 - North East Lincolnshire UA (unchanged) (Benefit)
	2.71M	3.83M	0.00M	0.00M
				6.54M

Cost as a % of Net Cost Operating Expenditure for UA1 and UA2	0.74%

Cost area	Notes on transformation costs
Transformation Cost	• **Case studies of transformational change delivery across local authorities suggest that typical RoI ratios for transformation can be between 1:2 to 1:10.** It is assumed that transformation investment returns a modest 1:3 return per £1 invested. • **Transformation costs are calculated as one third of the total transformation benefits estimated**. These one-off costs will cover activities such as service redesign, change management, systems integration, programme delivery resources, and enabling technologies.

Transformation cost phasing					
	Y1	Y2	Y3	Y4	Y5
Transformation costs profile	10%	25%	35%	20%	10%

Transformation costs over a 5 year period					
	Y1	Y2	Y3	Y4	Y5
Total One-Off Transformation Costs (£M)	-0.65M	-1.64M	-2.29M	-1.31M	-0.65M

The estimated full costs and benefits over a five-year period are set out on this page.

Key figures include:

- **Net in year benefit/cost:** This is the financial impact (either a benefit or a cost) realised in a specific year of the financial case.
- **Cumulative benefit/cost:** This is the running total of all benefits and costs from the start of the financial case up to that year.
- **Net benefit period:** Length of time it takes for the cumulative benefits of the financial case to equal (or exceed) its initial costs.

This takes into account:

- Aggregation benefits and transition costs.
- One-off transformation benefits and costs.
- Recurring financial disbenefit costs.

Summary

Combined position for the two new unitary authorities						
	Y1	Y2	Y3	Y4	Y5	Total 5 year Benefit / (Costs)
Total Aggregation Benefits (£M)	10.83M	14.44M	16.25M	18.05M	18.05M	**77.62M**
Total Financial Disbenefit Costs (£M)	-12.94M	-12.94M	-12.94M	-12.94M	-12.94M	**-64.70M**
Total One-Off Transition Costs (£M)	-22.52M	0.00M	0.00M	0.00M	0.00M	**-22.52M**
Total Transformation Benefits (£M)	0.00M	3.96M	9.91M	19.82M	19.82M	**53.51M**
Total One-Off Transformation Costs (£M)	-0.65M	-1.64M	-2.29M	-1.31M	-0.65M	**-6.54M**
In-year Net Benefit / (Costs) (£M)	**-25.28M**	**3.83M**	**10.93M**	**23.62M**	**24.28M**	**37.38M**

Net in year benefit/(cost) after 5 Years (Yearly Result) (£M)	Cumulative benefit/(cost) after 5 Years (Total Running Balance) (£M)	Net benefit period (Years)
24.28M	**37.38M**	**5.0 Years**

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