APPENDIX 4a

Local Government Reorganisation Financial Analysis
North Kesteven & South Kesteven Proposal

Assumptions | Financial Analysis of LGR Options

October 2025

This document outlines the assumptions underpinning the detailed financial analysis prepared for North Kesteven District Council (NKDC) & South Kesteven District Council (SKDC) as part of their Local Government Reorganisation (LGR) Business Case.

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Module 1: Income | Key assumptions

Key assumptions used in developing Module 1. These were agreed in the working session held on 18 September 2025 and follow-up email exchanges.

1. **Fair Funding Review timing:** The module does not include an estimate of the outcome of national funding reforms. A significant number of elements could impact the Year 1 position, including the Fair Funding Review, settlement from government, inflation, political change nationally and locally. The outcomes of the Fair Funding 2.0 Review is expected in Autumn 2025.
2. **Medium Term Financial Strategy (MTFS) figures used to project future income**. This was agreed with NSK on 18 September 2025. This is because:
    a. MTFS projects financial sustainability over multiple years and provides most up-to-date and comprehensive view of projected financial positions
    b. They already incorporate anticipated inflation, estimated funding reforms demand pressures and local priorities
    c. Using them for Year 1 builds on a future-oriented baseline, rather than relying on historic spend patterns
    d. HRA is not reflected within the projected income as the General Fund Budget Summary figures have been used. Baseline figures were signed off by NKSD and SKDC during course of module development.
3. **MTFS figures are also used to develop the Year 1 Budget.** By drawing on the MTFS, funding projections are rooted in each authorities' own financial planning assumptions, ensuring that the year 1 budget is consistent, evidence-based, and aligned with each authority's existing strategies.
4. **MTFS 2028/29 figures have been used where available.** This is available for Lincolnshire County Council (LCC), Boston Borough Council (BBC), East Lindsey District Council (ELDC), City of Lincoln Council (CoLC), South Holland District Council (SHDC) and West Lindsey District Council (WLDC). This is not available for North Lincolnshire Council (NLC), North East Lincolnshire Council (NELC), North Kesteven District Council (NKDC) and South Kesteven District Council (SKDC), as MTFS figures are only projected through to 2027/28. No additional uplift has been applied to the 2027/28 figures as this is not known.
5. **Disaggregation of Lincolnshire County Council Income.** The process below was agreed with NSK on 18 September 2025:
    a. LCC Summary Revenue Budget (Funding) as documented in MTFS used as starting point.
    b. Separate LCC income into two buckets - grants (including business rates) and council tax.
    c. Apportion grants in accordance with the Pixel model (based on service need and funding allocations).
    d. Apportion the County's Council Tax and Business tax in accordance with the Pixel model percentages
    e. Add the apportioned County income to each District's income as outlined in the MTFS to give the total starting position for each proposed Unitary.
6. **Fire Authority:** assumes a new standalone Fire Authority will be created and a portion of the LCC Business Rates and Council Tax is disaggregated to that based on population.
7. **Relation to Council Tax (Module 3):** Sits alongside the Year 1 Budget. The module outputs are directional and seek to illustrate the range of options that Members of the new Unitary Authorities will have to consider for Council Tax.

Module 2: Expenditure | Key assumptions

Key assumptions used in developing Module 2. These were agreed in the working session held on 18 September 2025 and follow-up email exchanges.

1. **MTFS figures from Districts and the County used to project future expenditure.** This was agreed with NSK on 18 September 2025. This is because:
    a. MTFS projects financial sustainability over multiple years and provides most up-to-date and comprehensive view of projected financial positions
    b. They already incorporate anticipated inflation and local priorities
    c. Using them for Year 1 builds on a future-oriented baseline, rather than relying on historic spend patterns
    d. HRA is not reflected within the projected expenditure as the as the General Fund Budget Summary figures have been used. Baseline figures were signed off by NKSD and SKDC during course of module development.
2. **MTFS figures are also used to develop the Year 1 Budget.** By drawing on the MTFS, net operating expenditure projections are rooted in the council's own financial planning assumptions, ensuring that the year 1 budget is consistent, evidence-based, and aligned with each authority's existing strategies. The module does not forecast changes in statutory requirements or new cost pressures beyond those already included in councils' MTFS projections.
3. **MTFS 2028/29 figures have been used where available.** This is available for LCC, BBC, ELDC, CoLC, SHDC and WLDC. This is not available for NLC, NELC, NKDC and SKDC, as MTFS figures are only projected through to 2027/28. No additional uplift has been applied to the 2027/28 figures as this is not known.
4. **Disaggregation of Lincolnshire County Council expenditure has used a mixture of population forecasts, demand projections and relevant unit breakdowns.** The process allows for a more realistic, demand-driven disaggregation of the LCC's high-expenditure areas and was agreed with NSK on 18 September 2025:
    a. LCC Summary Revenue Budget (Expenditure) as documented in MTFS used as starting point.
    b. Revenue Budget 2024/25 and 2025/26 used to estimate Budget Area proportions for 2028/29
    c. Split Adults and Children's Revenue Budgets using Newton modelled demand projections for each District
    d. Split Highways Budget by KM of Carriageway
    e. Split all other County services by population share, based on Newton forecasts
    f. Add the apportioned County figures to the District expenditure from MTFS
    g. Calculate the estimated Day 1 net operating expenditure for each UA

Module 3: Council Tax | Key assumptions

Key assumptions used in developing Module 3. These were agreed in the working session held on 3 October 2025 and follow-up email exchanges.

1. **Three options have been developed with several variances:**
   a. **Scenario 1:** This demonstrates the impact of harmonisation over the shortest timeframe, whilst meeting (current) referendum principles, and highlights the challenges faced due to existing district areas having widely varying rates of council tax. This leads to some areas experiencing reductions in rate while other see significant increases.
   b. **Scenario 2a & 2b:** These seek to maximise the increase in council tax rate within referendum limits, and to avoid any district area experiencing a reduction in rate as a result of harmonisation. This is achieved by holding the highest current rate constant (or applying a small increase in 2b), but require an additional year to harmonise without exceeding limits.
   c. **Scenario 3:** This scenario seeks a consistent rate increase within referendum limits over time across each area. However, to achieve this will require a longer harmonisation period.
2. **Relation to Year 1 Budget and Income and Expenditure modules:** The Council Tax Module sits alongside the Year 1 Budget.
3. **Three sources have been used to develop the Module:**
   a. **2025 Tax Base for LCC & Districts:** This is the number of Band D equivalent taxable dwellings, after allowances to account for council tax relief. It is the figure reported by councils on form CTB1 annually. While it is appreciated that councils may agree other figures to account for new development using CTR1) this figure has been used for comparability of cases. Sourced from https://www.gov.uk/government/statistical-data-sets/live-tables-on-council-tax
   b. **2025 Tax Base for Unitary Councils:** Sourced from Council Taxbase in England, Nov 2025 (MHCLG)
   c. **Tax Rate - Band D Council Tax Figures: The model does not take into account the relative impact of parish council and other precepts which may fall in any specific area, as these are outside the rate-setting remit of the upper-tier authority.** However, it is important to note that such precepts could considerably increase the rate payable in some areas.
4. **It is potentially the case that LGR may result in some currently unparished areas choosing to seek town or parish status to provide local governance.** This may introduce new precepts which are not currently part of the tax rate in these areas.
5. **The model uses the Band D equivalent tax base after application of a reduction to reflect council tax relief.** The harmonisation of council tax relief schemes will have a differential impact on the taxbase in each predecessor area of the new authority which is outside the scope of the model, and is reliant on a decision by the future council.
6. **Decisions about harmonising currently varying levels of service are critical to the decision around council tax harmonisation.** Setting the new budget based on service levels is a prerequisite for determining the council tax requirement. The interdependence of services and tax rates is thus a key consideration for officers and members.

Module 4: Assets | Key assumptions

Key assumptions used in developing Module 4 (Assets). These were agreed in the working session held on 3 October 2025 and follow-up email exchanges.

1. **Property Registers.** These were not consistently provided by each authority, and therefore the value within the Statement of Account Balance Sheet has been used. This approach was further supported by the need to:
    a. **Remove 'Council Dwellings' and 'Further HRA non-dwelling Assets'**. Whilst Asset Registers are more detailed operationally, they do not distinguish between HRA and GF assets. By looking at Property, Plant and Equipment (PPE) Balance Sheet (within Statement of Accounts), it was possible to remove Council Dwellings.
    b. **Have consistent asset value information.** By looking at PPE Balance Sheets (within Statement of Accounts), was able to take a consistent approach to identifying the value of assets.
2. **Balance Sheet (Statement of Accounts).** Used to identify the total asset value for each authority under the service area Plant, Property and Equipment, and includes: Other Land and Buildings, Community Assets, Property, Plant and Equipment (Under Construction), Surplus Assets. Also included are Infrastructure Assets and Investment Assets.
3. **Assets reflect General Fund (GF) assets only as specifically requested by NSK.** Councils that have HRAs include: CoLC, NKDC, SHDC, SKDC. Council Dwellings and 'further HRA non-dwelling values' have been removed for these four district councils. NKDC and SKDC figures were provided directly by NSK during development of the Assets module.
4. **Disaggregation of LCC Assets.** Took the LCC PPE Balance Sheet (Land and Buildings) with asset locations and associated value (provided through LCC Work). Identified asset location, value, and proportion of value within each district. Proportion then applied to the Total Statement of Account Balance Sheet for LCC.
5. **Value of Assets in Year 1.** Capital programme investment as set out in the MTFS is used to give an indication of how much investment is planned, and used as a proxy indicator of future asset value growth. Note: Not all investment will increase the value of assets on the Balance Sheet (some may be repairs, replacements, etc). To reflect this, a scaling factor has been applied. This adjusts the investment figures so they better represent the portion that will actually increase the reported asset base.
6. **Planned Capital Receipts.** The module captured the capital receipts that each Council is projecting in the period up to the assumed vesting day (1 April 2028). This was subtracted from the projected Value of Assets in Year 1.
7. **Additional Capital Receipts.** The module assumes that a third of Surplus Assets can be rationalised ahead of Vesting Day. This was informed by asset portfolio view across Lincolnshire footprint and Rutland. This was subtracted from the projected Value of Assets in Year 1.
8. **Year 1 Balance Sheet**. Has been developed using the approach outlined in the steps above.
9. **Backlog Maintenance.** The assets module does not incorporate backlog maintenance for PPE as the module is focussed on estimating what the total asset portfolio would look like for each new potential authority. It is recognised, however, that the scale and condition of the existing asset base will be a critical factor in the early years of the new authority. As such, backlog maintenance and wider asset condition assessments will be key areas of focus for shadow authorities. These should inform future decisions around asset rationalisation, investment prioritisation, and the development of a sustainable asset management strategy moving forward.

Module 5: Liabilities | Key assumptions

Key assumptions used in Module 5 (Liabilities). These were agreed in the working session held on 8 October 2025 and follow-up email exchanges.

1. **The quantum of liabilities for each District and Lincolnshire and Rutland County Council has been derived from the balance sheet within the Statement of Accounts.** This means that the liabilities are validated and reliable for projection purposes and comparable to assets information.
2. **The Year 1 Balance Sheet has been developed using the long-term and current liabilities.** This includes: long-term and current liabilities (borrowing only), and excludes: Creditors (Short-Term, Long-Term), Provisions (Long-Term, Short-Term), Deferred Liabilities (i.e. Leases, Pensions). This aligns with the approach taken by the County.
3. **Liabilities reflect General Fund (GF) liabilities only as specifically requested by NSK.** Councils that have HRA's include: CoLC, NKDC, SHDC, SKDC. This breakdown is not provided publicly within Statements of Accounts. CoLC and SHDC provided this breakdown via NKDC.
4. **Capital Financing Requirement (CFR) used as a proxy for forward looking looking liabilities.** CFR as listed within MTFS and Treasury/Capital Management Strategies used as proxy for liabilities to vesting day. The year-on-year increase in CRF between 2024/25 to 2027/28 has been used to average an annual growth rate and applied to the long-term and current-liabilities values for 2024/25 and projected forward to vesting day.
5. **Apportionment of LCC borrowing liabilities.** Allocated following the same distribution profile as assets (i.e. follow the geography). In reality, the apportionment of debt will be worked through in detail as part of the implementation of any new authority.
6. **Apportionment of LCC Dedicated School Grants (DSG) deficits**. Based on the number of U18s within each District (as a proxy for DSG). Alternative approach is to estimate a split of the DSG Deficit across the unitary options based on the number of EHCPs in each District (as a recognised proxy for the drivers of cost in the DSG). However, Information provided at a Constituency level, not District Level, and could not be used.
7. **Current DSC deficits used as proxy esteemed future DSG deficit.** Authorities will also inherit DSG deficits which are currently excluded from local authority accounts due to statutory override. However, this is expected to change prior to vesting day and thus DSG deficits must be accounted for within the proposed future financial model.

Module 6: Members and elections | Key assumptions

Key assumptions used in Module 6 (Members). These were agreed in the working session held on 6 October 2025 and follow-up email exchanges.

1. **Scope.** Only Basic and Special Responsibility Allowances are included. Other forms of members' remuneration, such as mileage claims, subsistence, ICT allowances, and other incidental expenses, have been excluded at this stage due to the high degree of variability across councils and the absence of consistent, comparable data. As such, while they are not captured in this financial case, these costs should not be overlooked. The shadow authority will need to review and budget for these allowances and reimbursements.
2. **Future Allowances.** General Members' Allowance in the new unitaries calculated by taking the average rates of LCC, RCC, NEL and NL in Option 1, and the average rates of LCC, NEL and NL in Option 2 and 3. They are not treated for inflation and are presented in current terms. It is likely that the Allowances will have increased by Year 1 of the new Unitary structure. Note: The shadow authority(ies) of the new Council(s) may review allowances, SRAs, administrative support etc which could increase costs in the future but this cannot be assumed at this point in time.
3. **Councilor Numbers for the purposes of financial modelling.** Provided by NSK
    a. **Option 1:** NK+SK+SH+ RUT = 75, BOS+CoL+EL+WL = 72
    b. **Option 2:** NK+SK+SH = 68, BOS+CoL+EL+WL = 72
    c. **Option 3:** NK+SK+SH+BOS = 80, CoL+EL+WL = 60
4. **Total councillor numbers in the new Unitary Authorities will be decided by the shadow leadership for the new authorities**. This analysis does not intend to presume or pre-empt these decisions and is used only to inform the financial analysis for LGR. It is the decision of the future LAs to determine what the final number will be.

Key assumptions used in Module 6 (Elections). These were agreed in the working session held on 6 October 2025 and follow-up email exchanges.

1. **Election cost per Elector.** Preference by NSK not to use an estimated Average Cost per Elector of £3.09 per vote which is derived from the 2019 General Election.[1] This has been uplifted to better reflect localised average costs, using costs of conducting elections in the Revenue Outturn (RO6 Central, Protective and Other Services Data: Registering Electors and Conducting Elections data) between 21/22-24/25. This equates to at £9.0 per vote (incl. Rutland) and £9.2 per vote (excl. Rutland).
2. **Maximum savings modelled on 'LGBCE Electorate Data' rather than 'ONS 18+ population data' as a proxy for Max Electors.** Figures were provided by Duncan James (Strategic Lead, LGR). Election savings modelled on the 'max' scenario which assumes that all eligible voters (as per the LGBCE Electorate Data) do vote.
3. **Savings modelled on an annual basis.** All councils vote on a 4 year cycle, except for CoLC and NELC where elections are conducted in thirds, meaning that they conduct three elections every four years in order to elect for all Councillor seats. In order to get a holistic view of the cost of elections for these councils, the model takes the total sum figure votes cast across four-year election cycle, or between 21/22 to 24/25.
4. **No saving to be made in NLC, NELC, RCC, as people already vote once.** Merging these into an Unitary Authority will not cut a second set of local elections - as there is not one to cut. Hence, savings are the same across all three options. This is the same as the LCC output. District residents vote in both county and district/borough elections. Moving to a single "upper-tier" (unitary) would remove the separate district elections, so this is where the election-cost saving sits
5. **Future UAs will operate on whole election cycles.** 1 election every 4 years.

1. Ministry of Housing, Communities & Local Government. *Costs of the 2019 UK Parliamentary General Election*. March 2025. Available here.

Module 7: Third Party Spend | Key assumptions (1/2)

Key assumptions used in Module 7 (Third Party Spend). These were agreed in the working session held on 1 October 2025 and follow-up email exchanges.

1. **Revenue Outturn 2023/2024 Running Costs were used to approximate total Third Party Spend for all Councils.** These are reported net of VAT.
2. **RO Data has been used over contract registers because:**
   a. **Clear distinction between General Fund and HRA Expenditure.** Contract registers do not easily separate spending between the GF and the HRA. This makes it difficult to isolate expenditure that relates only to services funded through the GF. Revenue Outturn (RO) data already aligns with the statutory financial reporting framework and enables the exclusion of HRA expenditure at source, ensuring the analysis reflects only the relevant areas of council spending.
   b. **Consistency and reliability of categorisation.** Contract registers rely on how individual contracts are manually recorded or described, which can lead to inconsistent or incorrect categorisation (e.g. a highways contract being recorded under Transport). RO data avoids this issue by drawing directly from the council's official accounts. Expenditure is categorised according to standard CIPFA codes, providing a consistent and comparable basis for analysis across service areas.
   c. **RO data is prepared and published annually across all local authorities, following a standard methodology.** This makes it easier to benchmark spending patterns across councils and to verify findings against audited figures. Contract registers are less standardised and may be incomplete or maintained differently by each authority, reducing their usefulness for reliable cross-council analysis.
3. **It is assumed that 75% of Third Party Spend is addressable.** This addressability factor was applied to all service areas.
4. **Allocation of Lincolnshire County Council Third Party Spend** is split in the same way as expenditure, using Newton Analysis demand forecasts for Adult Social Care, Children's Social Care and Education Spend, road length for Highways and Transport spend and population forecasts for the remaining service areas.
5. **Aggregation benefit assumptions have been applied to the Running Expenses.** Aggregation percentages of between 1.3% to 1.6% have been applied to the addressable spend amount for all spend categories. These were updated in response to NSK feedback provided at initial working session on 10 September that there should be greater variability and further evidence base for the saving assumptions used, in order to better reflect the nuances of each option. These were updated and reviewed with NSK at a follow-up working session on 10 October and are baselined against the 1.5% industry benchmark for TPS savings. Rationale for saving assumptions are:
   a. **Option 1, UA1: 1.6%**
      i. Procurement scale increases with the addition of Rutland CC, giving UA1 a broader supplier base and contract portfolio.
      ii. Creates aggregation potential across multiple large spend categories (Highways, Waste, IT), with the addition of Rutland CC contributing to further harmonisation and consistency in contract management and tendering frameworks, particularly in strategic categories (i.e. social care commissioning).
   b. **Option 1, UA2: 1.4%**
      i. Combination of four District authorities which will give some contract leverage across shared-service categories.
      ii. Savings potentials are strong but not as maximised as UA1, which consolidates Rutland CC and a share of Lincolnshire CC.
   c. **Option 1, UA3 and UA4: 0%**
      i. Both North Lincolnshire Council or North East Lincolnshire Council remain unchanged.

Module 7: Third Party Spend | Key assumptions (2/2)

Key assumptions used in Module 7 (Third Party Spend). These were agreed in the working session held on 1 October 2025 and follow-up email exchanges.

5. **Aggregation benefit assumptions have been applied to the Running Expenses (cont'd).**
   a. **Option 2, UA1: 1.3%**
      i. The removal of Rutland reduces the overall procurement volumes and dampens the potential saving gained from harmonisation and consistency in contract management frameworks across large spend categories compared to UA1 in Option 1. UA1 still remains a medium-size grouping but lasts the added leverage from Rutlands participation. Therefore, fewer large-scale contracts (e.g. highways) can be consolidated at scale.
   b. **Option 2, UA2: 1.4%**
      i. As with UA2 in Option 1, the main benefits stem from shared-service opportunities, joint contract management and consolidation of suppliers. Further, UA2 in Option 2 has the largest population share of all proposed UA's (36.28%).
   c. **Option 2, UA3 and US4: 0%**
      i. Both North Lincolnshire Council or North East Lincolnshire Council remain unchanged.
   d. **Option 3, UA1: 1.4%**
      i. The addition of Boston enhances the size and diversity of UA1 and helps improve overall purchasing power. Further, UA1 in Option 3 has the largest combined population share of all UA's (37.87%), which only further aids supplier negotiation and framework rationalisation.
      ii. The saving assumption is slightly reduced to Option 1 UA1 which incorporates Rutland CC, and slightly offsets efficiency gains in Option 3 UA1. However, the saving assumption is on-par with that of Option 2 UA2 in, and helps sustain savings near the industry benchmark.
   e. **Option 3, UA2: 1.3%**
      i. The removal of Boston reduces the size and diversity of UA1 and shrinks the overall procurement leverage.
      ii. Opportunities for harmonisation and consistency in contract management frameworks remain but are more limited in size.
      iii. As a smaller grouping, UA2's procurement rationalisation benefits are reduced, justifying the 1.3% savings assumption.
   f. **Option 3, UA3 and US4: 0%**
      i. Both North Lincolnshire Council or North East Lincolnshire Council remain unchanged.
6. **Individual opportunities have not been costed**. An indicative target quantum has been provided. This will need to be refined during implementation.
7. **The analysis does not include spend that is not addressable:** Services such as HRA and Fire.

Module 8: Workforce salary alignment | Key assumptions (1/2)

Key assumptions used in Module 8 (Workforce salary alignment). These were agreed in the working session held on 7 October 2025 and follow-up email exchanges.

1. **No pension and on-cost impact included.** On-costs such as National Insurance, pension contributions, and other employment-related overheads have not been modelled as these vary significantly between local authorities depending on individual pension scheme participation, employer contribution rates, and local policies; however, they are typically expected to range between 25% and 35% and will be in addition to the new structure salaries (post-reorganisation savings and post-salary alignment).
2. **No T&C impact included.** This analysis does not cover wider changes to terms and conditions (e.g., changes to TUPE T&Cs, annual leave, hours of work).
3. **FTE Scope (LCC, RCC and Districts).** Only people on the council payroll provided in the establishment data were included. Data provided through the LGR process including FTE numbers against each pay grade. Total Council pay calculated by taking the midpoint of the low and high bands of each pay band.
4. **Current staffing salaries reflects General Fund (GF) staffing only as specifically requested by NSK.** Councils that have HRA's include: CoLC, NKDC, SHDC, SKDC. This breakdown was provided by all councils via NSK
5. **CoLC, NKDC, SHDC and SKDC have been able to provide updated establishment data in the course of providing further breakdown of HRA roles.** Updated establishment data has not been requested from the other Lincolnshire councils.
6. **NKDC and SKDC Pay Scales have been updated from 2024/25 to 2025/26 in the course of removing HRA roles.** This has not been reflected for other councils.
7. **North Lincolnshire Council Total Employee Costs:** No council payroll provided through LCC Financial Case. Figures taken from the Budget 2025-26 / Medium Term Financial Plan 2025-28, Expenditure on Employees. Figures are assumed to include "on costs" which are over and above salary costs. 30% has been used as a proxy**.** *NLC provided information to LCC on 02 October 2025 on Gross Employee Expenditure is the same as what had already been used in the Financial Case (£130,292,000).*
8. **North Lincolnshire Council Total FTE:** No council establishment list provided through LCC Financial Case. Figures taken from the public domain and reflect 'headcount' rather than FTE. Limitations raised with LCC. *NLC provided information to LCC on 02 October 2025. Has been used to update FTE to 2,622 FTE.*
9. **North East Lincolnshire Council Total Employee Costs.** No council payroll provided through LCC Financial Case. Figures taken from the Budget Summary 2025/26, Expenditure on Employees. *NLC provided information to LCC on 02 October 2025. Has been used to update Employee Costs, updated to £97,614,032.*
10. **North East Lincolnshire Council Salary Costs.** No council payroll provided through LCC Financial Case. Figures taken from the Budget Summary 2025/26, Expenditure on Employees. Figures are assumed to include "on costs" which are over and above salary costs. 30% has been used as a proxy. *NLC provided information to LCC on 02 October 2025. Has been used to update Employee Costs. Updated to £66,007,437.*
11. **North East Lincolnshire Council Total FTE.** No establishment data provided through LCC Financial Case. Figures taken from the Budget Summary 2025/26, Expenditure on Employees. *NLC provided information to LCC on 02 October 2025. Has not been used as it refers to 'head count' rather than FTE.*
12. **Pay inflation before vesting day excluded.** Salaries are shown in today's terms for Year 1.

Module 8: Workforce salary alignment | Key assumptions (2/2)

Key assumptions used in Module 8 (Workforce salary alignment). These were agreed 7th October 2025.

13. **Organisational profiling.** Developed during LCC Financial Case and estimates approximate # of FTE within each area once out-of-scope roles are factored in.
14. **Out of scope roles for Aggregation and Long-term Transformation Benefits (LCC).** All LCC roles provided in the Establishment Data that relate to Fire, Social Care and 'central' Education roles are deemed out of scope for calculating Aggregation and Long-term Transformation Benefits. This equates to ~35% of FTE.
15. **Out of scope roles for Aggregation and Long-term Transformation Benefits (Districts).** NSK roles categorised as Waste & Street Scene and Wellbeing Services were deemed out-of-scope for calculating Aggregation and Long-term Transformation Benefits. The same proportions were applied to the other districts for consistency. This equates approximately 4% of total FTE.
16. **Aggregation Benefits assumptions (UA1 and UA2):** Have been applied to the remaining 58% of FTE. Within this FTE, these assumptions have been applied to the estimated # of FTE in each area. Service Delivery (1% of FTE), Front Office (3% of FTE), Internal and Enabling Services (3% of FTE), Strategic Services (3% of FTE).
17. **No Benefit assumptions (UA3 and UA4):** No benefit assumptions have been applied to NLC and NELC as they remain unchanged.
18. **Calculating savings:** The financial savings calculation is based solely on the reduction in salaries associated with reduction in FTE. No on-costs (e.g. employer National Insurance, pension contributions, training, or overhead allocations) have been included in this calculation. Additional savings may be realised if on-costs are factored in. Savings are therefore calculated by taking the average Median Salary for relevant Councils and multiplied by the estimated # of FTE within each area.
    a. **Option 1 (Non-Leadership):** UA1 Median Salary: £31,848 and UA2 Median Salary: £27,175.
    b. **Option 2 (Non-Leadership):** UA1 Median Salary: £32,618and UA2 Median Salary: £27,175.
    c. **Option 3 (Non-Leadership):** UA A1 Median Salary: £31,528 and UA2 Median Salary: £27,176
19. **Top line structure for UA1 and UA2.** LCC salaries has been used to modeline future top-line costs and calculate savings. These are comparable with UA salaries and agreed in the working session on 7th October. NSK provided an indicative view of top line structure: 1 x CX, 5 x Directors, 12 x AD.
20. **Salary alignment (LCC and Districts).** Salaries have been modelled to show the cost "if no one loses". No district staff will earn on average less in the unitary than in the previous district. Given how wide both the district and county bands are, staff have been aligned to the middle of the band. In practice, this incurs additional costs to the new Unitary Authority, and it is possible that not all current District Council FTE will earn more in future. Assumed salaries align in first year.
21. **Disaggregation of LCC FTE.** In alignment with population. In Option 1 and Option 2: UA1 (47%) and UA2 (53%). In Option 3: UA1 (56%) and UA2 (44%).
22. **Salary alignment.** Salaries have been modelled to show the cost "if no one loses". No district staff will earn on average less in the unitary than in the previous district. In practice, this incurs additional costs to the new Unitary Authority, and it is possible that not all current District Council FTE will earn more in future. Assumed salaries align in first year. For NLC and NELC, calculated by estimating the average difference in salaries using several data points include Median FTE Salary and Senior Leadership Salaries.
23. **Redundancy Costs.** Calculated by multiplying the estimated number of reduced FTE (Leadership and Core Roles) x Average Median Salary Point.

Aggregation Benefits and Transition Costs | Key assumptions

Key assumptions used in developing the aggregation benefits:

1. **Benefits phasing.** As per the phasing presented at the Draft Walkthrough on 15 October.
   a. Option 1:
      i. **Y1:** 50%
      ii. **Y2:** 75%
      iii. **Y3:** 90%
      iv. **Y4:** 100%
      v. **Y5:** 100%
   b. **Option 2 and 3:**
      i. **Y1:** 60%
      ii. **Y2:** 80%
      iii. **Y3:** 90%
      iv. **Y4:** 100%
      v. **Y5:** 100%

Key assumptions used in developing the transition costs:

1. **Costs have been included in Year 1, noting that they may be incurred at points throughout the phasing period.** This will be dependent on how much work occurs before Vesting Day in Year 1. It is assumed that costs will be funded.
2. **Costs are based on the assumed complexity of change required.** They are higher in Option 1 given the additional inclusion of Rutland. They are informed by experience in realising benefits from complex transformation programmes and previous rounds of LGR elsewhere.

Disaggregation of top tier services | Key assumptions

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 that will need to be recognised within the financial case.

Key assumptions used in developing these costs.

1. The financial case recognises that the disaggregation of LCC will create an ongoing disbenefit arising from the loss of economies of scale. 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. This has been reflected as an additional cost pressure within the financial analysis.
2. 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.
3. Importantly, this represents an ongoing financial pressure (i.e. cost). That is, a recurring disbenefit that will continue beyond the transition to the new Unitarity Authorities, and is therefore treated separately and in addition to the one-off implementation costs associated with the reorganisation itself.
4. To quantify this disbenefit, an uplift factor of 2% has been applied to the top-tier expenditure lines most affected by scale efficiencies, including ASC and CSC, to reflect the reduced economies of scale that would result from operating multiple unitary authorities. An additional uplift factor of 0.5% has been applied to Net Cost Operating Expenditure for LCC (and Rutland in Option 1) to account for other costs incurred due to disaggregation not associated directly with ASC or CSC.

Transformation Benefits | Key assumptions

These are additional efficiency savings and income growth which the new authority(ies) could achieve post-vesting day through wider transformation opportunities e.g. by implementing digital technology, AI, automation, and redesigned operating models. For clarity, these potential savings are over and above reorganisation (aggregation) benefits identified above.

Key assumptions used in developing the long-term transformation benefits for Benefit Area 1 (Staffing)

1. **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.
2. **Proportion of roles deemed 'out of scope' for calculating aggregation benefits are also deemed out of scope for calculating long-term 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.
3. **Assumptions applied to UA1 and UA2**
    a. Front Office (2% of FTE)
    b. Service Delivery (1% of FTE)
    c. Internal and Enabling Services (2% of FTE)
    d. Strategic Services (2% of FTE)
4. **Assumptions applied to UA3 and UA4:** 0%

Transformation Benefits | Key assumptions

These are additional efficiency savings and income growth which the new authority(ies) could achieve post-vesting day through transformation for example, by implementing digital technology, AI, automation, and redesigned operating models. For clarity, these potential savings are over and above reorganisation (aggregation) benefits identified above.

Key assumptions used in developing the long-term transformation benefits for <u>Benefit Area 2 (Third Party Expenditure)</u>

1. **Baseline data is from Module 7: Third Party Expenditure.** Running Expenses from RO Data.
2. **Spending deemed 'out of scope for calculating aggregation benefits also deemed out of scope for calculating long-term transformation benefits.** This includes fire.
3. **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.
4. **Assumptions applied to UA1 and UA2:** 2%
5. **Assumptions applied to UA3 and UA4:** 0%

Transformation Benefits | Key assumptions

These are additional efficiency savings and income growth which the new authority(ies) could achieve post-vesting day through transformation for example, by implementing digital technology, AI, automation, and redesigned operating models. For clarity, these potential savings are over and above reorganisation (aggregation) benefits identified above.

Key assumptions used in developing the long-term transformation benefits for Benefit Area 3 (Fees and Charges)

1. **Baseline data has not been required within modules and as such is drawn from the following documents:**
   a. **BBC:** BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2024/25-2028/29
   b. **ELDC:** BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2025/26-2029/30
   c. **CoLC:** MEDIUM TERM FINANCIAL STRATEGY 2025-2030
   d. **NKDC:** Unaudited Statement of Accounts 2024/25
   e. **SHDC:** BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES – 2025/26-2029/30
   f. **SKDC:** Budget proposals for 2024/25 and indicative budgets for 2025/26 and 2026/27
   g. **WLDC:** BUDGET BOOK 2025/26 TO 2029/30
   h. **NLC:** Financial Strategy Budget 2025-26 and Medium Term Financial Plan 2025-28
   i. **NELC:** Draft Statement of Accounts 2024/25
2. **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.
3. **LCC 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. This approach was agreed with LCC.
4. **Assumptions applied to UA 1 and 2:** 1%
5. **Assumptions applied to UA 3 and 4:** 0%

Long-term Transformation Costs | Key assumptions

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

Key assumptions used in developing the long-term transformation costs:

1. **The long-term transformation costs are assumed to be one third of the benefits.** This assumption is based upon previous LGR engagements and has been agreed with LCC. 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. Long-term transformation costs are calculated as one third of the total long-term transformation benefits estimated. These one-off costs will cover activities such as service redesign, change management, systems integration, programme delivery resources, and enabling technologies.
2. **The Transformation Cost Profiling has been amended following a specific request at the Draft Walkthrough on 22 October.** The profiling better reflects the typical investment-to-benefit lag often seen in major transformation programmes. The Transformation Benefit Profiling remains as presented at the walkthrough. Note that transformation costs and benefits inherently follow different life-cycle patterns, i.e. spend first, change next, benefit later. These curves should not be identical, as it would imply that benefits arise simultaneously with spending. This has now been updated within the Financial Case. The transformation cost profiling for all options is now:
   a. Year 1: 10%
   b. Year 2: 25%
   c. Year 3: 35%
   d. Year 4: 20%
   e. Year 5: 10%

Summary | Key assumptions

Key assumptions used in develop the summary position:

1. **The term 'Payback Period' has been rephrased to 'Net Benefit Period' following the draft walkthrough on 22 October 2025.** The period of time required for the cumulative benefits and costs of LGR to equalise, resulting in a net zero balance. From this period onwards the cumulative benefits will outstrip the cumulative costs of implementation and disaggregation.

End of document