Independent Analysis of Governance Scenarios and Public Service Reform in County Areas

September 2016
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1.1 Background
Since the General Election of May 2015, local government has seen an emergence of a number of financial and policy agenda’s that have prompted a renewed debate about the sustainability of current local authority structures in England. Alongside the challenge of devolution, local authorities are facing substantial reductions in core government funding. The most up to date funding assessment available at the time of writing, states that the sector will face a funding gap of £9.5bn by 2019/20, according to analysis by the Local Government Association (LGA). The predicted funding gap shows that local government continues to face a challenging funding settlement at a time of growing pressures on services.

Following the Spending Review and Local Government Settlement, county and district councils have witnessed new pressures as a result of policy and funding changes. It has been outlined that county and district councils will witness a decline in funding over the next two years before a potential upturn in spending power for county councils over the same period.

The financial context, the passing of the Cities & Local Government Devolution Act and the willingness of Ministers to consider proposals has prompted the development of competing propositions from county and district authorities to reshape service provision locally. For several months now, there has been a growing debate on the most efficient and sustainable options for reorganising governance in two-tier areas. The scale of the challenge however moves the focus of the debate beyond a narrow focus on reorganisation. The landscape is changing. Devolution deals are increasing the scope of powers and responsibilities that councils carry, infrastructure development, increased housing, better skills and integration of public services across health and social care to name but a few. This is happening whilst reforms to the way that councils are funded are increasing the focus on business rates and hence a number of important agendas spanning the public and private sector aimed at better promoting economic growth.

In considering the best way forward, the wider context demands that councils should not only be looking to the efficiency savings that could be generated, but which may provide the most appropriate platform for change, creating sustainable, outcome focused services across local service providers.

To inform the debate on local government reorganisation and the cost reduction and service improvement challenges facing local government, this independent report has been commissioned by the County Councils Network (CCN) to provide evidence that will aid decisions about the organisation of current county council areas in England.

Grounded in an assessment of financial, non-financial and public sector reform evidence, the report presents both a high level financial analysis as well as an analysis of the different scenarios relationship to the public service reform agenda in a number of key areas.

In undertaking this assessment, EY have considered six potential two-tier and unitary governance scenarios. In doing so, we aim to provide objective evidence to CCN, its member councils, Government and Stakeholders to inform national decision making and support those areas wishing to consider reform over the coming period.

1.2 Outline of scenarios
This report takes an evidence based approach and looks at the benefits and implications of six different scenarios for the governance reform within two-tier county areas in England:

- The first three scenarios look at current county boundaries and examine the benefits and risks associated with the creation of a single unitary authority within a county area (scenario 1), the creation of two unitary authorities in each county area (scenario 2), and the creation of three unitary authorities in each of the 27 county areas (scenario 3)

- The other three scenarios have been included to respond to activity in the sector and retain two-tier governance or introduce a combined authority. These scenarios are:
  - Shared support services across at least two county boundaries (scenario 4)
  - Consolidation of the district tier of governance within each county council geography (scenario 5)
  - Creation of three unitary authorities in each of the 27 county areas, as per scenario 3, with a joint service delivery arrangement for strategic services (Adults Social Care, Children’s Social Care and Transport) and a combined authority across county council boundaries (scenario 6)

While this study has used national data across 27 county councils and 201 district councils, and specific data from a representative sample of councils to develop assumptions, the results provide an indicative level of savings for the average county. Therefore, whilst the results give a national picture that could be used to inform national decision making and guide local discussions, further detailed analysis would be required if any area were to pursue any of the scenarios to ascertain precise savings.

1 http://www.local.gov.uk/futurefunding
1.3 Financial analysis

Within this report, six different scenarios have been reviewed and the financial analysis of each has resulted in a wide savings range. Our analysis is based on a number of assumptions that quantify savings in a number of areas of spend; senior management and middle management costs, support services consolidation, democratic arrangements regarding the number of members and the frequency of elections, accommodation costs and the effectiveness of procurement at differing scales.

Solely looking at the financials, creating a single authority within each county council area in England could result in a net saving, of up to £2.9bn, over five years across all 27 two-tier county areas.

As the table below shows, there is a range of savings (and costs) that can be achieved within each scenario.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Cumulative net saving/cost (five years)</th>
<th>Annual saving (post implementation)</th>
<th>Reduction to spend (excl. Care and Education)**</th>
<th>Implementation costs</th>
<th>Payback period</th>
<th>Cumulative net saving/cost per average county (five years)</th>
<th>Annual saving (post implementation) per average county</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unitary</td>
<td>£2.37-£2.86bn</td>
<td>£621-781mn</td>
<td>6.0-7.5%</td>
<td>£277-393mn</td>
<td>Two years, two months</td>
<td>£88-£106mn</td>
<td>£23-£29mn</td>
</tr>
<tr>
<td>Two Unitsaries</td>
<td>£1.17-£1.70bn</td>
<td>£361-520mn</td>
<td>3.5-5.0%</td>
<td>£371-519mn</td>
<td>Three years, two months</td>
<td>£43-£63mn</td>
<td>£13-£19mn</td>
</tr>
<tr>
<td>Three Unitsaries (€3mn)-€526mn</td>
<td>£98-266mn</td>
<td>(€841-585mn)</td>
<td>0.9-2.6%</td>
<td>Seven years</td>
<td>(£1mn) to £19mn</td>
<td>£4-£10mn</td>
<td></td>
</tr>
<tr>
<td>Shared Support Services</td>
<td>£160-568mn</td>
<td>£63-205mn</td>
<td>0.6-2.0%</td>
<td>Four years, eleven months</td>
<td>£6-£21mn</td>
<td>£2-£8mn</td>
<td></td>
</tr>
<tr>
<td>Merged Districts</td>
<td>£531-839mn</td>
<td>£165-266mn</td>
<td>1.6-2.6%</td>
<td>Three years, eight months</td>
<td>£20-£31mn</td>
<td>£6-£10mn</td>
<td></td>
</tr>
<tr>
<td>Three Unitsaries and a CA*</td>
<td>(€36mn)-(€366mn)</td>
<td>£87-257mn</td>
<td>0.8-2.5%</td>
<td>Seven years plus</td>
<td>(£1mn)-(£14mn)</td>
<td>£3-£10mn</td>
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*Combined Authority

**Annual saving (post implementation) as a percentage of the total county spend, excluding Social Care and Education expenditure.

To illustrate the potential saving that could be achieved by a smaller or larger than average county area we have applied a multiplier to this average figure. This is illustrative and further analysis will be required to determine the most accurate savings for a specific county if they decide to follow a specific model of reorganisation.

<table>
<thead>
<tr>
<th>Net saving/cost per county by scenario</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small county 0.4mn population £465mn spend</td>
<td>£44-£53mn</td>
<td>£22-£31mn</td>
<td>(£1mn) to £10mn</td>
<td>£3-£11mn</td>
<td>£10-£16mn</td>
<td>(£1mn) to (£7mn)</td>
</tr>
<tr>
<td>Average county 0.8mn population £930mn spend</td>
<td>£88-106mn</td>
<td>£42-£63mn</td>
<td>(£1mn) to £19mn</td>
<td>£6-£21mn</td>
<td>£20-£31mn</td>
<td>(£1mn) to (£14mn)</td>
</tr>
<tr>
<td>Large county 1.2mn population £1.4bn spend</td>
<td>£132-£159mn</td>
<td>£65-£94mn</td>
<td>(£2mn) to £29mn</td>
<td>£9-£32mn</td>
<td>£30-£47mn</td>
<td>(£2mn) to (£20mn)</td>
</tr>
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</table>
1.4 Non-financial analysis

To provide a wider evidence base for each scenario, we have undertaken a non-financial high level analysis under a number of thematic areas. This is to provide a better understanding of potential delivery implications, and the practicality of, and barriers to, implementation of the different governance scenarios. The non-financial analysis has been centred on the following themes:

- Financial sustainability
- Efficiencies and economies of scale

The below table summarises the results of the non-financial analysis, grouping the findings in line with their impact on service users; the practicality of the reorganisation; implementation challenges; and financial sustainability.

<table>
<thead>
<tr>
<th>Impact on service users</th>
<th>Practicality</th>
<th>Implementation</th>
<th>Financial sustainability</th>
</tr>
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<tbody>
<tr>
<td>Scenario 1 — Single Unitary Authority</td>
<td>Service users could benefit from the efficiencies and economies of scale that are generated through streamlined services, removal of duplicated roles and service optimisation. This scenario would involve the least service disruption and service users in receipt of social care services should not witness a change in service provision or eligibility. The new larger organisations should also maximise the negotiation power of councils with private providers and the wider public sector. For some county areas there may be limited requirement for service redesign and intuitive restructuring of the democratic landscape. A single unitary structure could support the transfer of skills, capabilities, knowledge and best practice through shared working arrangements. However, community and locality governance structures would need to be implemented to reduce the impact of the reduction in political representation and the barriers to implementation this may cause. Implementation could be challenging at scale. However, the creation of a single unitary authority will avoid the issue of fragmentation of county council services (as in scenario 2, 3 and 6) and would be the least disruptive to large-scale strategic services, reducing the complexity of implementation. Implementation costs would be the lowest amongst the unitary options analysed. This scenario delivers the greatest financial savings and sustainability. It can enable the most sustainable distribution of business rates and scale provides the ability to reduce costs through collaboration, leverage assets to generate income and borrow funds to save and/or grow. This scenario also provides the greatest potential to harmonise council tax levels to the lowest level.</td>
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<tr>
<td>Scenario 2 — Two Unitary Authorities</td>
<td>This option provides some efficiencies and economies of scale, but less than scenario 1. This option requires the merger of district councils and could cause disruption by disaggregating the current county council’s functions in two. The disaggregation of county council services into two authorities could potentially lead to inconsistent service provision and increased complexity in migrating service users and renegotiating provider contracts. As two unitaries call for additional political representation it may be more straightforward to restructure the democratic landscape and provide a platform for a locality focus. However, this scenario could reduce the scope to transfer capabilities, knowledge and best practice via shared working arrangements and would be less aligned to boundaries with other public sector agencies. The overall implementation costs are higher than the single unitary option and disaggregating the existing county council structure could introduce additional complications, as well as time and cost pressures. There may be difficulties in recruiting senior roles in the new organisations however, this option has been implemented successfully in other counties. There is further complexity and challenge in the need to redraw the boundaries of the new local authorities. Savings are lower than a single unitary due to reduced efficiencies and economies of scale. However, reducing costs through collaboration could still be achieved and there could be capital receipts that could be reinvested into the reorganisation and frontline. The ability for the new organisations to generate income through business rates may be impacted with one authority being more financially viable than the other.</td>
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Scenario 3 — Three Unitary Authorities
This scenario is likely to be most disruptive of the unitary options analysed in terms of the impact to residents. As with scenario 2, service users with care needs will most likely fall under the remit of an entirely new organisation. There will be increased complexity in migrating service users and renegotiating provider contracts. Many of the non-financial benefits around work and knowledge sharing may lessen in this scenario as there will be more organisations and sharing the delivery of services may require complicated redesign. The number of councillors in this scenario is higher than scenario 1 and 2, which could offer the strongest locality focus. However, the introduction of three new organisations to residents and service users may prove difficult to communicate.

This scenario involves disaggregation costs and additional complexity. Overall costs will be higher to manage, for example, marketing, communications and branding across three new organisations rather than one or two.
The complexity and challenge of redrawing local authority boundaries increases under this scenario.

Similar to scenario 2, this scenario results in a further reduction in potential savings through the additional senior management costs, duplications across the 3 organisations and reductions in service delivery efficiencies due to reduced economies of scale.
This option will also result in fewer potential capital receipts as there is a smaller reduction in overall FTEs.
The ability for the new organisations to generate income through business rates may be impacted with one authority being more financially viable than the others.

Scenario 4 — Multi-County Shared Support Services
In terms of the impact on service users, the sharing of support services will cause fairly minimal disruption and changes to the services delivered. Practicality in terms of political change is less of an issue with this scenario due to no change expected in political representation.
Implementation costs are the lowest in this scenario and the key challenge faced would be ensuring the estimated benefits of sharing services are realistic and can be maximised. Other authorities have achieved savings in this area so learning from their experiences would be key.

This scenario provides lower potential savings than retaining two tier governance and merging districts. Therefore, this will have limited impact on the continued financial pressures that local government will face in the coming years.

Scenario 5 — Merged District Authorities
The county council and the services it delivers would remain as they are and, as such, the impact on service users would be only in relation to services delivered by the district councils. In terms of the political landscape, there would need to be some element of restructuring the democratic arrangements across districts.
In terms of implementation, this option does not incur additional disaggregation costs and overall implementation costs would be lower than a move to single-tier governance.

The merging of district councils provide greater savings than sharing services at the county level. However, these savings may not be redirected to frontline services (e.g., Social Care) where financial pressure and demand continues to increase.

Scenario 6 — Three Unitary Authorities and a Combined Authority
This scenario is an extension of scenario three, so the analysis above is applicable here. In addition:
In terms of the impact on service users, this option is likely to cause the highest levels of disruption due to the transfer of strategic services to alternative service delivery models (ASDM) and the potential introduction of a combined authority. There is also potentially less connectivity to other services if standalone strategic services exist for example the link between Adult Social Care and Housing.

It may be argued that ASDMs result in a loss of democratic control with the arms-length organisation acting independently and not always in accordance with the council’s wishes or interests.
The implementation costs for this scenario are the highest due to the costs of disaggregation, set up of alternative delivery models and a combined authority with the need to build in additional contingency to appropriately manage risk.

This scenario incurs a cost rather than any potential savings over a five year period as it has significant implementation costs involved.
This scenario provides the greatest uncertainty and risk due to the lack of previous experience and there could be complexities in relation to how the funding will work between the unitary authorities and ASDMs.
1.5 Financial sustainability and additional considerations

Our analysis has been predominantly focused on the combined revenue General Fund budgets. This has focused on the efficiency savings and transformation that could be achieved by moving to any of the above models of governance in county areas.

However, consideration will need to be given to the combined balance sheet (reserves, balances and treasury management), business rates retention, council tax harmonisation, the Housing Revenue Account, pay harmonisation and potential capital receipts from property portfolio rationalisation.

The extent to which a council can be successful in achieving a degree of financial independence and sustainability over time relies on a number of factors:

1. The ability to raise money from taxation
2. The ability to reduce costs through collaboration with other organisations
3. The ability to leverage assets to generate income
4. The capacity to borrow money to invest to save or to grow and attract investment
5. The ability to reduce costs through reform and effective preventative services

The analysis suggests that single tier governance and the creation of single unitary authorities across the 27 county areas could achieve the greatest potential in moving towards financial sustainability but there are a number of considerations which must be addressed. The analysis indicates that size and scale presents the opportunity for more equal redistribution of business rates across the whole county area and therefore delivery of efficiency gains and cost reduction as well as greater leverage in negotiating borrowing and exploring new forms of borrowing.

Single unitary authorities could maximise the financial reserves that can be pooled together and potentially managed more efficiently. This can be used to manage any variations between planned and actual budgets as reorganisation is implemented. In addition, there is greater opportunity to harmonise council tax at lower rates across county areas, reducing household council tax costs. As seen in the financial analysis, scenario 1 results in the largest reduction in FTEs which could result in a reduction in the accommodation required. Therefore, there could be substantial capital receipts which would result from a property rationalisation programme. These additional funds could be reinvested into the reorganisation and the frontline to ensure sustainability.
1.6 Reorganisation vs. redesign

Given the scale of the financial and service improvement challenge facing local government it is important that the opportunity is grasped not just to reorganise Councils but to actually redesign the organisations to optimise efficiency and service delivery. Building on the lessons learned from those authorities who did this successfully in the last round of structural reform it is clear that they exceeded their original business case targets by adopting best practices in a number of areas:

- **Senior management**
  - Looking beyond the current senior management posts assumed for a new organisation this process is an opportunity to re-evaluate the senior positions, put in place a new management structure and deliver further efficiency savings.

- **Councillors**
  - Reviewing the role of councillors and looking at opportunities to devolve powers and budgets to create a new role for members. This could assist in increasing community resilience and engagement.

- **Middle management and operational staff**
  - Conducting a fundamental review of middle management and operational staff across the councils. This should incorporate a review of spans of control and the management layers required to deliver services in the most effective and efficient way.

- **Re-commission and renegotiate**
  - Completing a review of services and contracts to identify opportunities to redesign, re-commission or renegotiate contracts to ensure that the highest provision of services are delivered at the best value for money.

- **Property and assets**
  - Reviewing and rationalising the use of property and office space and identify the potential for implementing new ways of working.

- **Rationalise delivery partners**
  - Taking the opportunity to focus and reduce the volume of delivery partners, and stripping away many barriers that could obstruct the delivery of clear community outcomes. Create the conditions for greater levels of innovation and creativity in service delivery.

- **Channel shift and digital**
  - Reviewing how services are delivered and identifying potential areas for channel shift. Technology continues to develop and there could be opportunities for authorities to benefit from technological advancements and become more ‘digital’ in the delivery of services.
1.7 Public service reform analysis

If two-tier county areas choose to follow the structure of the most financially effective scenario outlined above, and reorganise themselves into single tier unitary authorities they could achieve up to a total savings of £2.9bn. Whilst considerable, these savings would only partially narrow the gap between cost pressures and available funds over the next decade and so more will need to be done. The challenge therefore is not to simply evaluate each scenario in terms of its ability to generate savings, but rather to identify the scenarios that relate best to the public service reform agenda, and hence create the most appropriate platform for sustainability, transformation and continuous improvement into the future.

The public service reform agenda makes demands of the sector to develop arrangements that will drive these reforms forward, to date progress is slow but can be given fresh impetus by the ability of Councils to grasp a number of issues. These are as follows:

- **Scale**: the relative size of the organisations has an impact on public services and there are advantages and disadvantages to scale depending on the service area being examined
- **Service optimisation and integration**: the potential of the scenario to streamline service provision across tiers of government and integrate services across local providers. Integration takes on different degrees of importance depending on the area of public service reform analysed
- **Governance**: the relative complexity or simplicity of governance arrangements has an impact on cost and service delivery arrangements. There is sometimes a tension between swift and decisive governance and local accountability and involvement
- **Coterminous boundaries**: the extent to which boundaries with other key partners are aligned. The public service map in different sectors (police, local government, health and Local Enterprise Partnerships) has varying degrees of alignment and misalignment with each other, this may matter a great deal in some services and not at all in others

- **Community engagement**: the extent to which the relationship between councils and residents’ fosters community activity so that residents are active in working together to boost capacity is a major factor in the delivery of better outcomes in some service areas
- **Change capacity**: the scenarios have a differential impact on the capacity for change that exists within the organisations. This also relates to the ability to obtain the necessary support to help with change

This report provides an overview of the policy drivers and national context across a range of areas. Building on the above criteria and characteristics, we provide a high level assessment of the Governance scenarios and the relative advantages and disadvantages of each in delivering a platform for change. Given the areas of relative strength and weakness we consider each service area for which local government has a leading or supporting role and consider which scenarios provide the best platform for change across:

- Devolution
- Economic growth
- Housing and planning
- Children’s Social Care
- Health and social care integration
- Crime and community safety
- Waste
- Localism and locality governance

In considering each scenario’s relationship to the public sector reform agenda, a pattern emerges.

Scenario 1 (single unitary) is very strong in its relationship to parts of the agenda that require scale, service integration, coterminous boundaries and uncomplicated governance arrangements. Wherever progress demands joint plans with partners, data
sharing and action at scale to pursue pro-active measures to inspire growth or manage demand we have found that scenarios 1 and 6 (3 unitaries and a combined authority) are the most favourable to these agendas.

Scenarios 2 (two unitaries) and 3 (three unitaries) often appear together throughout the analysis. In many areas of public service reform they may represent an improvement. For police, health and other partners looking for the key players in a given geography, if this amounts to a reduction in the number of organisations as a whole then this will be welcome and useful. However our analysis shows these scenarios are sub-optimal to the advantages of Scenario 1.

Scenario 4 (Shared services across counties) and 5 (merged districts) often appear together also, with the focus on shared services across county boundaries, and the merger of districts, represent the least disruptive of the options, however they feature very little in the public service reform analysis. Neither address the needs of this agenda as they contribute very little to the areas of joint governance, service integration and scale that many of the areas of reform potentially require.

Scenario 6 (3 unitaries and a combined authority) represents perhaps the most radical of the options being considered, and in relation to the public service reform agenda has potentially much to offer. Indeed many of the areas covered by devolution deals are amenable to a combined authority approach, with the capacity to transcend county boundaries, as well as the potential for innovation in alternative service delivery models. A common theme in the analysis however is the untried and unproven nature of the proposed arrangements, the relatively poor financial return as a result of the need for additional resourcing for the combined authority or ASDM to provide the necessary change capacity and scale, and the danger to public accountability. There are common elements therefore between scenario 6 and scenario 1, and the effort that has to be put in to strengthen community engagement and accountability in county unitaries is perhaps worthy of attention within Combined Authorities and ASDM’s.

1.8 Summary
We have taken an evidenced based approach to inform the debate that is of importance to the future of public services. This discussion is hastened by growing demand for local government services, funding reductions, devolution and structural reform debates, and by future funding arrangements that create uncertainty.

We have analysed a number of options from a financial and public service reform point of view. We have identified from the last round of reorganisation the actions that successful councils took to exceed savings targets, for example, by redesigning structures and services rather than just reorganising them.

The upper range of savings that could be achieved only go some way in addressing the financial and service delivery pressures facing county and district authorities, as well as other parts of the public sector. Therefore, it is important that the sector and wider stakeholders now consider the findings of this study and its implications for governance, devolution, service efficiencies and sustainability in county areas. Partners should consider the practices that can deliver savings and which governance scenario can provide the best platform for service sustainability and improvement into the future.

We have found a correlation between the options that deliver the highest level of financial savings and sustainability and the options which most positively relate to the key drivers for public service reform.

Our findings aim to provide evidence to inform the specific debates that could now proceed in localities in light of the financial challenges and wider drivers of public service reform in county areas.
2.1 Purpose of this report

This report sets out an objective and impartial independent assessment of a number of organisational scenarios for the 27 current two-tier areas of local government. This includes a comparison of the benefits and implications for remodelling county structures to add to the debate in understanding the most effective size and geography for local government in a changing environment.

The strategic financial analysis undertaken will help to determine the most appropriate structure, in a county council context, with a focus on how it can deliver:

- Lower cost
- Lower complexity
- Greater resilience for the future

It will also provide an understanding of the potential range of savings achievable from a number of scenarios and analyse:

- Different structures for local government and their alignment with wider government policy
- The potential financial benefits of service delivery and opportunity to reform across varying sizes and scale of two-tier organisations
- Delivery implications

The basis of this report is firmly rooted in the context of a number of financial and public policy drivers which includes:

- Local Government Funding
- Landscape of the wider public sector
- Devolution across non-metropolitan areas
- The EU referendum

The above factors have prompted a renewed and more intense discussion on the impacts and future shape of local government in non-metropolitan England and therefore EY were commissioned by the County Councils Network (CCN) to undertake an impartial independent assessment of options for reforming local government structures in two-tier local authority areas. The purpose of this commission is aimed at providing a financial and non-financial evidence-base in which to ground the discussion on governance and public sector reform in non-metropolitan England.

In order to maintain the objective integrity of the analysis within this report, the quantitative analysis on the scenarios is based on publicly available information. To support the qualitative analysis we have undertaken a high level review of non-financial evidence as well as consideration to the wider public service reform agenda.

2.2 Methodology

The following outlines the approach we have taken:

2.2.1 Strategic financial analysis

We have undertaken a high-level financial analysis on the potential efficiency savings that could be delivered across the following areas, projecting forward the savings over a five year period across six different scenarios. The areas are:

- Senior management
- Members
- Support Services rationalisation
- Service delivery efficiencies
- Accommodation

2.2.2 Non-financial analysis

To provide a wider evidence base for each scenario, we have undertaken a non-financial high level analysis under a number of thematic areas. This is to provide a better understanding of potential delivery implications, and the practicality of, and barriers to, implementation of the different governance scenarios. The non-financial analysis has been centred on the following themes:

- Financial sustainability
- Efficiencies and economies of scale
- Transition and implementation
- Resident and service user impact
- Coterminal boundaries
- Governance and community engagement
- Information sharing and integration

2.2.3 Public service reform

We have considered recent policy drivers to support the understanding of alignment to wider government agendas and the benefits of service delivery and opportunity to reform across varying sizes and scale of two-tier organisations. We have placed a particular focus on scale, governance, coterminal boundaries and change capacity across:

- Devolution
- Economic growth
- Housing and planning
- Children's Social Care
- Health and social care integration
Crime and community safety
- Waste
- Localism and locality governance

2.3 Proposed scenarios

There is no fixed approach to local government reorganisation. The reorganisation that took place in the 1990s tended to break up county council areas into a number of smaller unitary authorities, with largely district-based unitary councils taking on county functions. Unitary councils created in 2009 tended to be larger in population. The 2009 cohort followed two models:

- Single unitary county councils merged all functions into a single organisation. These were Cornwall, Wiltshire, Durham, Northumberland, and Shropshire
- Two unitary councils created a geographic split within the former county boundary. These were Cheshire East and Cheshire West & Chester, and Central Bedfordshire and Bedford Borough

A unitary authority consolidates the functions of the district and county councils into a single organisation which takes on the responsibility of delivering the full remit of services within its geographical boundaries.

This report examines the potential advantages and disadvantages of a number of scenarios. The first three scenarios analysed are based upon single tier governance scenarios and unitary authorities:

- Scenario 1: Single Unitary Authority – All local authority controlled service expenditure across a county council boundary managed through a single organisation (creating 27 organisations)
- Scenario 2: Two Unitary Authorities – All local authority controlled service expenditure across a county council boundary managed through two equally sized organisations (creating 54 organisations)
- Scenario 3: Three Unitary Authorities – All local authority controlled service expenditure across a county council boundary managed through three equally sized organisations (creating 81 organisations)

To respond to activity in the sector, we have incorporated additional scenarios into the financial analysis to reflect some emerging governance activity within current two tier areas and provide a wider view of the financial analysis.

The following three scenarios reflect discussions undertaken and incorporate the retention of two tier governance or introduce a combined authority for the management of strategic county council services:

- Scenario 4: Multi-County Shared Support Services — All local authority controlled service expenditure across a county council boundary managed through two tiers of governance with shared Support Services across at least two county boundaries
- Scenario 5: Merged District Authorities – All local authority controlled service expenditure across a county council boundary managed through two tiers of governance with consolidation of the District tier of governance within each county council geography
- Scenario 6: Three Unitary Authorities and a Combined Authority — Consolidation of the district and county councils (as per scenario 3) with a joint service delivery arrangement for strategic services (Adults Social Care, Children's Social Care and Transport) and a combined authority across county council boundaries

2.4 Limitations of this report

Local government reorganisation is not a straightforward process and each option analysed presents both challenges and opportunities. This objective assessment uses a tried and tested methodology and the conclusions are grounded in our experience of forecasting and implementing these changes in public sector organisations. However individual Councils wishing to develop specific courses of action based on the conclusions of this report should do so in knowledge of the following caveats, and take steps to gather further specific and localised information before proceeding:

- The quality and accuracy of the data and information: the data and information used in this report has predominantly come from national information and datasets. We have used the most recent information available and have sought updates where possible and updated our analysis where this has been provided
- The level of stakeholder engagement: this review has incorporated stakeholder engagement to provide supporting data, challenge, insight and strategic oversight. Where agreed, feedback from these groups has been incorporated and the financial analysis refined
- Timescales: this review has been developed within a time limited period. We have sought to validate findings, data and assumptions where possible
- Evidence and case studies: where possible, we have drawn on evidence and case studies from other local authorities and our work with other councils. This has been used to provide an idea of the potential opportunities and implications
This section provides an overview of governance in non-metropolitan England and an analysis of the context and policy drivers in which this study has been undertaken, we have placed a particular focus on:

- Governance, devolution and reform in non-metropolitan England
- Local government funding
- Financial self-sufficiency
- Impact of the EU referendum

### 3.1 Governance, devolution and reform in non-metropolitan England

Non-metropolitan areas across England have a combination of specific geography, topography and population-related characteristics which mark them out as unique. The county areas across England are on average 70% rural and account for almost half of England’s population and economy. County and county unitary authorities in England account for:

- A population count of 25 million
- Contain 55% of all those aged over 65 in England
- Cover 86% of England’s landmass
- Account for 41% of England’s GVA with a £56.5bn value
- Constitute 43% of the total employment across England, as well as
- 49% of all income tax
- 41% of stamp duty and
- £8.4bn in business rates²

Across these non-metropolitan areas in England, there is a mixture of areas governed by a ‘unitary’ single tier authority and areas with two levels of local government made up of county and district councils. In two-tier county areas, the county council assumes responsibility for highways, passenger transport, waste disposal and services for vulnerable children and adults. The district councils have responsibility for local taxation and benefits along with waste collection, leisure and housing facilities.

The map to the right¹ shows the top-tier administrative subdivisions of England (shire counties, metropolitan counties, London boroughs and unitary authorities). Current two tier areas in England vary in both geography and population size, ranging from 156,495 to 803,772 hectares and 0.4mn to 1.5mn people.

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¹ 'Your County Matters': CCN
² 'Local government in England': Wikipedia
3.1.1 Creation of non-metropolitan unitary authorities

Local Government reorganisation has been a topic of conversation with regards to English local government for a number of years, with previous governments taking steps towards the creation of single tier unitary authorities. This consolidates the functions of the district and county councils into a single organisation and takes on the responsibility of delivering the full remit of services within its geographical boundaries.

The first set of single tier ‘unitary’ councils were created in the 1990s. This process was led by a Local Government Commission which carried out a staged review of county areas throughout 1992-98. During this period 46 unitary councils were created, with four whole county areas abolished entirely. The reorganisation that took place in the 1990s tended to break up council county areas into a number of smaller unitary authorities, with largely district-based unitary councils taking on county functions.

In 2006 the then Labour Government adopted a strong pro-unitary stance, but did not impose change on local areas. The reforms were to be delivered through an application based approach, with councils invited to put forward proposals. The Government published a document inviting councils in England to make proposals for future unitary structures. Unitary councils created in 2009 tended to be larger in population, with the whole county forming a single unitary council, as in Cornwall, Wiltshire, Durham, Northumberland, and Shropshire. In two counties, Bedfordshire and Cheshire, two unitary councils were created with a geographic split within the former county boundary. These were Cheshire East and Cheshire West & Chester, and Central Bedfordshire and Bedford Borough.

During the last Parliament, the Coalition Government halted the creation of further unitary authorities, maintaining that the discussion was a distraction from delivering efficient and effective services.4

Following the General Election in May 2015 and the appointment of Greg Clark MP as Secretary of State for Communities and Local Government, devolution negotiations and the wider financial climate facing two-tier areas has signalled a change in the Government position on local government reorganisation and the emergence of competing proposals from across local authorities.

3.1.2 Cities and local government devolution act

Devolution and its extension beyond City Regions to non-metropolitan areas have been accompanied by legislation that could potentially change the shape of governance in two-tier local authority areas. Prompted by a change in Government policy on local government reorganisation, many local areas are putting forward proposals to reshape service provision locally and a growing debate amongst national stakeholders on the most efficient and sustainable options for reforming governance in two-tier areas.

Government legislation and emerging devolution proposals have acted as a catalyst for discussions around structural reform in two-tier local authority areas.

There has been two predominant developments linked to the Cities & Local Government Devolution Act which have led to renewed debate and interest. One centres on streamlining and fast tracking unitary proposals, whilst the other allows greater flexibility in forming combined authorities, extending the potential remit of their powers, whilst also seeking to strengthen collaborative working between councils.

3.1.3 Combined authorities

Combined authorities are created voluntarily and allow a group of authorities to take collective decisions on strategic issues. The first combined authority to be established was the Greater Manchester Combined Authority in 2011. Further combined authorities were established in the North-East, West Yorkshire, Sheffield and Liverpool in April 2014. Between 2014 and 2016, the Government negotiated ‘devolution deals’ with several areas. Combined authorities in Tees Valley, West Midlands, Liverpool, Greater Manchester, Sheffield and the North-East will introduce a directly-elected mayor as part of their devolution deal.

Following the 2016 Budget the Government secured agreement to the first ‘non-metropolitan’ or county mayoral combined authorities in East Anglia and Greater Lincolnshire.

To date, the focus of combined authorities has primarily been on economic growth, with bodies taking on strategic decisions across an area on transport, infrastructure, skills and regeneration. The Devolution Act also expands the remit and purpose of combined authorities. The Cities and Local Government Devolution Act allows for the delegation of almost any function from central government, local government or a public sector body to a combined authority.

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4 ‘Council told to “forget” unitary proposal’, Adjacent Government. 9 Mar 2015
The resourcing for combined authorities varies, with Sheffield City Region employing no staff and the Greater Manchester Combined Authority employing 983 staff.5

Recent developments have witnessed the first combined authority devolution deals in county areas, involving a mixture of county, district and unitary authorities. Our engagement with CCN and their work with member authorities has indicated that combined authorities could be 'light touch', with resourcing for the new arrangements principally provided by constituent authorities, with no direct delivery by a combined authority and additional capacity provided through Local Enterprise Partnerships. Authorities could incorporate a mayoral function, and its associated costs, and legislation is clear that combined authorities must be led by councillors and each council that comprises the combined authority must appoint at least one representative.

3.1.4 Structural reform
The Devolution Act also allow the Secretary of State to make structural and governance changes to local government. Importantly Section 15 of the Devolution Act allows the Secretary of State to make regulations to amend the current legislative framework to ‘streamline’ the process for reorganisation. Such regulations only require one authority in the area to propose them, and can be made without the consent of all local authorities who would be affected by reorganisation.

In effect this means that one council in an area can put forward reorganisation proposals to the Secretary of State without the consent of the other councils in the area. The Secretary of State then has the ability to make regulations to streamline the process for such proposals, if they choose to do so. Regulations to amend the legislative framework would need to be made for each individual case of reorganisation. Where a new combined authority is to be created, this legislation allows the simultaneous creation of unitary authorities.7

At the time of passing the legislation, the then Secretary of State referred to the fast track reorganisation powers set out in the Devolution Act as a ‘pilot’, and as such the legislation states that after 31 March 2019 the use of section 15 powers will require the consent of both the county and district councils in two-tier areas. The Secretary of State cannot impose reorganisation, but needs a proposal from at least one local authority in an area. The Devolution Act amendment means that the Secretary of State no longer needs to invite proposals, the amendment acts as a standing invitation. This could be seen as symbolic of the change of policy approach to the previous administration. Government maintained that the process for putting proposals should be ‘bottom up’ and by ‘consensus, however, ‘no authority can reasonably refuse even to discuss the potential for reform.’

3.1.5 Sector debate and unitary proposals
The change in Government position, devolution discussions and implications of the Cities and Local Government Devolution Act has clearly given renewed debate on the subject of structural reform and impetus for local areas to put forward local proposals. Government’s desire for some form of streamlined governance and direct accountability has led to the suggestion that structural reform could be an alternative to a Directly Elected Mayor in county areas. Cornwall Council was the first non-metropolitan authority to agree a devolution deal with Government, with it widely reported that Government has suggested to local areas that structural reform could be a means of securing a devolution deal.

The financial challenges facing the sector (outlined below) have led to areas to propose structural reform, either unitary status as in Buckinghamshire and also the merging of district councils, as in East Kent, Suffolk and Somerset.

This analysis has therefore been prompted by such developments and has resulted in a range of options to analyse with the implications for devolution further explored in section 6. The table below provides an overview of developments in a number of county areas on either unitary or the merging of district authorities. This is accurate according to information in the public domain up to date at the time of writing.

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5 The Greater Manchester Combined Authority. Annual statement of accounts, year ended 31st March 2015
8 http://www.publications.parliament.uk/pa/cm201516/cmhansrd/cm151207/debtext/cm151207-0004.htm
The wider landscape of the public sector is changing. Not only are devolution deals and reforms to business rates increasing the scope of powers, funding and responsibilities for local government, there are a number of important agendas spanning the public and private sector aimed at better promoting economic growth, delivering increased housing supply and integrating public services across health and social care. This is later outlined in section 6 which is focused on the context and implications of wider public service reform.

### 3.2 Local government funding

Between 2010 and 2015, local authorities have been faced with an estimated 37% real term reduction in their core government funding. Analysis by the Local Government Association (LGA)<sup>6</sup> suggests that between 2010/11 and 2018/19, total council funding will have reduced by £7.6bn – 29% in real terms.

Taking into account the reductions to funding, and pressures on public services, the most up to date analysis of the projected funding gap facing local authorities at the time of writing by the LGA suggest that the sector could be facing a funding gap of £9.5bn by 2019/20.

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<sup>6</sup> Future funding outlook for councils 2019/20, Interim 2015 update
The predicted funding gap shows that local government continues to face a challenging funding settlement at a time of growing pressures on services.

Following the Spending Review and Local Government Settlement, county and district councils have witnessed new pressures as a result of policy and funding changes.

Despite additional freedoms to raise council tax and additional funding for social care, councils will have to find new ways to redesign and deliver services during a period of prolonged austerity. Local government will also experience changes to the way they are funded and the full impact of this is yet to be determined, particularly in county areas in relation to Business Rates Retention, Better Care Fund allocations and New Homes Bonus consultation.

3.2.1 Funding projections for county and district councils

The Autumn Spending Review set out a 56% cumulative real term reduction in government grant funding for local government. After taking Office of Business Responsibility (OBR) forecasts of income raised locally by councils into account (council tax and business rates), the overall position is a 6.7% real term reduction in local government spending. This is in addition to the reduction in funding between 2010 and 2015.

The below graphs sets out the core spending power of county councils from 2015/16 to 2019/20, followed by district councils. This shows the change in the total funding within an area, including settlement funding amounts, assumed council tax, Better Care Fund (BCF), New Homes Bonus, transitional grants and the rural services delivery grant.

Core spending power of county councils is estimated to increase to £13.7bn by 2019/20

As can be seen, county councils will witness a decline in funding over the next two years before a potential upturn in spending power due to the introduction of the social care precept and new Better Care Fund (BCF) (see below). Over the same period, district councils see a 10% decline in overall spending power.

However, a focus on core spending power alone masks the extent of the funding and service pressures facing councils, which has resulted in major reductions to services during the last Parliament and prompted councils to implement significant savings programmes between now and the end of the decade. Moreover, looking at the different components of spending power over the period, county and district authorities witness a significant shift in funding from national to local resources.

3.2.2 Revenue support grant

The Revenue Support Grant (RSG) is currently a core part of local government funding. The Local Government Finance Settlement 2016/17 confirmed that the RSG will reduce by 28% (£2.7bn) in 2016/17 and by 77% over the course of the Parliament. However, the decline in RSG is most severe in county and district authorities. The local government settlement set out a new methodology for distributing RSG, with the distribution taking into account the main resources available to councils, including council tax.

The chart below shows that RSG for county councils reduces 91% over the period and 96% for district authorities, a significantly sharper decline compared to other local authority types.

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10 LGA briefing, final Local Government Finance Settlement 2016/17
3.2.3 New homes bonus and better care fund

The local government settlement confirmed two key changes to funding streams for county and district authorities, with the Spending Review already outlining Government plans to provide greater protection to those authorities providing social care services.\(^{12}\)

The settlement confirmed the introduction of an improved Better Care Fund (BCF) from 2017-18, rising to an eventual £1.5bn by the end of the Parliament. As with RSG, provisional allocations for the BCF from 2017-18 use a new methodology which takes into consideration the amount of council tax a local authority is able to raise, including the social care precept (see below). It has been seen that 13 counties receive no BCF funding until 2018/19. Counties receive 14% of the total BCF in 2017/18, rising to 31% in 2019/20.

To fund the BCF, Government announced a reduction of £800mn in New Homes Bonus payments from 2017-18 which will be redirected towards the BCF. This change in policy is particularly significant for district authorities, who currently receive 80% of payments in two-tier areas. Our previous reports have noted the increasing share of NHB as a proportion of district council spending power over the period.

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\(^{11}\) The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years’ Consultation paper, DCLG, December 2015

\(^{12}\) The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years’ Consultation paper, DCLG, December 2015
### 3.2.4 Transitional funding

In an attempt to offset the impact of the accelerated reduction in RSG for some authorities, the Government has provided a transitional grant of £150 million, available in both 2016/17 and 2017/18, for those councils that are most adversely affected. In total, district authorities received £21.5mn in transitional grant, with county councils receiving £194.7mn over the two year period. In addition, an increase of £65mn was made to the rural services delivery grant to support rural councils and help to ease the financial pressures being faced.

### 3.2.5 Council tax

Due to changes introduced in the local government settlement, and the overall funding reductions described above, county and district authorities have seen a further shift towards local revenues as their main source of income. The Spending Review introduced two variations to the 2% threshold on council tax increases before a referendum is required:

- Local authorities with responsibility for social care have the ability to levy an additional 2% in council tax over the referendum threshold (3.99% in total). This 2% social care precept must be spent on adult social care services.
- All shire district authorities, not just those in the lower quartile of Band D council tax, may raise council tax by the maximum of £5 or 2%.

Based on the DCLG settlement figures the below graph shows the predicted change in levels of funding as a proportion of core spending power during the course of this Parliament. In 2015/16, council tax represented 62% of income for a county council and 48% for the average district council. By the end of the Parliament, this will rise to 75% for county councils and 64% for the average district.

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Independent Analysis of Governance Scenarios and Public Service Reform in County Areas  September 2016

A number of services to increase the allocation towards caring for adults, children as well as waste collection.

In March 2015, the LGA released an illustration of how changes could be made to the allocation of council tax by 2019/20 as councils try to respond to the challenges they are facing.

This highlighted the proportion of council tax allocated to caring for vulnerable adults and looking after children could increase by as much as 33% and the allocation to waste collection could increase by 31%. If this was the case, the graph below highlights that a total of 17.27pence of every pound will be taken from a number of services to increase the allocation towards caring for adults, children as well as waste collection.

Figure 8: Elements of core spending from 2015/16, DCLG Feb 2016

In 2015/16, £11.5bn of council tax was collected by the 201 district councils. The 17.27p to the pound relates to almost £2bn across all of the districts – or an average of £9.8mn meaning that each council would have to develop alternative arrangements to mitigate against this deficit and ensure that the income allocation across these services are not reduced.

Figure 9: Elements of core spending from 2019/20, DCLG Feb 2016
Context and background

Graph to show the potential change in the allocation of every £1 of council tax across services from 2013/14 to 2019/20

Figure 10: Graph to show the potential changes to the allocation of council tax from 2013/14 to 2019/20 (Source: LGA, March 2015)

Potential percentage change in the allocation of council tax from 2013/14 to 2019/20

Figure 11: Graph showing the potential percentage change in the allocation of council tax across each service from 2013/14 to 2019/20 (Source: LGA, March 2015)
3.2.6 Business rates

Prior to April 2013, local authorities gave a majority proportion of their business rate income collected to central government who then combined this together in a single, national fund before redistributing back to authorities through the formula grant. After April 2013 a new business rates retention scheme was announced, allowing authorities to benefit from a greater proportion of the total collected to invest in local services.

In October 2015, the Chancellor outlined how the local government funding system could change by 2020, with the potential for local government to retain 100% of business rates collected to fund the services they provide. This would replace a number of existing grants paid by central government, including the Revenue Support Grant (RSG).

Most recently, the 2016 Budget proposed an extension of business rate relief to small businesses and shops. This would lead to around £7bn being removed from the potential revenue to local government over the next 5 years. The Treasury has made assurances that any loss in rates would be compensated to local authorities but this will be uncertain until early 2017.

There is currently a government consultation underway around the approach to 100% business rates retention which will play an important part in ensuring the new system maximises the potential for the local community. The consultation is due to inform the Local Growth and Jobs board to be tabled in early 2017.

Under this proposed system, council services will be funded from locally retained rates with authorities able to keep a proportion of growth they experience in their business rates revenue. It is estimated that the additional revenue from business rates from locally collected rates in 2019/20 could amount to £12.5bn, with Government consulting on a range of new responsibilities to be devolved in exchange for additional revenues. It should be noted that following the Autumn Statement, the quantum of business rates could be revised in line with the wider economic outlook.

For county areas, business rates reform imposes the need for any revised structure to local authority governance arrangements to support and drive growth in the local area to increase the overall income received from business rates, support services and enable strategic investment. Moreover, as explained further on, additional challenges could occur in two-tier areas. There is evidence of an unequal relationship between high need, the level of business rates collected and a large variance in business rate income between district councils within a single county boundary, which could challenge the financial viability of some councils created under structural reform.

The implications of business rates and financial sustainability is explored further in section 6.

3.2.7 Service pressures

As previously referenced, the LGA have forecast that local government could face a funding gap of £12.4bn by 2019/20 and a need to uncover up to 29% of additional savings. The graph from the LGA below shows current spending on social care and waste in relation to the overall decreasing levels of funding available. This indicates that overall expenditure would have to reduce in line with the amount of funding available.

If councils are to protect spending in these areas this would decrease the share of the total funding available, with the clear consequence that the funds available for all other services will have to be reduced. This would result in an approximate reduction from £26.6bn in 2010/11 to £17.2bn by 2019/20. Solely looking at the breakdown of council tax income, the proportion allocated to non-waste and non-social care services will reduce from 47% to 30% by 2019/20.

![Figure 12 Social care and waste spending within the overall funding envelope (LGA September 2015)](image-url)

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15 ‘Balancing the budget’. The M.J. June 2016
16 Future funding outlook for councils 2019/20, Interim 2015 update
For county councils, the service pressures facing adult social care require specific attention. Independent research by LG Futures estimated that during the last Parliament county councils had witnessed a higher reduction in estimated funding for adult social care compared to all other authority types (-23.6% versus -21.0%)\(^\text{17}\). The same research also noted specific county pressures in growing demand for services. For instance, county and county unitary councils will see their 65+ population grow by 2% per year until 2020, faster than any other local authority type. Moreover, during the last Parliament, these councils saw the number of contacts increase by 8.5% over the five-year period 2009/10 to 2013/14, against overall reductions in contacts in other authority types\(^\text{18}\).

Elsewhere, research by LaingBuisson into social care markets suggested that funding cuts had led to unsustainable pressures facing private care providers. It concluded that whilst local authorities had exercised their strong market position as a ‘bulk’ buyer of social care placements to secure discounted rates from providers’ over time, this has led to a widening gap between local authority home fees and providers’ costs. As a result, the independent research estimated that closing the ‘care home fee gap’, stabilising local care markets and preventing providers exiting the market could leave county authorities facing additional costs of £761m by 2020\(^\text{19}\).

Faced with these pressures, the Association of Directors of Adult Social Services (ADASS) has recently calculated that more than £1.1bn is needed during 2016 alone to maintain the same levels of care as in the previous year. The Nuffield Trust and Kings Fund have suggested that the widening gap between needs and resources is set to reach at least £2.8bn by 2019. The powers granted to all upper-tier authorities to increase council tax by 2% to raise additional funds for adult’s social services could go some way to close this gap, however there is some scepticism that this is sufficient. In their 2016 Budget survey, ADASS highlighted the precept raises less than two thirds of the calculated costs of the National Living Wage so additional savings of circa. 7% of total net budgets need to be found. Furthermore, the Budget 2016 announced that none of the additional funding proposed for the BCF will be released from 2016/17. With 13 county councils receiving no BCF payments until 2018/19, social care services may find it ever more difficult to support the NHS in relation to the Health and Social Care integration agenda without additional funding.

### 3.3 What does this mean for county areas?

Recognising the funding pressures being faced by councils and local services, no further cuts to local government were announced in the 2016 Budget. This provides a basis for a period of financial stability. However, before the EU referendum, the Treasury aimed to identify £3.5bn in spending cuts to public services in 2019/20 and there is a real possibility that local government could be significantly impacted by these reductions. The forthcoming 2016 autumn statement is likely to set a new direction on fiscal policy, with potential implications for local government. Nevertheless, even before any possible fiscal adjustment, this should not detract from the funding gap, services pressures and reductions in core government grants facing councils over the coming period.

From 2015/16 to 2019/20 local government will transition from centrally provided budgets to a new arrangement based on core spending power. County and district authorities will see a rapid reduction in government support, with three quarters of county council funding to be raised locally by the end of the Parliament.

It is intended that authorities will be able to retain 100% of business rates by 2019/20 which may provide authorities with greater ability to drive economic growth in their areas and develop the services they deliver. However, there are uncertainties in how this may work in practice and the specific impact on county areas.

More recently, at the LGA annual conference in July 2016, Greg Clark, former Communities & Local Government secretary, launched a Fair Funding Review. This will look to ensure funding is allocated fairly in relation to local needs which will be important in those areas that may see limited growth in business rates income but still have substantial needs that must be met. With reforms on-going, it unclear whether this will increase or decrease future funding for authorities in county areas.

The financial analysis presented in this document suggest that there are a range of savings two-tier areas could achieve if they choose to pursue reforms to their local governance. However, this would only lessen, not bridge, the funding gap facing these authorities which illustrates that reorganisation can only go so far. Even if the highest range of savings were to be achieved, further transformation would be require across local authorities and the wider public sector.

For this reason, the options explored in this document need to not only provide the best platform for efficiency savings, but one able to deliver wider transformation and sustainability.

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17 ‘Health and Social Care in Counties: Funding, Demand and Cost Pressures’, LG Futures, 2015
18 ‘Health and Social Care in Counties: Funding, Demand and Cost Pressures’, LG Futures, 2015
19 ‘County Care Markets: Market Sustainability and the Care Act’. LaingBuisson http://www.countycouncilsnetwork.org.uk/countycaremarkets/
3.4 Impact of the EU referendum

The result of the EU referendum in June 2016 has created a period of uncertainty as politicians, policy makers and business leaders consider the implications of the UK renegotiating its future political and trade relationships. Nonetheless, the drivers currently in existence and the financial reality facing the sector present the need to continue to review options for local government and consider the potential additional impacts from the EU referendum result, including:

► The pre-referendum warnings of ‘deeper and longer austerity’ affecting public services, which, if realised, could have an impact on funding for public services and capital investment plans, requiring local government to meet additional funding reductions

► Should there be a sustained fall in economic output, then the need for central, regional and local government to consider new strategies and models of attracting and accessing investment will become necessary. Conversely, an upturn will create more opportunities and more competition for growth

► Accessing additional skills and capabilities could provide challenge as an already reduced civil service and public sector talent pool is pulled into delivering the implementation of the exit from the EU

► The potential of NHS, local authorities and other public bodies to access capability if the free movement of labour across Europe is limited which may impact service delivery

► Changes to Government since the result of the referendum may mean a different focus on local government reorganisation and further clarity as to future the direction is likely to be provided on the back of the autumn statement

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21 ‘ADASS Budget Survey 2016 – Key Messages’
4.1 Overview of analysis

This section illustrates the potential financial impact of local government reorganisation across a number of structural scenarios.

In order to maintain the objective integrity of analysis within the report, the evidence base on which the assessments are made has been gathered from publicly available data. We have analysed the potential savings from the six governance scenarios outlined below for the 27 county councils and 201 district councils in the current two-tier areas of local government.

The financial data for all 228 organisations has been analysed and, where required, a representative sample of counties and districts and their data has been used and pro-rated. This sample has been selected based on population size and we have ensured it appropriately represents the variance of scale and geographical diversity of counties across England. It should be noted that data from the sample has only been used where the information from all 228 organisations is not easily available, for example, senior management staffing costs and Councillor allowances.

The financial analysis does not account for any financial planning that is currently taking place, or that which is scheduled for future years, across the county and district councils, or make any assumptions about current levels of efficiency within them. However, the financial baseline would include any transformation that has taken place to date and any efficiency savings that have already been achieved by county areas. It also includes an element of shared senior management posts that are already in place across a number of district councils.

If the analysis is to be further developed then the reports assumptions will need to be subjected to additional testing, refinement and personalisation to any specific county area.

The primary publicly available sources used to build the financial baseline, and to develop the financial analysis, include:

- Budget books and statement of accounts
- Pay policy statements and organisational charts
- Medium term financial plans (MTFP) and Annual Reviews
- Official local authority data and reports from recognised professional bodies (e.g., Department for Communities and Local Government [DCLG], Office for National Statistics [ONS], The Chartered Institute of Public Finance and Accountancy [CIPFA], Total Office Cost Survey [TOCS] and Society of Information Technology Management [SOCITM])

The financial analysis within this report is presented in relation to the potential savings that could be achieved within the average sized county. As such, the average county area can be seen to have an estimated population of 0.8mn people covering an average of 327,253 hectares (density of 2.49) and an average electorate size of 0.6mn. Building on this for scenario 5 (merged district authorities) this option analyses the financial savings from the 7.4 district councils becoming three merged district authorities within each county area. With the average county population of 0.8mn, the three merged districts can be assumed to cover a population of 271,727 people each.

To illustrate the potential saving that could be achieved by a smaller or larger than average county area we have applied a multiplier to this average figure. This is illustrative and further analysis will be required to determine the most accurate savings for a specific county if they decide to follow a specific model of reorganisation.

Please note, all figures displayed in the tables in this analysis have been rounded to the nearest million or billion as appropriate. Any slight discrepancies that may appear between the breakdown and the totals is due to rounding.
4.2 Governance scenarios

Building on the above section, the financial analysis has examined the potential financial savings across six different scenarios. The first three scenarios to be analysed are based upon single tier governance, with one, two, or three unitary authorities being created within each county area on existing county council boundaries:

- **Scenario 1: Single Unitary Authority** — All local authority controlled service expenditure across a county council boundary managed through a single organisation (creating 27 organisations)

- **Scenario 2: Two Unitary Authorities** — All local authority controlled service expenditure across a county council boundary managed through two equally sized organisations (creating 54 organisations)

- **Scenario 3: Three Unitary Authorities** — All local authority controlled service expenditure across a county council boundary managed through three equally sized organisations (creating 81 organisations)

To respond to activity in the sector, we have incorporated additional scenarios into the financial analysis to reflect some emerging governance activity within current two tier areas and provide a wider view of the financial analysis.

The following three scenarios reflect discussions undertaken and incorporate the retention of two tier governance or introduce a combined authority for the management of strategic county council services:

- **Scenario 4: Multi-County Shared Support Services** — All local authority controlled service expenditure across a county council boundary managed through two tiers of governance with shared Support Services across at least two county boundaries

- **Scenario 5: Merged District Authorities** — All local authority controlled service expenditure across a county council boundary managed through two tiers of governance with consolidation of the district tier of governance within each county council geography

- **Scenario 6: Three Unitary Authorities and a Combined Authority** — Consolidation of the district and county councils (as per scenario 3) with a joint service delivery arrangement for strategic services (Adults Social Care, Children’s Social Care and Transport) and a combined authority across county council boundaries

The sections below provide further information, rationale and assumptions relating to the different scenarios we have analysed.

4.3 Range of savings

Each scenario analysed results in an upper and lower range of savings that could be achieved through reorganisation. This is based on the scale of savings that are applied in each area, for example:

- Each scenario has an upper and lower suggested Council size and does not offer a definitive number of members as we know this will vary between county areas

- The scenarios each forecast a range of efficiency savings, for example, between 2% and 4% or 3% and 5%. Again, this is because there are variances across county areas in what has been achieved previously

- The assumed implementation costs also include an upper and lower range and are linked to the potential savings range. If a scenario has a greater potential FTE saving then there will be higher implementation costs due to the redundancy costs that will be incurred through the reduction in FTEs

The analysis results in a range of potential savings that could be achieved through reorganisation. However, section 5 of this report contains additional commentary on how there is the possibility to surpass the upper savings range through redesign rather than just reorganising.

4.4 Components of the financial analysis

The range of potential savings vary within each of the scenarios however we have started with a financial baseline and a number of standard assumptions have been applied. These are outlined in the table below against each of the key areas and predominantly relate to the first three single-tier governance arrangements:

To protect Care and Education services, which are uniquely provided by the county council, expenditure for these services is because there are variances across county areas in what has been achieved previously.
## Financial analysis

<table>
<thead>
<tr>
<th>Area</th>
<th>Baseline analysis</th>
<th>Savings assumptions/rationale</th>
</tr>
</thead>
</table>
| **Senior management** | District and county senior management roles and salaries have been sourced from headcount breakdowns on individual authority websites and from published financial statements.  
Senior management costs include the top three tiers of management (e.g., Chief Executive, Directors, and Heads of Service).  
The baseline includes shared Chief Executive posts that are already in place across a number of councils in England.  
Assumed on-costs of 35% have been applied based on data from other authorities.                                                                                     | Savings are based on a reduction in current roles.  
It has been assumed that each new organisation will require a single senior management team (tiers 1 to 3) of between 33 and 41 full time equivalents (FTEs). Chief officers will be paid an average salary currently in operation at the county level.  
Shared senior management posts have not been assumed in the new organisations created as it is assumed that the reorganisation would first be embedded and stabilised before posts are shared. |
| **Member remuneration** | The number of councillors and their remuneration (including basic allowance, special responsibility allowances and travel and subsistence) has been sourced from county and district authority websites. | Savings are based on the reduction in the current number of Councillors in each county area.  
A unitary authority should require one set of elected members. The analysis assumes an elected council of between 90 and 100 councillors for scenario 1 based on the averages across a selection of current unitary authorities.  
The average councillors currently in county councils has been used as a proxy for each organisation in scenarios 2 and 3. Allowances for new councillors will be equal to average amounts currently paid out across the county and district councils. |
| **Elections spend**   | Election spend comes from the Electorate Commission and includes 2011 UK Referendum costs and the local authority funded 2010-11 election costs.  
Election spend for county councils has been based on election spend over four years for a sample authority and pro-rated across the 27 authorities.                                                                  | The cost for electing members for each unitary authority will be equal to the average election cost per county area currently paid.  
It is assumed that there will be one election every four years to appoint the whole council membership.                                                                                                           |
| **Accommodation**    | A high level figure for maintaining property (i.e., Facility Management costs) has been calculated using the average cost of the required workspaces within our sample authorities (a workspace is 100 sq. ft.) and the unit cost of workspaces has been sourced from the Total Office Cost Survey (TOCS) 2014.  
A percentage has been applied to the number of FTEs to account for non-office based employees.                                                                             | The savings figure for accommodation is based on facilities management spend for the number of workspaces required as a result of estimated total FTE reduction.  
It does not consider the valuation of occupied properties, which could also be released via FTE reductions.                                                                                                             |
<table>
<thead>
<tr>
<th>Area</th>
<th>Baseline analysis</th>
<th>Savings assumptions/rationale</th>
</tr>
</thead>
</table>
| Support Services             | Figures for the expenditure on Support Services (Finance, HR, IT, Legal, Procurement, Corporate Services, Contact Centre) has been taken from CIPFA’s ‘Support and Shared Service Statistics 2014-15 Actuaries’. The average spend by authority has been applied across the counties and districts to get an overall total.  
The proportion of staffing to non-staffing cost has been taken from the published RSX form.  
The overall number of FTEs has been taken from LG Inform data and excludes Education staff.  
A span of control of 1 to 5 of middle manager to staff has been assumed and pay grades have been taken from a sample of representative authorities with a 27% increase applied to the average salaries to represent on-costs. | It is assumed that middle management and staff in new authorities will be paid the average salaries currently paid by the county and district councils.  
The number of staff required in a new authority would be equal to the average number currently employed by county councils plus a proportion of district council employees.  
A reduction in FTEs is achieved through an increased span of control and general efficiencies through the reduction of duplicated services.  
High level percentage savings have been applied to non-staffing spend to reflect efficiencies from economies of scale, integration and service optimisation. |
| Service delivery efficiencies | Net baseline expenditure for the counties and districts has been taken from DCLG revenue account budget data for 2016-17.  
The proportion of staffing to non-staffing cost has been taken from the published RSX form.  
The overall number of FTEs has been taken from LG Inform data.  
A span of control of 1 to 5 of middle manager to staff has been assumed and pay grades have been taken from a sample of representative authorities.  
A 27% increase was applied to the average salaries to represent on-costs. | No savings will be made from spend or FTE from Social Care and Education services.  
All middle management and staff will be paid the average salaries currently paid by the county and district councils.  
All new organisations will retain 100% of their frontline service delivery staff. The number of managers needed would equal that of the average county with a proportion of district managers.  
A reduction in FTEs is achieved through an increased span of control and general efficiencies through the reduction of duplicated services.  
High level percentage savings have been applied to non-staffing spend to reflect efficiencies from economies of scale, integration and service optimisation.  
Further detail can be found in the appendix on the rationale behind service optimisation savings. |
Financial analysis

This financial analysis has looked at three additional scenarios within which a number of additional assumptions have been made. The following table details these assumptions and the rationale for scenarios 4 to 6.

<table>
<thead>
<tr>
<th>Area</th>
<th>Shared county support services</th>
<th>Merged district authorities</th>
<th>Three unitary authorities and a combined authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management</td>
<td>Reduction in senior management is due to shared management posts within Support Services at the county council level.</td>
<td>Reduction in senior management teams reflects the 201 district councils consolidating into 81 district councils, with the senior management team size being the same as in scenarios 1 to 3. No change in the county council senior management team.</td>
<td>The senior management teams within the new organisations are the same as scenario 3. Three additional FTEs have been included at county council salaries to fulfil the roles of Chief Officer, Finance Officer and Monitoring Officer.</td>
</tr>
<tr>
<td>Member remuneration</td>
<td>No change.</td>
<td>50-60 members for each merged authority with allowances paid at the average district council level.</td>
<td>The assumptions for the elected council are the same as scenario 3 with the addition of an elected mayor. The salary cost of an elected mayor comes from the Independent Parliamentary Standards Authority.</td>
</tr>
<tr>
<td>Elections spend</td>
<td>No change.</td>
<td>Election spend is based on the cost per member within current district councils.</td>
<td>The cost of electing a mayor every four years has been included. The cost of the elected mayor is based on average campaign costs from the Electorate Commission.</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Savings are based on the reduction in FTEs.</td>
<td>Savings are based on the reduction in FTEs.</td>
<td>Savings are based on the reduction in FTEs.</td>
</tr>
<tr>
<td>Support services</td>
<td>Expenditure within the county councils reduces by 5-20% based on savings achieved by other local authorities implementing shared services.</td>
<td>Savings achieved through increasing the span of control of district council middle management.</td>
<td>The assumptions for support services are the same as scenario 3.</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>No efficiencies have been assumed.</td>
<td>No savings have been applied to Education or Social Care.</td>
<td>A number of strategic services (Transport, Adults Social Care and Children’s Social Care) spend has been transferred to a joint service delivery arrangement.</td>
</tr>
</tbody>
</table>

It is assumed that any potential savings that could be achieved in Transport services would be retained by the ASDM. The savings assumptions for district councils is the same as scenario 3.
4.5 Implementation costs

Depending on the scenario a county may choose to select, there are a range of implementation costs that could be incurred based upon the changes that would need to be made. The table below details the areas that have been included within the analysis. For each area of cost we have looked at what has been experienced elsewhere and engaged with other unitary authorities to gather further information to evidence the assumptions made. The set up costs for the alternative delivery models in scenario 6 is based on experience seen elsewhere and a percentage has been applied to the overall spend in the services that are transferred to Alternative Service Delivery Model (ASDM). The set up cost of the combined authority is also based on experience elsewhere and these figures have been revised to take into consideration the population size of an average county area.

Across all of the scenarios, we forecast that implementation of the changes could take between 3 to 4 years and have applied the following plan:

- Year 1: Project planning, communication, senior management and democratic changes
- Year 2 and 3: Changes to middle management and service delivery staff, redesign of Support Services and rationalisation of assets
- Year 4: Full service integration and harmonisation of contracts

In the financial analysis, the costs relating to year 1 (project planning, communication, senior management and democratic changes) are shown as being incurred in year 0.

The implementation costs across the six scenarios analysed are estimated to be between £0.1bn and £1.2bn. More detail can be found later in this section but this includes the costs involved in the reduction of full time equivalents (FTEs), IT costs, planning, disaggregation costs and more.

4.6 Payback

For each of the six scenarios we have looked at the potential payback period for the reorganisation. This takes into consideration the savings, the profile of those savings over and time and the estimated implementation costs for each of the scenarios. As outlined, scenarios 3 and 6 have payback periods greater than 5 years however, the ‘post-implementation’ savings are included for consistency even though these will not be achieved for some time after.

4.7 Results of the financial analysis

This section of the report will go through each scenario in turn and present the findings from the quantitative analysis, including the estimated implementation costs, before evaluating the advantages and disadvantages of each scenario. A summary of the six scenarios is then presented with analysis against a number of key factors, including potential savings, the impact to the service user, practicality of implementing revised governance, payback period, and financial sustainability.
4.8 Scenario 1: Single unitary authority

Under this scenario, we have analysed all local authority controlled service expenditure across a county council boundary managed through a single organisation. This scenario would result in a single unitary authority in each of the 27 two-tier counties in England. Councils under this scenario would replicate the approach used by the majority of councils that moved to unitary status under the previous rounds of local government reorganisation, including Durham, Wiltshire, Cornwall, and Northumberland.

Based on our analysis, the potential cumulative net savings across all 27 county areas, over a five year period, could result in a saving of between £2.37bn and £2.86bn. The table below shows the breakdown of the lower and upper range of potential savings which could be experienced.

<table>
<thead>
<tr>
<th>Area</th>
<th>Cumulative saving/cost</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>Reduction in members remuneration and elections spend</td>
<td>£269mn</td>
<td>£296mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>Reduction in senior management required</td>
<td>£1.26bn</td>
<td>£1.37bn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>Reduction in middle management and other staff</td>
<td>£658mn</td>
<td>£910mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>Reduction in middle management and non-staffing expenditure</td>
<td>£373mn</td>
<td>£576mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Reduction in the office space required</td>
<td>£86mn</td>
<td>£100mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>Estimated cost of reorganisation</td>
<td>(£2.77mn)</td>
<td>(£3.93mn)</td>
</tr>
<tr>
<td>Total cumulative net saving</td>
<td></td>
<td>£2.37bn</td>
<td>£2.86bn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td></td>
<td>£621mn</td>
<td>£781mn</td>
</tr>
<tr>
<td>Reduction to spend (excl. Care and Education)*</td>
<td></td>
<td>6.0%</td>
<td>7.5%</td>
</tr>
<tr>
<td>FTE reduction</td>
<td></td>
<td>7,085</td>
<td>8,594</td>
</tr>
<tr>
<td>Payback period</td>
<td></td>
<td>Two years, two months</td>
<td></td>
</tr>
</tbody>
</table>

To illustrate the potential savings across different council sizes, the below table shows the midpoint savings and implementation costs for a single small, average and large county area over a five year period.

<table>
<thead>
<tr>
<th>Area</th>
<th>Small county 0.4mn population</th>
<th>Average county 0.8mn population</th>
<th>Large county 1.2mn population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>£5mn</td>
<td>£10mn</td>
<td>£16mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>£24mn</td>
<td>£49mn</td>
<td>£73mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>£15mn</td>
<td>£29mn</td>
<td>£44mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>£9mn</td>
<td>£18mn</td>
<td>£26mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>£2mn</td>
<td>£3mn</td>
<td>£5mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>(£6mn)</td>
<td>(£12mn)</td>
<td>(£19mn)</td>
</tr>
<tr>
<td>Total cumulative net saving</td>
<td>£48mn</td>
<td>£97mn</td>
<td>£145mn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td></td>
<td>£13mn</td>
<td>£26mn</td>
</tr>
</tbody>
</table>

*Total savings for one year as a percentage of the total county spend, excluding Social Care and Education expenditure
Financial analysis

The profile of implementation costs has been modelled in line with the high level implementation plan and overarching assumptions set out above. The table below represents the upper range of these potential costs under scenario 1 and details how these are incurred across a 3 year delivery timescale:

<table>
<thead>
<tr>
<th>Implementation area</th>
<th>Overall</th>
<th>Year zero</th>
<th>Year one</th>
<th>Year two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning, pre-launch, communications</td>
<td>£32mn</td>
<td>£24mn</td>
<td>£5mn</td>
<td>£3mn</td>
</tr>
<tr>
<td>and branding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT costs and new system training</td>
<td>£108mn</td>
<td>£54mn</td>
<td>£54mn</td>
<td>£0</td>
</tr>
<tr>
<td>Redundancies/ pension</td>
<td>£130mn</td>
<td>£66mn</td>
<td>£32mn</td>
<td>£32mn</td>
</tr>
<tr>
<td>Implementation programme team</td>
<td>£74mn</td>
<td>£35mn</td>
<td>£23mn</td>
<td>£17mn</td>
</tr>
<tr>
<td>Staff and member induction</td>
<td>£12mn</td>
<td>£12mn</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Disaggregation costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transition contingency</td>
<td>£36mn</td>
<td>£18mn</td>
<td>£11mn</td>
<td>£7mn</td>
</tr>
<tr>
<td>Total</td>
<td>£393mn</td>
<td>£209mn</td>
<td>£124mn</td>
<td>£59mn</td>
</tr>
</tbody>
</table>

The graph below shows the estimated timing of cost and savings and the overall net position for scenario 1 each year using the higher range of savings estimated and the upper range of implementation costs which gives the most prudent position. As can be seen, implementation costs are profiled to be incurred from year 0.

Scenario 1: Payback period two years, two months

Headlines from the quantitative analysis are:

▶ This option provides an upper annual potential saving (after implementation costs) of almost £0.8bn representing 2.8% of the overall net service expenditure of £27.5bn across all county and district councils in England. Over five years, this amounts to an upper range of nearly £2.86bn and is the largest potential net cumulative savings figure across all six scenarios. The upper range of potential savings represent 7.5% of overall spend, excluding Care and Education services.

▶ As only a single senior management team would be required this scenario would lead to the largest savings through the reduction in senior management teams, saving between £1.26bn and £1.37bn.

▶ This scenario provides the largest scope for rationalising and optimising support and frontline service delivery across the scenarios. Up to £1.49bn could be saved through this process, which would include economies of scale, integration and service optimisation being achieved across services currently split between the county and district councils (i.e., waste, planning, and housing).

▶ Creating a single unitary in each of the 27 county areas would result in the largest reduction in member costs and accommodation savings. Up to £2.96mn of this would be from the reduction in members and running fewer elections, with a £100mn savings potential from reducing the use of accommodation.

▶ This scenario would involve a higher upfront investment of £2.09mn in year zero due to the reduction in FTEs and resulting costs. However, it must be remembered that, over the course of the implementation, this is also the area that delivers the greatest efficiencies.

▶ Overall, this scenario has lower implementation costs over the period than the other single tier governance options and the shortest payback timescale. This scenario does not require disaggregation costs as it does not involve the split of the current county council structure in each area.
Non-financial analysis
There are a number of benefits that could be experienced if two-tier counties were to implement this scenario and set up a single unitary authority in place of the current county and district councils. This includes:

 ► Financial sustainability
The financial analysis shows that creating a single administration in each county area could deliver the greatest potential savings through increased efficiencies and economies of scale. Reflecting on the financial challenges set out earlier in this report, this scenario could be seen as the most compelling as the efficiencies generated could be reinvested into those services under the greatest financial and demand pressures.

This scenario also allows a more equal distribution of business rates across the whole county area in relation to the levels of need. This should result in greater sustainability of the organisation as well as ensuring the best outcomes are delivered to service users. This is explored in further detail later in this section after the summary of the financial analysis.

 ► Efficiencies and economies of scale
The move to a single organisation could provide opportunities to reduce staff related expenditure. Efficiencies could be achieved through the removal of duplicate roles and an increase in middle management spans of control would allow for a reduction in the number of middle managers required in the new structure.

Consolidating district and county councils to create new larger organisations would increase the negotiation power of councils with private providers and the wider public sector. For example, a single unitary would benefit from greater economies of scale in procurement efficiencies and contract management and negotiation power with CCGs in relation to Health and Social Care. The size of the new organisations could also result in additional capacity within the new organisations to better jointly commission services.

The efficiencies and economies of scale achieved could assist in meeting the likely increase in demand expected in adult’s social care through the implementation of the Care Act\(^2^2\)

 ► Transition and implementation

Compared to sub-county unitary options, the creation of a single unitary authority will avoid the fragmentation of county council services. This is particularly important in relation to services for children and adults, at a time of increasing demand and funding pressures.

Implementation issues, such as the recruitment and retention of staff, would be less challenging than with the other scenarios analysed. Specialised and large scale services at the county level would retain existing staff, whilst the process of aggregation at district level could aid a more competitive recruitment process for newly reorganised services.

Transition to a single organisation should be simpler than scenarios 2 and 3 as there would be no requirement to redraw new authority boundaries.

While the integration of district council services would be challenging at a county-wide scale, disaggregation across circa. 90% of local government service expenditure would be avoided (district council expenditure makes up the other circa 10%). This has the opportunity to unify services at the largest scale in two-tier areas, for example, Waste, Housing, Planning and Infrastructure.

 ► Resident and service user impact

This scenario could enhance user experience through more streamlined services, reduced duplication and optimised services whilst also being the most straightforward change for residents to understand.

This scenario would involve the least service disruption compared to other sub-county scenarios. In particular, service users in receipt of social care services would not witness a change in service provision or eligibility.

 ► Coterminous boundaries

The consolidation of services within a single geographical area allows for the greatest alignment with the public service map, for example, CCGs, Police and NHS Sustainability and Transformation Plan (STP) areas.

\(^2^2\) ‘NAO survey highlights council Care Act concerns’, The M.J. August 2015
Financial analysis

- **Governance and community engagement**

Scenario 1 provides the greatest savings opportunities in relation to the total democratic cost of councillors. A single organisation would require one set of elected members which is significantly less than current numbers. Integrating all current members within the new structure is not recommended, as such a large group is likely to be unmanageable and fail to result in any improvements in delivery capacity. A smaller group of members may also have the potential to provide a clearer link between county councillors, parish councillors and local community activists.

The consolidation of district and county council services into one organisation could result in stronger leadership with a single set of Councillors and one clear point of accountability in the county leader. This could also increase the ability of the organisation to secure a devolution deal. Devolution is explored in more detail in section 6 of this report.

- **Information sharing and integration**

Consolidating district and county councils will also involve the consolidation of data. A single data set that provides a view of the local population provides significant opportunities. Firstly, the unitary authority can better use this information to aid the early detection of needs, predicting future demand for social services and identifying those that may require additional support. Additionally, it could improve the integration of health and social care through a reduction in the data sharing agreements that may be required.

Despite these benefits there are also a number of risks and challenges that a single structure could pose:

- **Efficiencies and economies of scale**

If the county unitary structure was implemented across every county, some of the organisations created would be considerable in size. In order to achieve the full benefits that size and scale can bring, there is a need for detailed planning and strong leadership. Without this, there is a risk that the potential efficiencies and economies may not be achieved, impacting on the estimated savings figures or reorganisation.

- **Resident and service user impact**

The transition to a single unitary would need to be communicated effectively to local residents. Individuals in the community could be impacted through feeling that they may lose their local services as the district councils are removed. The public service reform section of this report highlights how this challenge can be overcome.

- **Governance and community engagement**

A reduction in the total councillors within a geographical area can call into question the adequacy of that area’s democratic accountability. A reduction in elected members could give rise to doubts regarding the ability for each organisation to truly represent the community and appropriately scrutinise the operations of the unitary authority. However, the analysis undertaken has taken this into consideration and assumed the number of councillors in the single unitary authority will be higher than the number in the current county council and the other scenarios analysed. Section 6 also explores how community and locality based governance could be implemented to mitigate this challenge at scale.

4.9 Scenario 2: Two unitary authorities

Under this scenario, we have analysed all local authority controlled service expenditure across a county council boundary managed through two equally sized organisations. This scenario would result in the creation of two authorities within each county council area, with 54 unitary authorities replacing the current 27 county councils. Councils under this scenario would replicate the approach undertaken during the previous rounds of local government reorganisation for Cheshire and Bedfordshire, where the unitary authorities of Cheshire West & Chester, Cheshire East, Bedford and Central Bedfordshire.

Based on our analysis, the potential cumulative net savings for this scenario, over a five year period, could amount to between £1.17bn and £1.70bn across all 27 county areas. The following table shows the lower and upper range of potential savings under this scenario.
To illustrate the potential savings across different council sizes, the below table shows the midpoint savings and implementation costs for a single small, average and large county area over a five year period.

<table>
<thead>
<tr>
<th>Area</th>
<th>Cumulative saving/cost</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>Reduction in members remuneration and elections spend</td>
<td>£163mn</td>
<td>£216mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>Reduction in senior management required</td>
<td>£718mn</td>
<td>£937mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>Reduction in middle management and other staff Optimisation of non-staffing expenditure</td>
<td>£414mn</td>
<td>£605mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>Reduction in middle management Optimisation of non-staffing service expenditure</td>
<td>£183mn</td>
<td>£386mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Reduction in the office space required</td>
<td>£62mn</td>
<td>£75mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>Estimated cost of reorganisation</td>
<td>(£371mn)</td>
<td>(£519mn)</td>
</tr>
<tr>
<td>Total cumulative net saving (five years)</td>
<td></td>
<td>£1.17bn</td>
<td>£1.70bn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td></td>
<td>£361mn</td>
<td>£520mn</td>
</tr>
<tr>
<td>Reduction to spend (excl. Care and Education)*</td>
<td></td>
<td>3.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FTE reduction</td>
<td></td>
<td>5,011</td>
<td>6,299</td>
</tr>
<tr>
<td>Payback period</td>
<td></td>
<td>Three years, two months</td>
<td></td>
</tr>
</tbody>
</table>
Financial analysis

The implementation costs for this scenario are set out below. The table below represents the upper range of these potential costs under scenario 2 and details how these are incurred across a 3 year delivery timescale:

<table>
<thead>
<tr>
<th>Implementation area</th>
<th>Overall</th>
<th>Year zero</th>
<th>Year one</th>
<th>Year two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning, pre-launch, communications and branding</td>
<td>£49mn</td>
<td>£36mn</td>
<td>£7mn</td>
<td>£5mn</td>
</tr>
<tr>
<td>IT costs and new system training</td>
<td>£162mn</td>
<td>£81mn</td>
<td>£81mn</td>
<td>£0</td>
</tr>
<tr>
<td>Redundancies/ pension</td>
<td>£108mn</td>
<td>£62mn</td>
<td>£23mn</td>
<td>£23mn</td>
</tr>
<tr>
<td>Implementation programme team</td>
<td>£81mn</td>
<td>£38mn</td>
<td>£25mn</td>
<td>£18mn</td>
</tr>
<tr>
<td>Staff and member induction</td>
<td>£18mn</td>
<td>£18mn</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Disaggregation costs</td>
<td>£54mn</td>
<td>£27mn</td>
<td>£16mn</td>
<td>£11mn</td>
</tr>
<tr>
<td>Transition contingency</td>
<td>£47mn</td>
<td>£24mn</td>
<td>£14mn</td>
<td>£9mn</td>
</tr>
<tr>
<td>Total</td>
<td>£519mn</td>
<td>£287mn</td>
<td>£166mn</td>
<td>£66mn</td>
</tr>
</tbody>
</table>

The graph below shows the estimated timing of cost and savings and the overall net position for scenario 2 each year using the lower range of savings estimated and the upper range of implementation costs which gives the most prudent position.

**Headlines from the quantitative analysis are:**

- This option provides an upper annual potential saving (after implementation costs) of £0.5bn representing 1.9% of the overall net service expenditure of £27.5bn across all county and district councils in England (5.0% when Care and Education services are excluded). Over five years, this amounts to an upper range of almost £1.70bn. This is the second largest potential net cumulative savings figure across all six scenarios. The upper range of potential five year cumulative net savings represents 6.2% of overall spend of £27.5bn.

- As in scenario 1, the largest savings in this scenario relate to the reduction in the senior management teams required which is between £718mn and £937mn.

- Overall implementation costs are higher in this scenario compared to a single unitary structure as it includes disaggregation costs.

- As can be seen, the overall savings for this scenario are less than those that could be achieved in the single unitary option and the payback period is longer than scenario 1, at 3 years and 2 months.

**Non-financial analysis**

A number of the potential benefits in creating two unitary authorities within each of the 27 county council areas mirror those detailed in scenario 1. However, the scale of these benefits would likely be reduced and there are additional risks. In particular:

- **Financial sustainability**

  The division of the county into two could impact the ability for the new organisations to generate income through business rates. As previously mentioned, business rates retention varies across county areas with some councils likely to be in a far more favourable position with 100% business rates retention than others. The division in the county area needs to be done in a way that does not result in one financially viable organisation and the other financially unviable.

- **Efficiencies and economies of scale**

  While there are some savings that could be achieved by a reduction in district council middle management these savings are reduced when two unitary authorities are created. Each unitary authority would require its own senior management team, creating duplicate roles, and more middle management would be required than in a single unitary authority.

  As in scenario 1, the efficiencies and economies of scale achieved could assist in meeting the likely increase in demand expected in adult’s social care through the implementation of the Care Act. 21
Transition and implementation

This scenario proposes the creation of two new organisations across a county area with the county and district councils being consolidated. Nothing will remain as it currently stands and county services, for example Adults and Children’s Social Care, will need to be separated into two which will add a layer of complexity and increase the risk of considerable service disruption, especially at a time when social care services are already under financial pressure and face rising demand. There will be complexity in migrating service users and renegotiating provider contracts across the largest areas of local government expenditure within a county area. This will require substantial contract management and commissioning expertise.

Unlike scenario 1, this scenario would raise an additional implementation cost due to the disaggregation of services. In particular, there would likely be increased costs in finding and attracting additional chief officers to fill required roles in the new unitary authorities. This could be challenging for roles such as Director of Children’s Services, for which there are already nationwide shortages and recruitment issues.

There are further complexities and challenges with this scenario as there would be the need to redraw the boundaries of the new local authorities.

Resident and service user impact

The disaggregation of county council services into two authorities could potentially lead to inconsistent service provision. For example, the single Children’s Social Care service provided by the county council previously will need to split into two with a separate team within each unitary authority. This could lead to a change in the quality, value for money, and effectiveness compared to the existing service provision, impacting on the experience of the service user. The inconsistent service delivery may also lead to one authority becoming unsustainable.

In addition, with two new organisations, service users with care needs will fall under the remit of an entirely new council. This could result in a change in service eligibility which could alter the services currently received by residents. The impact of these changes would need to be suitably mitigated through an effective communications plan to residents.

Coterminous boundaries

Two unitary authorities will reduce the alignment with the public service map and any shared delivery of services may need to be redesigned around the new agreed authority boundaries. Moreover, existing integration plans through the Better Care Fund (BCF) would need revising across local partners.

\[^{22}\text{NAO survey highlights council Care Act concerns}.\text{ The M.J. August 2015}\]
Financial analysis

4.10 Scenario 3: Three unitary authorities

Under this scenario, we have analysed all local authority controlled service expenditure across a county council boundary managed through three equally sized organisations. This scenario would result in the creation of three unitary authorities within each county boundary, with 81 unitary authorities replacing the current 27 county councils. Councils under this scenario would be similar in size to the first generation of unitary councils created in the 1990s reorganisation process, although some would potentially still be larger than the current average for a unitary authority and some of those created in the 2000s.

Based on our analysis, the potential cumulative net savings for this scenario across all 27 areas over a five year period could result in a potential cost of £33mn or a potential saving of up to £526mn. The table below shows the lower and upper range of savings/costs which could be achieved/incurred under this scenario.

<table>
<thead>
<tr>
<th>Area</th>
<th>Cumulative saving/cost</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>(Increase)/Reduction in members remuneration and elections spend</td>
<td>(£23mn)*</td>
<td>£56mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>Reduction in senior management required</td>
<td>£174mn</td>
<td>£502mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>Reduction in middle management and other staff Optimisation of non-staffing expenditure</td>
<td>£127mn</td>
<td>£381mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>Reduction in middle management Optimisation of non-staffing service expenditure</td>
<td>£83mn</td>
<td>£223mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Reduction in the office space required</td>
<td>£8mn</td>
<td>£11mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>Estimated cost of reorganisation</td>
<td>(£401mn)</td>
<td>(£585mn)</td>
</tr>
<tr>
<td>Total cumulative net saving (five years)</td>
<td></td>
<td>(£33mn)</td>
<td>£526mn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td></td>
<td>£98mn</td>
<td>£266mn</td>
</tr>
<tr>
<td>Reduction to spend (excl. Care and Education)**</td>
<td></td>
<td>0.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td>FTE reduction</td>
<td></td>
<td>2,542</td>
<td>3,751</td>
</tr>
<tr>
<td>Payback period</td>
<td></td>
<td>Seven years</td>
<td></td>
</tr>
</tbody>
</table>

*Please note, the ‘lower’ column represents the lower range of savings that can be achieved and therefore is based on the costs of the largest set of members. As such, this is a greater cost and is the reason why this figure is within this column.

**Total savings for one year as a percentage of the total county spend, excluding Social Care and Education expenditure
To illustrate the potential savings across different council sizes, the below table shows the midpoint savings and implementation costs for a single small, average and large county area over a five year period.

<table>
<thead>
<tr>
<th>Area</th>
<th>Small county 0.4mn population</th>
<th>Average county 0.8mn population</th>
<th>Large county 1.2mn population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>£0.3mn</td>
<td>£0.6mn</td>
<td>£0.9mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>£6mn</td>
<td>£13mn</td>
<td>£19mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>£4mn</td>
<td>£8mn</td>
<td>£12mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>£3mn</td>
<td>£6mn</td>
<td>£9mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>£0.2mn</td>
<td>£0.3mn</td>
<td>£0.5mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>(£9mn)</td>
<td>(£18mn)</td>
<td>(£27mn)</td>
</tr>
<tr>
<td>Total cumulative net saving (five years)</td>
<td>£5mn</td>
<td>£9mn</td>
<td>£14mn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td>£3mn</td>
<td>£7mn</td>
<td>£10mn</td>
</tr>
</tbody>
</table>

The implementation costs for this scenario are set out below. The table below represents the upper range of these potential costs under scenario 3 and details how these are incurred across the 3 year delivery timescale:

<table>
<thead>
<tr>
<th>Implementation area</th>
<th>Overall</th>
<th>Year zero</th>
<th>Year one</th>
<th>Year two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning, pre-launch, communications and branding</td>
<td>£65mn</td>
<td>£49mn</td>
<td>£10mn</td>
<td>£6mn</td>
</tr>
<tr>
<td>IT costs and new system training</td>
<td>£216mn</td>
<td>£108mn</td>
<td>£108mn</td>
<td>£0</td>
</tr>
<tr>
<td>Redundancies/pension</td>
<td>£84mn</td>
<td>£62mn</td>
<td>£11mn</td>
<td>£11mn</td>
</tr>
<tr>
<td>Implementation programme team</td>
<td>£88mn</td>
<td>£41mn</td>
<td>£27mn</td>
<td>£19mn</td>
</tr>
<tr>
<td>Staff and member induction</td>
<td>£24mn</td>
<td>£24mn</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Disaggregation costs</td>
<td>£54mn</td>
<td>£27mn</td>
<td>£16mn</td>
<td>£11mn</td>
</tr>
<tr>
<td>Transition contingency</td>
<td>£53mn</td>
<td>£27mn</td>
<td>£16mn</td>
<td>£11mn</td>
</tr>
<tr>
<td>Total</td>
<td>£585mn</td>
<td>£338mn</td>
<td>£188mn</td>
<td>£58mn</td>
</tr>
</tbody>
</table>
The graph below shows the estimated timing of cost and savings and the overall net position for scenario 3 each year using the lower range of savings estimated and the upper range of implementation costs which gives the most prudent position.

**Scenario 3: Payback period of seven years**

![Graph showing payback period of seven years](image)

**Headlines from the quantitative analysis are:**

- Similar to scenario 2, the formation of an additional unitary authority results in a further reduction in potential savings from the single unitary scenario. This is driven by the higher costs of additional senior management teams, duplication of Support Services and service managers across the three new organisations and reductions in service delivery efficiencies due to decreased economies of scale.

- As can be seen, this scenario provides an upper annual potential saving (after implementation costs) of £266mn. This represents savings of 2.6% of overall spend when Care and Education services are excluded. Over five years, this could provide potential savings of £526mn, representing 1.0% of overall net service expenditure across all county and district authorities in England. However, this scenario could also lead to a potential cost of £33mn if only the lower range of savings are achieved.

- The reduction of senior management FTEs provides the greatest savings within this scenario. However, the number of members in the lower savings option increases due to the assumption that the number of councillors per organisation should align with the average number of councillors within county councils currently, rather than the average within district councils.

- Although the FTE reduction is lower for this scenario than scenarios 1 and 2, the same disaggregation costs apply as per the two unitary option. Other implementation costs are also higher in this scenario. For example, branding and communications will be required across three new organisations rather than one or two.

- As expected, the payback period for this option is longer than the previous two scenarios and could take seven years.

- Excluding scenario 6, this is the scenario that has the lowest potential net savings.

**Non-financial analysis**

The benefits that could be obtained by creating single unitary authorities in each county area are further diluted if three separate unitary authorities are created instead.

There may be some additional benefits which could include:

- **Coterminous boundaries and collaboration capacity**

Developing three unitary authorities within current county boundaries would provide the unitary authorities with counterparts with whom they can set up collaboration agreements and make comparisons on service performance. This would support continuous service improvement as they learn from each other and share knowledge to develop service provision.

The implications and challenges of scenario 3 imitate those in the second scenario but are compounded by the fact that county council is divided into three equally sized areas.
Financial sustainability
As with scenario 2, the division of the county could impact the ability of the new organisations to generate business rates income. Business rates retention varies across county areas and the division of the county area needs to be done in a way that does not result in one financially viable organisation and two that may struggle financially. More detail on business rates can be found under ‘financial sustainability’ after the summary of this section.

Efficiencies and economies of scale
The loss of economies of scale in respect of the services currently contracted at the county council level could be felt more strongly than in scenario 2.

Transition and implementation
The cost of implementation increases from scenario 2 to scenario 3 as the county council services would be disaggregated and consolidated into three equally sized separate organisations, each covering a third of the county area. Systems would require integration, services would need to be duplicated within each of the organisations, additional marketing, communications and branding activity would need to be undertaken and, as in scenario 2, there may be further issues in recruiting talent for senior management roles.

The complexity of migrating service users and renegotiating provider contracts would increase from scenario 2 to 3.

As in scenario 2, there is further complexity and challenge in the need to redraw the boundaries of the new local authorities.

Resident and service user impact
Creating three unitary authorities, in place of the single county council and district councils, could lead to inconsistent service provision, like with scenario 2. Each organisation would be responsible for delivering the services within its geography, potentially changing those services currently delivered and impacting the experience of service users.

This scenario would involve the split of the county area into three and this is likely to cause issues around points of contact for service users. Investment in communication would be necessary to ensure individuals are aware which organisational boundaries they sit within, and who their contact would be for problems and queries.

Governance and community engagement
Setting up three unitary authorities would mean three groups of elected members and three senior management teams. This could have a negative impact on the potential savings that could be achieved whilst also creating duplicative roles.

Information sharing and integration
Data sharing arrangements will need to be put in place to enable the flow of data between the three unitary authorities. There will also be issues faced by other public agencies in relation to data sharing, for example, Police will now require separate data sharing arrangements with Children’s Services in each new organisation. This is something that would previously have been covered by a single arrangement with the county council.
4.11 Scenario 4: Multi-county shared support services

Under this scenario, we have analysed the retention of two tier governance across county and district councils but with shared Support Services across at least two county boundaries. This scenario would not result in any reorganisation to the existing tiers of government, with the county council seeking to share senior management support services to increase efficiencies. This would be similar to East Sussex and Surrey County Council’s Orbis partnership which is delivering shared services across a number of support services, including human resources, property, procurement, finance and information technology.

Based on our analysis, the potential cumulative net savings for this scenario over a five year period could result in potential saving of between £160mn and £568mn across the 27 county areas. The table below shows the breakdown of lower and upper savings which could be achieved.

<table>
<thead>
<tr>
<th>Area</th>
<th>Cumulative saving/ cost</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>Increase in members remuneration and elections spend</td>
<td>£0mn</td>
<td>£0mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>Reduction in senior management required</td>
<td>£76mn</td>
<td>£76mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>Reduction in middle management and other staff</td>
<td>£162mn</td>
<td>£646mn</td>
</tr>
<tr>
<td></td>
<td>Optimisation of non-staffing expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>Reduction in middle management</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td></td>
<td>Optimisation of non-staffing service expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accommodation</td>
<td>Reduction in the office space required</td>
<td>£6mn</td>
<td>£19mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>Estimated cost of reorganisation</td>
<td>(£84mn)</td>
<td>(£173mn)</td>
</tr>
<tr>
<td>Total cumulative net saving (five years)</td>
<td></td>
<td>£160mn</td>
<td>£568mn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td></td>
<td>£63mn</td>
<td>£205mn</td>
</tr>
<tr>
<td>Reduction to spend (excl. Care and Education)*</td>
<td></td>
<td>0.6%</td>
<td>2.0%</td>
</tr>
<tr>
<td>FTE reduction</td>
<td></td>
<td>655</td>
<td>2.280</td>
</tr>
<tr>
<td>Payback period</td>
<td></td>
<td>Four years, eleven months</td>
<td></td>
</tr>
</tbody>
</table>

*Total savings for one year as a percentage of the total county spend, excluding Social Care and Education expenditure
To illustrate the potential savings across different council sizes, the below table shows the midpoint savings and implementation costs for a single small, average and large county area over a five year period.

<table>
<thead>
<tr>
<th>Area</th>
<th>Small county 0.4mn population</th>
<th>Average county 0.8mn population</th>
<th>Large county 1.2mn population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>£0</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Senior management</td>
<td>£1mn</td>
<td>£3mn</td>
<td>£4mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>£7mn</td>
<td>£15mn</td>
<td>£22mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>£0</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Accommodation</td>
<td>£0.2mn</td>
<td>£0.5mn</td>
<td>£0.7mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>(£2mn)</td>
<td>(£5mn)</td>
<td>(£7mn)</td>
</tr>
<tr>
<td>Total cumulative net saving</td>
<td>£7mn</td>
<td>£13mn</td>
<td>£20mn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td>£2mn</td>
<td>£5mn</td>
<td>£7mn</td>
</tr>
</tbody>
</table>

The implementation costs for this scenario are set out below. The table below represents the upper range of these potential costs under scenario 4 and details how these are incurred across the 3 year delivery timescale:

The implementation costs for this scenario are set out below. The table below represents the upper range of these potential costs under scenario 4 and details how these are incurred across the 3 year delivery timescale:

<table>
<thead>
<tr>
<th>Implementation area</th>
<th>Overall</th>
<th>Year zero</th>
<th>Year one</th>
<th>Year two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning, pre-launch, communications</td>
<td>£11mn</td>
<td>£8mn</td>
<td>£2mn</td>
<td>£1mn</td>
</tr>
<tr>
<td>and branding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT costs and new system training</td>
<td>£108mn</td>
<td>£54mn</td>
<td>£54mn</td>
<td>£0</td>
</tr>
<tr>
<td>Redundancies/pension</td>
<td>£27mn</td>
<td>£4mn</td>
<td>£12mn</td>
<td>£12mn</td>
</tr>
<tr>
<td>Implementation programme team</td>
<td>£9mn</td>
<td>£8mn</td>
<td>£0.3mn</td>
<td>£0.3mn</td>
</tr>
<tr>
<td>Staff and member induction</td>
<td>£3mn</td>
<td>£3mn</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Disaggregation costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transition contingency</td>
<td>£16mn</td>
<td>£8mn</td>
<td>£5mn</td>
<td>£3mn</td>
</tr>
<tr>
<td>Total</td>
<td>£173mn</td>
<td>£85mn</td>
<td>£72mn</td>
<td>£16mn</td>
</tr>
</tbody>
</table>
**Financial analysis**

**Headlines from the quantitative analysis are;**

- This scenario results in an upper annual potential saving (after implementation costs) of £205mn representing 0.7% of overall net service expenditure across the 27 county areas in England. Over 5 years, this amounts to an upper range of £568mn which represents 2% of overall spend when Care and Education services are excluded. This scenario ranks fourth out of the six scenarios in terms of the potential net cumulative savings that it could achieve.

- This scenario results in no reduction in the number of Councillors and there are no assumed efficiencies to be made in the service delivery. The main savings for this scenario are through a small reduction in senior management, and efficiencies that could be achieved within the shared Support Services.

- The lower and upper potential savings in this scenario cover a wider range than the other scenarios. This is due to the wide range of savings that have been achieved by other authorities in sharing services which have provided the rationale behind our analysis.

- This scenario has the lowest implementation costs across the six scenarios and has a payback period of almost 5 years.

**Non-financial analysis**

This scenario retains two-tier governance and provides the least change to the county and district councils as they currently stand. This reduces the potential financial benefits that could be achieved as a large proportion of service expenditure will remain unchanged.

**Efficiencies and economies of scale**

Sharing support services across at least two county areas can achieve some efficiencies and economies of scale through a reduction in duplicate senior management posts of those services that will be shared, the consolidation of support services staffing posts and efficiencies in support service contracts.

**Transition and implementation**

This option provides the least change and so, in comparison to the other options, there should be fewer barriers to implementation. Disruption to service delivery at the county-wide scale (i.e., children’s and adult social care) would be minimised.

**Resident and service user impact**

Contact Centres are included with the support services and the creation of a shared service across two or more county councils could help to reduce failure demand by directing all queries to the one support service which would address all queries (failure demand is demand caused by a failure to do something or do something right for the customer). This could lead to an opportunity for staff efficiencies as demand should reduce as calls require less redirection to the correct people and service user experience should improve.

The implications and challenges that this scenario could pose for the county and district councils include:

**Financial sustainability**

As can be seen in the financial analysis, this scenario could achieve fewer savings than scenarios 1, 2 and 5. As such, it will provide less support in meeting the upcoming financial challenges set out earlier in this report.

**Efficiencies and economies of scale**

This scenario assumes that one of the county councils would provide the shared Support Services however these could also be outsourced. If this is the route that is followed, there are a number of challenges in outsourcing strategic services that should be considered which may result in a reduction in the likely benefits that could materialise. Looking at a number of public-private partnerships between 2000 and 2007, 36% of contracts were reversed due to greater potential benefits from delivering in-house24. This gives rise to concern as to the benefits that could realistically be achieved.

**Information sharing and integration**

Sharing data across county council boundaries may provide challenges with respect to data privacy requirements. Additional costs may be incurred in ensuring data protection requirements are upheld which would add to the significant set up costs that are already required to operate shared support services.

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24 “Why have councils fallen out of love with outsourcing vital services?” The Guardian. Mar 2016
4.12 Scenario 5: Merged district authorities

Under this scenario, we have analysed all local authority controlled service expenditure across a county council boundary managed through two tiers of governance with consolidation of the District tier of governance within each county council geography. This option of reorganisation is already in discussion across a number of areas with districts in East Kent, Suffolk and Somerset making public their intentions to explore mergers of district councils.

As outlined in the introduction, this analysis has been based on the assumed average county that has 7.4 district councils (201 districts divided by 27 counties), this option analyses the financial savings from the 7.4 district councils becoming three merged district authorities within each county area. As mentioned previously, the average county population is 0.8mn. Therefore, the three merged districts can be assumed to cover a population of 271,727 people each.

The table below shows the breakdown of the range of cumulative net savings that could be achieved across all 27 county areas over five years. This results in a net saving of between £531mn and £839mn.

<table>
<thead>
<tr>
<th>Area</th>
<th>Cumulative saving/cost</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>Increase in members remuneration and elections spend</td>
<td>£161mn</td>
<td>£194mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>Reduction in senior management required</td>
<td>£293mn</td>
<td>£508mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>Reduction in middle management and other staff</td>
<td>£127mn</td>
<td>£197mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>Reduction in middle management and Optimisation of non-staffing service expenditure</td>
<td>£119mn</td>
<td>£235mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>Reduction in the office space required</td>
<td>£18mn</td>
<td>£30mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>Estimated cost of reorganisation</td>
<td>(£188mn)</td>
<td>(£325mn)</td>
</tr>
<tr>
<td>Total cumulative net saving (five years)</td>
<td></td>
<td>£531mn</td>
<td>£839mn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td></td>
<td>£165mn</td>
<td>£266mn</td>
</tr>
<tr>
<td>Reduction to spend (excl. Care and Education)**</td>
<td></td>
<td>1.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>FTE reduction</td>
<td></td>
<td>1,442</td>
<td>2,269</td>
</tr>
<tr>
<td>Payback period</td>
<td></td>
<td>Three years, eight months</td>
<td></td>
</tr>
</tbody>
</table>

*Total savings for one year as a percentage of the total county spend, excluding Social Care and Education expenditure

**This figure includes the overall spend for both county and district councils in order to ensure this is comparative to the other scenarios analysed

To illustrate the potential savings across different council sizes, the below table shows the midpoint savings and implementation costs for a single small, average and large county area over a five year period.

<table>
<thead>
<tr>
<th>Area</th>
<th>Small county 0.4mn population</th>
<th>Average county 0.8mn population</th>
<th>Large county 1.2mn population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>£3mn</td>
<td>£7mn</td>
<td>£10mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>£7mn</td>
<td>£15mn</td>
<td>£22mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>£3mn</td>
<td>£6mn</td>
<td>£9mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>£3mn</td>
<td>£7mn</td>
<td>£10mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>£0.5mn</td>
<td>£0.9mn</td>
<td>£1mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>(£5mn)</td>
<td>(£9mn)</td>
<td>(£14mn)</td>
</tr>
<tr>
<td>Total cumulative net saving (five years)</td>
<td>£13mn</td>
<td>£25mn</td>
<td>£38mn</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td>£4mn</td>
<td>£8mn</td>
<td>£12mn</td>
</tr>
</tbody>
</table>
The implementation costs for this scenario are set out below. The table below represents the upper range of these potential costs under scenario 5 and details how these are incurred across the 3 year delivery timescale:

<table>
<thead>
<tr>
<th>Implementation area</th>
<th>Overall</th>
<th>Year zero</th>
<th>Year one</th>
<th>Year two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning, pre-launch, communications and branding</td>
<td>£26mn</td>
<td>£19mn</td>
<td>£4mn</td>
<td>£3mn</td>
</tr>
<tr>
<td>IT costs and new system training</td>
<td>£173mn</td>
<td>£86mn</td>
<td>£86mn</td>
<td>£0</td>
</tr>
<tr>
<td>Redundancies/ pension</td>
<td>£43mn</td>
<td>£25mn</td>
<td>£9mn</td>
<td>£9mn</td>
</tr>
<tr>
<td>Implementation programme team</td>
<td>£44mn</td>
<td>£21mn</td>
<td>£13mn</td>
<td>£10mn</td>
</tr>
<tr>
<td>Staff and member induction</td>
<td>£9mn</td>
<td>£9mn</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Disaggregation costs</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Transition contingency</td>
<td>£30mn</td>
<td>£15mn</td>
<td>£9mn</td>
<td>£6mn</td>
</tr>
<tr>
<td>Total</td>
<td>£325mn</td>
<td>£175mn</td>
<td>£122mn</td>
<td>£28mn</td>
</tr>
</tbody>
</table>

The graph below shows the estimated timing of cost and savings and the overall net position for scenario 5 each year using the lower range of savings estimated and the upper range of implementation costs which gives the most prudent position.

Scenario 5: Payback period of 3 years, 8 months

**Headlines from the quantitative analysis are:**
- Over five years, this scenario could provide cumulative net savings of up to £839mn. In comparison to the other six scenarios, this ranks third after scenarios 1 and 2. The upper annual potential savings (after implementation costs) are just over £266mn which represents 1.0% of overall service expenditure across the county and district counties or 2.6% of the overall net spend, excluding Care and Education
- The largest area of savings under this scenario is within senior management, as per the other scenarios, and this could amount to between £293mn and £508mn
- This scenario does not include disaggregation costs and overall implementation costs are lower than a move to single-tier governance. The highest cost to implementation is in relation to IT costs and new system training and the payback timescale for this scenario is three years and eight months

**Non-financial analysis**
Combining the district councils that sit beneath the county council area can provide a number of benefits:
- **Efficiencies and economies of scale**

Efficiencies could be achieved through the removal of duplicate roles and an increase in middle management spans of control that would allow for a reduction in the number of middle managers required.

The larger merged districts can also begin to develop local plans on a larger scale and across a larger geographical area than they could have done previously. This will achieve some benefits however not to the same extent as scenarios 1 or 2.
4.13 Scenario 6: Three unitary authorities and a combined authority

Under this scenario, we have analysed the consolidation of the county and district councils and the creation of three equally sized unitary authorities (as per scenario 3) with a joint service delivery arrangement for strategic services (Adults Social Care, Children’s Social Care and Transport) and the establishment of a Combined Authority.

As noted in the context section of this report, the Cities & Local Government Devolution Act makes provision for a situation in which, as a new combined authority is created the simultaneous creation of unitary authorities can also be proposed. This scenario has been analysed in response to activity in the sector, namely Oxfordshire, where it has been proposed that a number of unitary authorities would be created and additional capacity for strategic services, currently provided by the county, would be transferred to a combined authority. It is important to note that this type of reorganisation has not been attempted previously, and this type of Combined Authority could be significantly different to those currently in operation in metropolitan authorities and those being developed in county areas.

Within this analysis, we have assumed the use of an alternative service delivery model (ASDM) for the management of three areas of strategic service provision — adult social care, children’s social care and transport. With the removal of the strategic capacity of the county council it is assumed that a fourth senior management team of three is required in addition to an elected mayor to oversee the ASDM and the statutory post of a Combined Authority. The elected mayor has been included in order to provide a point of accountability and responsibility.

The financial and non-financial analysis provided below builds on our experience to date with ASDMs and combined authorities, including the estimated implementation costs.

The following table breaks down the potential savings and implementation costs that could materialise through this scenario across the 27 county areas. This scenario results in an estimated cumulative net cost, over five years, of between £36mn and £366mn:

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Resident and service user impact

This scenario could enhance user experience through more streamlined and optimised district services. The consolidated district councils can also learn from each other and implement best practices from each organisation, leading to improved delivery of district services. This would be especially useful if a high performing and lower performing district are consolidated in order to improve overall service delivery.

Transition and implementation

This scenario causes less disruption than those that consolidate the county and district councils so, in comparison, could be implemented more easily. This scenario could also suit those county areas that want to consolidate but do not have the support from all county and district councils within the county area.

However, the creation of merged districts could also lead to disruptions to service delivery and there could be a number of implications and challenges that should be considered:

Financial sustainability

Consolidating district councils can achieve efficiency savings however, as noted previously in this report, social care services are under increasing demand and financial pressure. Savings achieved at the district level therefore may not necessarily impact frontline social care services.

Efficiencies and economies of scale

Even after the creation of merged districts, duplication within services across the district councils will remain. This would be to a lesser extent than there currently is, but it would not fulfil the full potential reduction in duplication that can be achieved in scenario 1.

Transition and implementation

As per other scenarios, the consolidation of district councils could be disruptive to staff and impact residents through having to communicate with a new merged district.

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To illustrate the potential savings across different council sizes, the below table shows the midpoint savings and implementation costs for a single small, average and large county area.

<table>
<thead>
<tr>
<th>Area</th>
<th>Small county 0.4mn population</th>
<th>Average county 0.8mn population</th>
<th>Large county 1.2mn population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>£0.3mn</td>
<td>£0.5mn</td>
<td>£0.8mn</td>
</tr>
<tr>
<td>Senior management</td>
<td>£5mn</td>
<td>£11mn</td>
<td>£16mn</td>
</tr>
<tr>
<td>Support Services rationalisation</td>
<td>£4mn</td>
<td>£8mn</td>
<td>£12mn</td>
</tr>
<tr>
<td>Service delivery efficiencies</td>
<td>£3mn</td>
<td>£6mn</td>
<td>£8mn</td>
</tr>
<tr>
<td>Accommodation</td>
<td>£0.2mn</td>
<td>£0.3mn</td>
<td>£0.5mn</td>
</tr>
<tr>
<td>Implementation cost</td>
<td>(£16mn)</td>
<td>(£33mn)</td>
<td>(£49mn)</td>
</tr>
<tr>
<td>Total cumulative net saving (five years)</td>
<td>(£4mn)</td>
<td>(£7mn)</td>
<td>(£11mn)</td>
</tr>
<tr>
<td>Annual savings (post implementation)</td>
<td>£3mn</td>
<td>£6mn</td>
<td>£10mn</td>
</tr>
</tbody>
</table>

*Please note, the ‘lower’ column represents the lower range of savings that can be achieved and therefore is based on the costs of the largest set of members. As such, this is a greater cost and is the reason why this figure is within this column.

**These figures exclude any potential savings that could be achieved in the strategic services that are transferred to a joint service delivery arrangement.

***Total savings for one year as a percentage of the total county spend, excluding Social Care and Education expenditure

****This reduction excludes FTE reduction from transferring staff to the ASDM.
The implementation costs for this scenario are set out below. The table below represents the upper range of these potential costs under scenario 6 and details how these are incurred across the 3 year delivery timescale:

<table>
<thead>
<tr>
<th>Implementation area</th>
<th>Overall</th>
<th>Year zero</th>
<th>Year one</th>
<th>Year two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning, pre-launch, communications and branding</td>
<td>£65mn</td>
<td>£49mn</td>
<td>£10mn</td>
<td>£6mn</td>
</tr>
<tr>
<td>IT costs and new system training</td>
<td>£216mn</td>
<td>£108mn</td>
<td>£108mn</td>
<td>£0</td>
</tr>
<tr>
<td>Redundancies/pension</td>
<td>£86mn</td>
<td>£62mn</td>
<td>£12mn</td>
<td>£12mn</td>
</tr>
<tr>
<td>Implementation programme team</td>
<td>£88mn</td>
<td>£41mn</td>
<td>£27mn</td>
<td>£19mn</td>
</tr>
<tr>
<td>Staff and member induction</td>
<td>£27mn</td>
<td>£27mn</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Disaggregation costs</td>
<td>£54mn</td>
<td>£27mn</td>
<td>£16mn</td>
<td>£11mn</td>
</tr>
<tr>
<td>Combined Authority and ASDM set up</td>
<td>£479mn</td>
<td>£479mn</td>
<td>£0</td>
<td>£0</td>
</tr>
<tr>
<td>Transition contingency</td>
<td>£85mn</td>
<td>£42mn</td>
<td>£25mn</td>
<td>£17mn</td>
</tr>
<tr>
<td>Total</td>
<td>£1.1bn</td>
<td>£836mn</td>
<td>£198mn</td>
<td>£65mn</td>
</tr>
</tbody>
</table>

The graph below shows the estimated timing of cost and savings and the overall net position for scenario 6 each year using the lower range of savings estimated and the upper range of implementation costs which gives the most prudent position.
Financial analysis

Headlines from the quantitative analysis are;

 ► This option provides an annual saving (post implementation costs) of up to £257mn which represents 0.9% of the overall spend of £27.5bn across the 27 county areas. When Care and Education spend is excluded, this saving amounts to 2.5% of the net spend. Over five years, the cumulative net cost of this scenario is between £36mn and £366mn due to the significant implementation costs that are likely to be required

 ► As with scenario three, the largest area of savings is from the reduction in the number of senior management teams in this scenario. However, the savings here are slightly lower than scenario 3 as we have taken into consideration the need for additional management to manage the alternative service delivery models (ASDMs)

 ► The number of Councillors increases in this option due to the assumption that the number of councillors per organisation should align with the average number of councillors within county councils currently, rather than the average within district councils. This scenario also has the additional cost of an elected mayor

 ► The implementation costs in this scenario are the highest across all six scenarios. This is predominantly due to the disaggregation costs and the initial set up costs required for the ASDMs and the Combined Authority. As already noted, this type of reorganisation has not been attempted previously and so the transition contingency in this scenario is slightly higher due to the additional uncertainties

 ► Due to the implementation costs and the low potential savings, this scenario has the longest payback period of all six scenarios and could take over 7 years

Non-financial analysis

Scenario 6 builds on elements of scenario 3, creating three unitary councils in place of the county and district authorities. However, we have modelled the introduction of ASDM for social care and transport services and the introduction of a combined authority and Elected Mayor. Some of the benefits and challenges already outlined for scenario 3 would therefore apply here. However, there are some potential additional benefits for this scenario, which must be balanced against the risks and challenges outlined:

 ► Alternative service delivery models

 An integrated care trust for the provision of adults and children’s social care services could offer a number of opportunities:

 ► Clear leadership structures and separation from the wider council’s operation could support the Health, Social Care and integration agendas

 ► Refresh leadership and attract ambitious individuals to a new way of working

 ► Creates scale and trading potential for some services

 Section 6 provides further analysis on the benefits and risks of ASDMs and care trusts.

 ► Coterminous boundaries and collaboration capacity

 This scenario could involve the creation of a combined authority, providing the potential for the devolution of powers. The ability for the council to negotiate a devolution deal could be further enhanced by the election of a mayor, an action that has been prevalent in the majority of devolution deals to date. However, it must be noted that the new government may change their views in relation to the requirement for a mayor as part of a devolution deal. This opportunity is further discussed in the section on public service reform.

 ► Efficiencies and economies of scale

 We have not assumed any savings within social care, however the ASDMs could achieve efficiency savings and reduce costs through utilising best practice and sharing resources.

 The key risk of this scenario is that it looks at a form of reorganisation that hasn’t been attempted before. There would be a significant impact on service delivery and the workforce of the district and county councils, creating a number of challenges. However it is not clear how this will be resourced in practice. In addition, the outsourcing of strategic services will give rise to a number of risks that have to be considered, including:

 ► Financial sustainability

 Over five years, this scenario results in a cost rather than a saving so financial sustainability in the short-term will need to be considered and weighed up against any potential long-term benefits that may be achieved.

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Efficiencies and economies of scale

As in scenario 4, there are both challenges in outsourcing strategic services and the benefits that could materialise. There have been incidences where outsourced contracts have been reversed due to the realisation that greater benefits could be delivered in-house. Therefore there is a question mark as to the benefits that could realistically be achieved.

As with scenario 2 and 3, this scenario requires disaggregation of services which could reduce the economies of scale that could be achieved. Each of the unitary authorities created would also require a senior management team, creating duplicate roles, and more middle management than is required in scenarios 1 or 2.

Transition and implementation

This scenario would involve considerably higher implementation costs and risk. The establishment of alternative delivery vehicles for a number of the county council’s strategic services and the transfer of the workforce will cause significant disruptions. This could have wide reaching implications if the risks and issues have not been suitably analysed and mitigated.

It’s been noted previously that social care is facing increasing demand and continued financial pressure. These challenges could be enhanced through the disruption that could be encountered through the introduction of ASDMs.

The establishment of Trusts and the development of Local Authority Trading Companies (LATCO’s) have caused considerable controversy over the issue of risk transfer and whether, in relation to statutory responsibilities, this is even possible.

Governance and community engagement

Critics of ADSM’s in key areas that involve vulnerable people argue that there is a loss of democratic control as there is the possibility of the arms-length organisation acting independently and not always in accordance with the council’s wishes or interests. This could cause difficulties as the councils will retain statutory responsibility for safeguarding as a whole and for the outcome of things like assessments.

As mentioned, this scenario could involve the establishment of a combined authority (CA). If this happens then the election of a mayor could increase the likelihood of a devolution deal. Without a mayor it may be difficult to show that there is appropriate democratic accountability for devolved powers, meaning that a CA could become an extra layer of governance and an additional ongoing expense.

Information sharing and integration

Robust data sharing agreements would need to be established with the outsourced service providers in order to allow the council and the outsourced services to operate effectively.

If the social care function is outsourced, there is likely to be difficulties faced in sharing data and intelligence. This will reduce the ability of the council to identify the needs of the population and provide the optimum services to most effectively reduce service demand.

Resident and service user impact

In terms of the impact on service users, this option is likely to cause the highest levels of disruption due to the transfer of strategic services to the ASDM and the potential introduction of a combined authority. There is also potentially less connectivity to other services if standalone strategic services exist for example the link between Adult Social Care and Housing.

Additional risks of social care trusts

There are a number of risks that will arise if the delivery of social care services are transferred to a trust outside the local authority:

- The councils may wish to retain some organisational sovereignty which could create issues with the trust
- The local authority may have little control over the quality of the service delivered
- There needs to be excellent relationships between the authority and local health commissioners in order to attain the greatest benefits
- Financial incentives of the trust and the council may not be aligned, for example, NHS activity-based payments may have a negative effect
- There would be a number of systemic barriers that need to be addressed (e.g., ICT)

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24 ‘Why have councils fallen out of love with outsourcing vital services?’ The Guardian. March 2016
Financial analysis

4.14 Summary

As shown in the financial analysis above, each scenario has a number of benefits and challenges which will need to be considered by any county area before progressing further. The below table provides a summary of the range of savings that could be achieved across the 27 two-tier county areas along with the cumulative net savings for the average county council.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Cumulative net saving/cost (five years)</th>
<th>Annual saving (post implementation)</th>
<th>Reduction to spend (excl. Care and Education)**</th>
<th>Implementation costs</th>
<th>Payback period</th>
<th>Cumulative net saving/cost per average county (five years)</th>
<th>Annual saving (post implementation) per average county</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unitary</td>
<td>£2.37-£2.86bn</td>
<td>£621-781mn</td>
<td>6.0-7.5%</td>
<td>£277-393mn</td>
<td>Two years, two months</td>
<td>£88-£106mn</td>
<td>£23-£29mn</td>
</tr>
<tr>
<td>Two Unitaries</td>
<td>£1.17-£1.70bn</td>
<td>£361-520mn</td>
<td>3.5-5.0%</td>
<td>£371-519mn</td>
<td>Three years, two months</td>
<td>£43-£63mn</td>
<td>£13-£19mn</td>
</tr>
<tr>
<td>Three Unitaries</td>
<td>(£33mn)-£526mn</td>
<td>£98-266mn</td>
<td>0.9-2.6%</td>
<td>£401-585mn</td>
<td>Seven years</td>
<td>(£1mn)-£19mn</td>
<td>£4-£10mn</td>
</tr>
<tr>
<td>Shared Support Services</td>
<td>£160-568mn</td>
<td>£63-205mn</td>
<td>0.6-2.0%</td>
<td>£84-173mn</td>
<td>Four years, eleven months</td>
<td>£6-£21mn</td>
<td>£2-£8mn</td>
</tr>
<tr>
<td>Merged Districts</td>
<td>£531-839mn</td>
<td>£165-266mn</td>
<td>1.6-2.6%</td>
<td>£188-325mn</td>
<td>Three years, eight months</td>
<td>£20-£31mn</td>
<td>£6-£10mn</td>
</tr>
<tr>
<td>Three Unitaries and a CA**</td>
<td>(£36mn)-(£366mn)</td>
<td>£87-257mn</td>
<td>0.8-2.5%</td>
<td>£680mn-£1.10bn</td>
<td>Seven years plus</td>
<td>(£1mn)-(£14mn)</td>
<td>(£3-£10mn)</td>
</tr>
</tbody>
</table>

*Combined Authority
**Annual saving (post implementation) as a percentage of the total county spend, excluding Social Care and Education expenditure

<table>
<thead>
<tr>
<th>Net saving/cost per county by scenario</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small county 0.4mn population</td>
<td>£44-£53mn</td>
<td>£22-£31mn</td>
<td>(£1mn) to £10mn</td>
<td>£3-£11mn</td>
<td>£10-£16mn</td>
<td>(£1mn) to (£7mn)</td>
</tr>
<tr>
<td>£465mn spend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average county 0.8mn population</td>
<td>£88-106mn</td>
<td>£42-£63mn</td>
<td>(£1mn) to £19mn</td>
<td>£6-£21mn</td>
<td>£20-£31mn</td>
<td>(£1mn) to (£14mn)</td>
</tr>
<tr>
<td>£930mn spend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large county 1.2mn population</td>
<td>£132-£159mn</td>
<td>£65-£94mn</td>
<td>(£2mn) to £29mn</td>
<td>£9-£32mn</td>
<td>£30-£47mn</td>
<td>(£2mn) to (£20mn)</td>
</tr>
<tr>
<td>£1.4bn spend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

EY has evaluated local government reorganisation in a number of individual county areas and the overall findings can be seen in the table below. When comparing these results to the analysis that has been completed on all 27 county areas within this report, the potential reduction to spend that could be achieved in the scenarios that retain single tier governance can be deemed prudent. The pattern in the potential savings mirror that which has been achieved previously and the baseline within this analysis includes factors that would reduce the achievable savings e.g., shared management posts which reflects steps that have already been taken by authorities to reduce their overall spend. Therefore, there is greater confidence in the ability to achieve these savings due to experience of both forecasting and implementing such types of reorganisation.
As is noted throughout the report, scenario 6 has greater risk and uncertainty involved and, therefore we cannot have the same confidence in realising the estimated range of savings as this is untested.

<table>
<thead>
<tr>
<th>County and date of financial case</th>
<th>Scenario</th>
<th>Savings range</th>
<th>Reduction to spend (exc. Care and Education)</th>
<th>Implementation</th>
<th>Net cumulative saving</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oxfordshire, Jan 2015</strong></td>
<td>One Unitary</td>
<td>£26.5mn-£32.5mn</td>
<td>12.6%-15.4%</td>
<td>£14.7mn-£15.9mn</td>
<td>£69.2mn-£81.1mn</td>
</tr>
<tr>
<td></td>
<td>Two Unitaries</td>
<td>£10.0mn-£15.0mn</td>
<td>4.8%-7.1%</td>
<td>£13.6mn-£14.4mn</td>
<td>£18.6mn-£30.2mn</td>
</tr>
<tr>
<td></td>
<td>Three Unitaries</td>
<td>£1.9mn-£6.8mn</td>
<td>0.9%-3.2%</td>
<td>£12.0mn-£12.2mn</td>
<td>£8.5mn-£5.7mn</td>
</tr>
<tr>
<td><strong>Buckinghamshire, Sep 2014</strong></td>
<td>One Unitary</td>
<td>£15.7mn-£20.7mn</td>
<td>10.6%-14.0%</td>
<td>£10.7mn-£11.6mn</td>
<td>£44.6mn-£58.3mn</td>
</tr>
<tr>
<td></td>
<td>Two Unitaries</td>
<td>£6.6mn-£11.1mn</td>
<td>4.5%-7.5%</td>
<td>£9.4mn-£10.0mn</td>
<td>£13.4mn-£26.9mn</td>
</tr>
<tr>
<td><strong>Cumbria, Jan 2015</strong></td>
<td>One Unitary</td>
<td>Up to £28.3mn (from year three)</td>
<td>11.4%-14.8%</td>
<td>£13.6mn-£14.7mn</td>
<td>Up to £68.1mn</td>
</tr>
<tr>
<td></td>
<td>Two Unitaries</td>
<td>Up to £16.8mn (from year three)</td>
<td>5.5%-8.8%</td>
<td>£13.5mn-£14.4mn</td>
<td>Up to £33.5mn</td>
</tr>
</tbody>
</table>

We can also make a comparison to the savings achieved by previous unitary authorities. Our analysis shows that the annual savings, post implementation, equate to 5.8% to 7.3% of overall spend (excluding Care and Education) for the single unitary option. As can be seen in the table below, previous unitary authorities have achieved greater savings than this. More detail on these can be seen in the next section.

<table>
<thead>
<tr>
<th>Unitary</th>
<th>Projected saving</th>
<th>Estimated savings achieved</th>
<th>2008/09 Net current expenditure (excl. Care and Education)**</th>
<th>Year one saving as a % of spend excl. Care and Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornwall</td>
<td>£17mn per year</td>
<td>£25mn per year</td>
<td>£149.1mn</td>
<td>16.80%</td>
</tr>
<tr>
<td></td>
<td>(est. £25mn per year)</td>
<td>(est. £100mn in four years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wiltshire</td>
<td>£18mn per year</td>
<td></td>
<td>£89.2mn</td>
<td>28.00%</td>
</tr>
<tr>
<td></td>
<td>(est. £28mn per year)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northumberland</td>
<td>£17mn per year (£51mn in three years)</td>
<td>(est. £85mn over three years)</td>
<td>£124.7mn</td>
<td>22.50%</td>
</tr>
<tr>
<td>Durham</td>
<td>£22mn per year (£66mn in three years)</td>
<td>£22mn in year one (£130mn over three years)</td>
<td>£84.8mn</td>
<td>25.90%</td>
</tr>
<tr>
<td>Shropshire</td>
<td>£20mn per year</td>
<td>£20mn per year</td>
<td>£67.8mn</td>
<td>29.50%</td>
</tr>
</tbody>
</table>

**Annual saving (post implementation) as a percentage of the total county spend, excluding Social Care and Education expenditure
4.15 Financial sustainability and additional considerations

Our analysis has been predominantly focused on the combined revenue General Fund budgets. This has focused on the efficiency savings and transformation that could be achieved by moving to any of the above models of governance in county areas.

However, consideration will need to be given to the combined balance sheet (reserves, balances and treasury management), business rates retention, council tax harmonisation, the Housing Revenue Account, pay harmonisation and potential capital receipts from property portfolio rationalisation.

Each scenario presents a range of potential savings that could be achieved through reorganisation. This section provides a high-level assessment on the additional areas to consider and the potential financial sustainability of each of the model.

Government support to councils in the form of the RSG has been cut by 40% since 2010 and will be phased out completely by 2020 with councils transitioning to a new set of arrangements. These arrangements support councils in becoming more self-sufficient and less reliant on central government support through business rate retention and Council tax increases linked to social care pressures.

The extent to which a council can be successful in achieving a degree of financial independence and sustainability over time relies on a number of factors:

1. The ability to raise money from taxation
2. The ability to reduce costs through collaboration with other organisations
3. The ability to leverage assets to generate income
4. The capacity to borrow money to invest to save or to grow and attract investment
5. The ability to reduce costs through reform and effective preventative services

4.15.1 Business Rates

As noted throughout this report, planned reforms to business will transform the way councils are funded by 2020. In considering the financial sustainability of the governance models in this study, it is critical to ascertain an understanding on whether they will retain sufficient income from the system to sustain and invest in local services.

Recent research carried out by Pixel Financial Management highlighted that there is an unequal relationship between high need and the level of business rates collected across some councils. The report also illustrated a large variance in business rate income between district councils within a single county boundary. Since 2010 unitary authorities have seen a 3.7% growth in Rateable Value (RV) in comparison to 1.7% in county councils illustrating the variation of growth within CCN members. Since the same year, CCN unitary authorities saw a 3.6% average growth in Net Rates Payable (NRP) compared to 2.3% average growth in counties. Although these increases have led to greater income for unitaries, it should be noted they have also had a higher percentage of mandatory reliefs and a slower reduction in these mandatory reliefs since 2010. For unitaries, these relieved up 10.9% of total Gross Rates Payable (GRP) and have reduced 9% since 2010/11, compared to the 7.3% of GRP in the county councils and a 16% reduction since 2010/11. Additionally, both the average GRP (£310 per head) and NRP (£260 per head) for unitaries are lower than the county council averages (£315 and £305 per head respectively). This shows that despite having RV growth, it is not translating to growth in NRP due to the reliefs being paid.

Looking at the variations within a county area, many counties saw a large disparity between their district councils. For example, in Worcestershire, Redditch saw a 4% reduction in RV compared to Bromsgrove which experienced over a 20% increase in RV between 2010/11 and 2014/15. Below we have provided examples within Pixel Financial Management’s report for CCN, which further demonstrates the variation of business rates income in county areas.
Independent Analysis of Governance Scenarios and Public Service Reform in County Areas  September 2016

An additional aspect to take into consideration with regards to business rates is the level of urbanisation in a county area. In more rural areas the Rateable Value (RV) per head is significantly lower, meaning less income from business rates can be expected. Additionally, where there is a prevalence of charities and small businesses, more mandatory reliefs must be paid, which means councils find it difficult to convert value and growth into income. This corresponds with the analysis at a district council level where lower growth in RV is experienced in more urban authorities compared to rural areas.

An example is London where there has been a growth in NRP of 18.2% since 2010 in comparison to an average of less than 4% elsewhere. It is likely that this increase is due to a reduction in the mandatory reliefs paid as the economy has improved. As such, London’s GRP lies at £1510 per head in comparison to the £354 per head national average.

Government is currently consulting on their proposals for business rates retention and it is unclear as yet to how the system will work. However, when looking at financial sustainability and the implications for the different governance scenarios, it is clear that any reforms would need to be responsive to the specific challenges facing county areas outlined above.

When looking at the unitary scenarios, the creation of larger scale, single unitary authorities could enable a more sustainable distribution of business rates across a whole county area. Authorities covering larger and more diverse geographical and economic areas could be better placed to respond to the challenge
of the divergence of business rates growth between rural and urban areas and high and low growth districts. Overall, this should mean that levels of need and income from business rates growth is better balanced across an area. This would allow service provision across areas to be sustainable and result in greater sustainability of the organisation.

The division of the county into two or three unitary authorities could impact the ability for the new organisations to generate income through business rates and balance this with the need for local services. Splitting county authorities into multiple new organisations may also create new authorities which are in a more favourable position with the move to 100% business rates retention than others. Any structural reform should be done in a way that does not result in one organisation that is disproportionately more financially viable than the other(s). It should instead bring together a healthy diversity of high growth, low growth, urban and rural areas.

Two-tier areas could face potential challenges of fragmented tax, growth and service strategy under full business rates retention. If all authorities are able to set the multiplier and reliefs separately then there may be added complexities between district and county councils in forming a coherent growth strategy and making the economic area attractive to business. Larger unitary authorities would have one central point of liaison with businesses and for making decisions about business rates and council tax, growth and housing policy and services provision. A coherent strategy could be achieved in two tier areas, or between smaller unitaries, but this would need a high level of co-operation and co-ordination.

With the Government’s consultation at an early stage, the implications for combined authorities and areas that retain two-tier governance are unclear at present.

4.15.2 Collaboration

In terms of reducing costs through collaboration with other organisations, it should be recognised that this journey has, for many councils, been underway for some time. Others have come together to develop shared service arrangements to share costs and obtain investment. ‘Services Shared = Costs Spared?’ an LGA report, examined a handful of shared service arrangements that demonstrated net savings of between 4-8% of the original base within two years of operation. Sharing on a larger scale may enable even greater savings.

Utilising their capabilities, many councils have embarked on attempts to leverage long held assets and develop trading entities to generate income. It is difficult to draw any general conclusions for the benefits to be gained from this activity, but the market place for back office services, legal services, schools support etc. is becoming quite crowded with local government players. In general, ventures will not be successful if there has not been work done to develop an efficient, low cost base with clear customer value propositions.

In terms of which scenario could be considered as best situated to support financial sustainability, scale is an important factor. An additional key factor is the change capacity necessary to establish trading ventures. Coterminal boundaries are less important and there are many examples of district councils working across boundaries to share services and reduce costs with considerable success.

4.15.3 Borrowing

Local Government is able to borrow funds under the Prudential Code with the borrowing limit set in relation to the revenue streams available to the authority28. Scenarios 1, 2 and 3 give differing levels of size and scale that could deliver the greatest efficiencies and provide greater leverage for negotiating borrowing. They may also have greater weight in exploring new forms of borrowing, for example, tax increment financing. This allows an authority to borrow against a future increase in tax receipts from the infrastructure project that would be funded by the borrowing.

4.15.4 Housing revenue account

The creation of one or more unitary authorities in a county area would allow for the pooling of Housing Revenue Accounts (HRA). The HRA specifically accounts for spending and income related to the management and maintenance of an authorities housing stock. The HRA is a ring-fenced account meaning that it is kept separate from other Council accounts, and funds held within it cannot be used to cover the costs of other Council services. Rather these must be spent on maintaining current housing stock or possibly improving or buying new assets should surplus funds be available. Therefore, this analysis has excluded the Housing Revenue Account (HRA) in terms of potential savings from synergies or otherwise. Whilst benefits may well exist, any savings would be ring-fenced to benefit social housing tenants within the HRA and could not be used to contribute to a new unitary authority’s general fund.

There is a slightly wider issue relating to land availability as the resources and potential development land are often not aligned meaning that the demand for new housing, particularly social housing, is unmet. Reorganisation could present an opportunity to take a more strategic view of this challenge in addition to providing additional collateral against which to maximise future borrowing potential.

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4.15.5 Pay Harmonisation

The new authorities would need to create a single framework for structure and reward across each organisation that is created. While serving to capture any remaining pay anomalies, this may also produce potential harmonisation costs.

4.15.6 Harmonisation of council tax

District councils are each responsible for setting the level of council tax to be paid on all domestic properties and it is the main source of locally raised income for most local authorities and includes tax relating to the county, district, Fire and Police, and any parish councils.

Currently there are variations in the amount of council tax paid across county areas due to the fact that whilst the 27 upper tier counties levy a single level of council tax (per county), the district councils each set their own level. In England, council tax is based upon a property valuation band from A-H. We have based our analysis on Band D. Over the 201 district councils in two tier areas, the band D council tax charge ranges from £1,247 to £1,506.

A move to unitary authorities provide the opportunity to harmonise council tax across the counties. The relevant options for this include:

- Harmonising at the current average level of council tax paid across all households in the county
- Harmonising based on all households paying at the current lowest level across the county
- Harmonising based on all households paying at the current highest level across the county

Each area may decide to take a different approach which would vary the savings that could be achieved. However, looking across all two tier areas, the following table summarises the overall household and council outcomes (more detail on the variation in council tax across district councils can be seen in the appendix).

<table>
<thead>
<tr>
<th>Harmonisation approach</th>
<th>Proposed council tax rate</th>
<th>Household outcomes</th>
<th>Council outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Average change</td>
<td>No. of households who see a reduction</td>
</tr>
<tr>
<td>Lowest council tax</td>
<td>£1,247 (£100)</td>
<td>9,218,440</td>
<td>56,522</td>
</tr>
<tr>
<td>Current average council tax</td>
<td>£1,346 £0</td>
<td>4,119,519</td>
<td>0</td>
</tr>
<tr>
<td>Highest council tax</td>
<td>£1,506 £160</td>
<td>0</td>
<td>58,516</td>
</tr>
</tbody>
</table>

If council tax were to be harmonised at the highest rate, the overall increase required would be 10.6%. This is substantially higher than the upper percentage increase that councils are able to apply to council tax year on year. Harmonising council tax levels above this may require a referendum which would incur additional costs.

If we look at a specific example of an average sized county, there are currently variations in the level of council tax paid across the county due to the levels set by the district councils. If a single-tier authority was introduced there would need to be a harmonisation of council tax across the county. The following table summarises the financial impact of the three approaches that could be taken:

<table>
<thead>
<tr>
<th>Harmonisation approach</th>
<th>Proposed council tax rate</th>
<th>Household outcomes</th>
<th>Council outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Average change</td>
<td>No. of households who see a reduction</td>
</tr>
<tr>
<td>Lowest council tax</td>
<td>£1,298 (£47)</td>
<td>2,56,183</td>
<td>65,031</td>
</tr>
<tr>
<td>Current average council tax</td>
<td>£1,345 £0</td>
<td>82,057</td>
<td>0</td>
</tr>
<tr>
<td>Highest council tax</td>
<td>£1,426 £81</td>
<td>0</td>
<td>41,349</td>
</tr>
</tbody>
</table>
As can be seen, based on Band D equivalent household, harmonising at the highest level would result in an additional £28mn income, but would require a referendum. Whereas harmonising at the lowest level would require a savings reinvestment of £13mn. This reduction in council tax would need to be implemented in phases, alongside the achievement of efficiency savings.

Depending on the approach taken, there are implications for the overall savings that could be achieved, i.e., harmonising at the current lowest level of council tax across a county would require an investment of some of the potential savings whilst harmonising at the current highest level would result in additional income.

Scenario 2, 3 and 6 are based on a theoretical split of the county rather than a specific geographical split so it is difficult to model the exact impact of council tax harmonisation. However, as with scenario 1, harmonising council tax at the highest level, would deliver additional revenue, and harmonising at the lowest level would result in a need to reinvest some of the potential savings. This could be seen as more possible in scenario 1 as it provides the highest level of savings and would mean a referendum isn’t required to agree any increases in council tax.

<table>
<thead>
<tr>
<th>Summary of revenue account</th>
<th>Estimated unallocated financial reserves level at 1 Apr 2016 (£000’s)</th>
<th>Estimated unallocated financial reserves level at 31 Mar 2017 (£000’s)</th>
<th>Unallocated reserves (at Mar 17) as a percentage of overall service expenditure</th>
<th>Average reserves per county and district at 31 Mar 2017 (£000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>County councils</td>
<td>683,853</td>
<td>652,144</td>
<td>2.60%</td>
<td>£24,135</td>
</tr>
<tr>
<td>District councils</td>
<td>692,284</td>
<td>664,916</td>
<td>24.30%</td>
<td>£3,308</td>
</tr>
<tr>
<td>Total</td>
<td>1,376,137</td>
<td>1,317,060</td>
<td>4.80%</td>
<td>-</td>
</tr>
</tbody>
</table>

### 4.15.7 Financial reserves

When looking at reorganisation of two-tier county areas and the consolidation of districts and county councils, it is sensible to review and consider the level of financial reserves held at each council. Currently districts and county councils each hold and manage their own reserves separately but the creation of unitary authorities in the 27 county areas could allow these funds to be pooled and potentially managed more efficiently. All councils are required to hold financial reserves in order to help them manage variations between their planned and actual budgets, and to strategically plan the use of finances to support activities over the medium and long term.

The table below sets out the total level of unallocated financial reserves across the county and district councils, based on data within the Revenue Account form. It can be seen that the county councils have the greatest levels of unallocated reserves although these do vary from £76.5mn down to £0 across the 27 county councils.

If every county area reorganised to a single-tier organisation, the average total of unallocated reserves that could be rationalised to potentially support the reorganisation process and the resilience and financial sustainability of the new organisation equates to £48.8mn. A breakdown by county can be seen in the appendix.

### 4.15.8 Capital receipts

It is important to recognise that the assumptions regarding property assets is based on a prudent assessment of future need based on potential FTE requirement. Additionally, the analysis is purely revenue based, so does not consider any (potentially substantial) capital receipts which would result from a property rationalisation programme.

We have made high level assumptions about the quality and potential upkeep of the existing property portfolios across county areas in addition to the likely scale of accommodation required by the newly created organisation(s). However, it is possible, if not probable, that there will be a requirement to invest in some of the accommodation retained to ensure that it is fit for purpose.

Finally, reconsideration of property portfolios will offer the potential to reshape public buildings around current need across the county areas rather than it being simply based on an historic portfolio. This will provide a genuine opportunity to not only realise considerable revenue savings but also ensure that public access points are designed around need.
4.16 Summary: financial sustainability

The analysis suggests that single tier governance and the creation of single unitary authorities across the 27 county areas could achieve the greatest potential in moving towards financial sustainability but there are a number of considerations which must be addressed. The analysis indicates that size and scale presents the opportunity for more equal redistribution of business rates across the whole county area and therefore delivery of efficiency gains and cost reduction as well as greater leverage in negotiating borrowing and exploring new forms of borrowing.

Single unitary authorities could maximise the financial reserves that can be pooled together and potentially managed more efficiently. This could be used to manage any variations between planned and actual budgets as reorganisation is implemented. In addition, there would be greater opportunity to harmonise council tax at lower rates across county areas, reducing household council tax costs.

As seen in the financial analysis, scenario 1 results in the largest reduction in FTEs which could result in a reduction in the accommodation required. Therefore, there could be substantial capital receipts which would result from a property rationalisation programme. These additional funds could be reinvested into the reorganisation and the frontline to ensure sustainability.

4.17 Comparison of scenarios

To assist in the comparison of the six scenarios, this section considers each in relation to the following areas:

- The possible impact on service users, for example, how might the reorganisation change the current services delivered from the perspective of the service user and what level of disruption may they experience
- Practicality of the reorganisation and the feasibility of shared working across services and restructuring the political landscape (where applicable)
- Implementation—to provide an overview of the relative costs and challenges to implement
- The extent to which the scenario can achieve financial sustainability for the county area in the long term
Financial analysis

<table>
<thead>
<tr>
<th>Impact on service users</th>
<th>Practicality</th>
<th>Implementation</th>
<th>Financial sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scenario 1 — Single Unitary Authority</strong></td>
<td>Service users could benefit from the efficiencies and economies of scale that are generated through streamlined services, removal of duplicated roles and service optimisation. This scenario would involve the least service disruption and service users in receipt of social care services should not witness a change in service provision or eligibility. The new larger organisations should also maximise the negotiation power of councils with private providers and the wider public sector. For some county areas there may be limited requirement for service redesign and intuitive restructuring of the democratic landscape. A single unitary structure could support the transfer of skills, capabilities, knowledge and best practice through shared working arrangements. However, community and locality governance structures would need to be implemented to reduce the impact of the reduction in political representation and the barriers to implementation this may cause. Implementation could be challenging at scale. However, the creation of a single unitary authority will avoid the issue of fragmentation of county council services (as in scenario 2, 3 and 6) and would be the least disruptive to large-scale strategic services, reducing the complexity of implementation. Implementation costs would be the lowest amongst the unitary options analysed. The retention of staff, would be less challenging than with the other scenarios analysed. Specialised and large scale services at the county level would retain existing staff, whilst the process of aggregation at district level could aid a more competitive recruitment process for newly reorganised services. This scenario delivers the greatest financial savings and sustainability. It can enable the most sustainable distribution of business rates and scale provides the ability to reduce costs through collaboration, leverage assets to generate income and borrow funds to save and/or grow. This scenario also provides the greatest potential to harmonise council tax levels to the lowest level.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scenario 2 — Two Unitary Authorities</strong></td>
<td>This option provides some efficiencies and economies of scale, but less than scenario 1. This option requires the merger of district councils and could cause disruption by disaggregating the current county council's functions in two. The disaggregation of county council services into two authorities could potentially lead to inconsistent service provision and increased complexity in migrating service users and renegotiating provider contracts. As two unitaries call for additional political representation it may be more straightforward to restructure the democratic landscape and provide a platform for a locality focus. However, this scenario could reduce the scope to transfer capabilities, knowledge and best practice via shared working arrangements and would be less aligned to boundaries with other public sector agencies. The overall implementation costs are higher than the single unitary option and disaggregating the existing county council structure could introduce additional complications, as well as time and cost pressures. There may be difficulties in recruiting senior roles in the new organisations however, this option has been implemented successfully in other counties. There is further complexity and challenge in the need to redraw the boundaries of the new local authorities. Savings are lower than a single unitary due to reduced efficiencies and economies of scale. However, reducing costs through collaboration could still be achieved and there could be capital receipts that could be reinvested into the reorganisation and frontline. The ability for the new organisations to generate income through business rates may be impacted with one authority being more financially viable than the other.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Impact on service users | Practicality | Implementation | Financial sustainability
--- | --- | --- | ---
Scenario 3 — Three Unitary Authorities | This scenario is likely to be most disruptive of the unitary options analysed in terms of the impact to residents. As with scenario 2, service users with care needs will most likely fall under the remit of an entirely new organisation. There will be increased complexity in migrating service users and renegotiating provider contracts. | Many of the non-financial benefits around work and knowledge sharing may lessen in this scenario as there will be more organisations and sharing the delivery of services may require complicated redesign. The number of councillors in this scenario is higher than scenario 1 and 2, which could offer the strongest locality focus. However, the introduction of three new organisations to residents and service users may prove difficult to communicate. | This scenario involves disaggregation costs and additional complexity. Overall costs will be higher to manage, for example, marketing, communications and branding across three new organisations rather than one or two. The complexity and challenge of redrawing local authority boundaries increases under this scenario. | Similar to scenario 2, this scenario results in a further reduction in potential savings through the additional senior management costs, duplications across the three organisations and reductions in service delivery efficiencies due to reduced economies of scale. This option will also result in fewer potential capital receipts as there is a smaller reduction in overall FTEs. The ability for the new organisations to generate income through business rates may be impacted with one authority being more financially viable than the others. |
Scenario 4 — Multi-County Shared Support Services | In terms of the impact on service users, the sharing of support services will cause fairly minimal disruption and changes to the services delivered. Practicality in terms of political change is less of an issue with this scenario due to no change expected in political representation. | Implementation costs are the lowest in this scenario and the key challenge faced would be ensuring the estimated benefits of sharing services are realistic and can be maximised. Other authorities have achieved savings in this area so learning from their experiences would be key. | This scenario provides lower potential savings than retaining two tier governance and merging districts. Therefore, this will have limited impact on the continued financial pressures that local government will face in the coming years. |
Scenario 5 — Merged District Authorities | The county council and the services it delivers would remain as they are and, as such, the impact on service users would be only in relation to services delivered by the district councils. In terms of the political landscape, there would need to be some element of restructuring the democratic arrangements across districts. | In terms of implementation, this option does not incur additional disaggregation costs and overall implementation costs would be lower than a move to single-tier governance. | The merging of district councils provides greater savings than sharing services at the county level. However, these savings may not be redirected to frontline services (e.g., Social Care) where financial pressure and demand continues to increase. |
Scenario 6 — Three Unitary Authorities and a Combined Authority | This scenario is an extension of scenario three, so the analysis above is applicable here. In addition, in terms of the impact on service users, this option is likely to cause the highest levels of disruption due to the transfer of strategic services to alternative service delivery models (ASDM) and the potential introduction of a combined authority. There is also potentially less connectivity to other services if standalone strategic services exist for example the link between Adult Social Care and Housing. It may be argued that ASDMs result in a loss of democratic control with the arms-length organisation acting independently and not always in accordance with the council’s wishes or interests. | The implementation costs for this scenario are the highest due to the costs of disaggregation, set up of alternative delivery models and a combined authority with the need to build in additional contingency to appropriately manage risk. | This scenario incurs a cost rather than any potential savings over a five year period as it has significant implementation costs involved. This scenario provides the greatest uncertainty and risk due to the lack of previous experience and there could be complexities in relation to how the funding will work between the unitary authorities and ASDMs. |
5.1 Reorganisation vs. redesign

In the process of considering different local governance scenarios, there is a significant opportunity to try to not only reorganise, but actually redesign the organisations to optimise service delivery. Each of the scenarios analysed has a range of attributable savings that relate to reorganisation, but it has been emphasised that by fundamentally redesigning services additional efficiencies and savings could be achieved.

Reconfiguring and optimising service design, and commissioning through collaboration and integration, offers a chance to reduce administrative and managerial duplications, releasing more resources to address demand pressures. This could create leaner, fitter and more resilient organisations that are better equipped to deal with the challenges they will face in the immediate and mid-term future.

A more detailed list of what could be redesigned includes:

- Looking beyond the current senior management posts assumed for a new organisation. These are based on what has gone before but an authority could re-evaluate the senior positions and identify those roles that are truly necessary to achieve the goals of the new organisation. In Cornwall, the organisation was streamlined and the council re-shaped to better suit the way services should be delivered in the future.

- Reviewing the role of councillors and looking at opportunities to devolve powers and budgets to create a new role for members. This could assist in increasing community resilience and engagement which is especially important in unitary authorities for retaining engagement with their residents. In Northumberland each county councillor has an annual £15,000 budget for schemes they can use for local projects in their area.

- Conducting a fundamental review of middle management and operational staff across the councils. This should incorporate a review of spans of control and the management layers required to deliver services in the most effective and efficient way.

- Completing a review of services and contracts to identify those where there is the opportunity to redesign, re-commission or renegotiate contracts to ensure that the highest provision of services are delivered at the best value for money.

- Reviewing the use of property and office space to identify the potential for implementing new ways of working. In Wiltshire, the 98 offices became 3 hubs, saving net running costs of £5mn per annum and offices have been shared with other public services, including the police and citizens advice.

- Taking the opportunity to focus and reduce the volume of delivery partners, and stripping away many barriers that could obstruct the delivery of clear community outcomes. This clarity could help create the conditions for greater levels of innovation and creativity in service commissioning and delivery, enabling the new council(s) to more effectively partner with local communities.

- Reviewing how services are delivered and identifying potential areas for channel shift. Technology continues to develop and there could be opportunities for authorities to benefit from technological advancements and become more ‘digital’ in the delivery of services. For example, the may use a web or app based system for people to ‘self-serve’ which should reduce administration costs and the number of FTEs responsible for delivering these services. An example of this is Northumberland who have published a digital strategy covering five core themes, each of which aims to utilise the opportunities digital applications present to redesign and deliver their services.

Over the last decade, there have been a number of instances of successful redesign that have been undertaken without formal legislative changes and reorganisation. Prominent amongst these examples are:

- Adur and Worthing Councils, East Sussex – Created a single senior officer structure and shared services across the two councils.

- South Oxfordshire and Vale of White Horse Councils, Oxfordshire – Shared back office services.

- The Dorset Councils Partnerships (North Dorset, West Dorset and Weymouth & Portland, Dorset Council Council) – A new operating model with a single workforce to service all three councils.

- Lincolnshire County Council – Shared procurement across 8 local authorities which has saved almost £25mn.

- East Sussex Joint Waste Committee – Four waste committees have partnered to improve the quality and efficiency of the waste services in East Sussex, savings almost £3mn.

- Cambridgeshire County Council, Northamptonshire County Council, and Milton Keynes Council – LGSS shared service delivering HR, IT, Finance, Revenue and Benefits and Legal services. This is estimated to have saved around £19mn.

29 ‘Cornwall Council to save £400,000 by axing three jobs’. Western Morning News, 6 February 2014.
Although each adopted different approaches to redesign, a common feature in each of the councils above was the evolutionary nature of their ‘journey’, often beginning with an intention to merge senior management teams and invariably leading to a full-scale shared service and commissioning arrangement as the case was proven and savings accumulated. As an indicator of the general effectiveness of such redesign arrangements, the accumulated savings over the first six years of the Vale/South Oxfordshire initiative was estimated at over £9mn.

5.2 Previous savings achieved by unitary authorities

Councils of all types have had to make cuts to their budgets in recent years as a result of reductions to local government funding and this trend is widely expected to continue for several more years to come. On top of this, demand for services is almost certain to rise as an effect of an ageing population and several other factors. Given the challenges facing local government, it is a prudent question to ask as to whether different structures of local government, in particular two-tier and unitary, are better or worse set up to deal with these future challenges.

Quantitative evidence highlighting how unitary authorities are better able to deal with challenging savings targets is evidenced in a 2011 report\(^\text{31}\). This report sought to compare savings for those councils which had transferred to unitary status in 2009 with those remaining as two-tier. Using published data from DCLG and covering a 24 month period, there was an overall savings total of 13.4% on services (within the scope of the analysis) for the new unitary authorities compared to an increase of 2.1% for those remaining as two-tier.

Between 1995 and 1998, restructuring occurred across 25 counties after Parliament approval based on recommendations made by the Local Government Boundary Commission for England (LGBCE) that some areas should be set up as single-tier unitary authorities. A further ten unitary authorities were created in 2009, leaving 27 shire counties split into 201 districts and 56 unitary authorities.

Some of the key reasoning behind reorganisation was the belief that unitary authorities would be able to reduce costs, make efficiencies and improve the overall quality of services in order to achieve better outcomes for the community.

The below table details the projected savings from the councils involved in the 2009 reorganisations and the savings reported to have been achieved.

<table>
<thead>
<tr>
<th>Unitary</th>
<th>Number of councils</th>
<th>Projected saving</th>
<th>Estimated savings achieved(^a)</th>
<th>Projected saving as percentage of 2008/09 net budget (excluding Education)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornwall</td>
<td>7</td>
<td>£17mn per year</td>
<td>£25mn per year</td>
<td>5.40%</td>
</tr>
<tr>
<td>Wiltshire</td>
<td>5</td>
<td>£18mn per year</td>
<td>(est. £25mn per year) £100mn in four years</td>
<td>5.50%</td>
</tr>
<tr>
<td>Northumberland</td>
<td>7</td>
<td>£17mn per year (£51m in three years)</td>
<td>(est. £28mn per year) £85mn over three years</td>
<td>4.80%</td>
</tr>
<tr>
<td>Durham</td>
<td>7</td>
<td>£22mn per year (£66mn in three years)</td>
<td>£22mn in year one (£130mn over three years)</td>
<td>3.60%</td>
</tr>
<tr>
<td>Shropshire</td>
<td>6</td>
<td>£20mn per year</td>
<td>£20mn per year</td>
<td>8.20%</td>
</tr>
</tbody>
</table>

\(^a\)In most cases, information for estimated savings delivered solely through reorganisation is not readily available as it is too difficult to accurately separate this figure from general efficiency savings. Figures have been sourced from either interviews with key stakeholders or other publicly available reports/analysis.

\(^31\) “Sizing up; Local Government Mergers and Service Integration”. Deloitte, 2011
5.2.1 Wiltshire

Local decision making and Partnership working was at the heart of Wiltshire’s initial plans for unitary governance and remains a clear driver of intent:

Our motivations for working in this way are clear — we want to make strong connections between agencies to make the best use of money and resources, to deliver services that are fit for purpose and to better understand Wiltshire’s communities and individuals to support us in doing so.24

As a single entity, the council has led and developed The Wiltshire Assembly, where public, private and voluntary sector organisations come together with the aim to achieve the vision and objectives in Wiltshire’s Community plan. The Assembly has been responsible for a number of initiatives focused on behaviour change and demand management, particularly relating to health and social care, that are reforming service standards and making impressive efficiency gains. An LGA Peer Review found:

‘Partners reported very strong relationships with the Council, in particular the Police, the Ministry of Defence, Parish and Town Councils and the Voluntary and Community Sector. Partners understand and buy into the council’s vision of creating more joined up public services not only to achieve better quality services but improve efficiency and reduce costs.’

The council have also developed Area Boards as a way of working to bring local decision making back into the heart of the community. The purpose of Area Boards is to promote the development of stronger and more resilient communities across Wiltshire’s community areas through:

► Efficient, transparent and accountable decision making
► Effective collaboration with public, voluntary and private sector partners locally to meet the aspirations of local people
► Shaping the delivery of local services
► Addressing local issues
► Building community leadership and local engagement

Area Boards are a formal part of Wiltshire Council that try to find solutions for local issues such as road repairs, traffic problems and speeding in villages, litter, facilities for young people and affordable housing.

People who work with the 18 area boards include councillors, community area managers, democratic service officers together with the council’s top decision making committee, the cabinet. It also includes the local NHS, fire and emergency services, police, town and parish councils, community area partnerships and many other groups.

By working in partnership with local communities, the council believes it will achieve more than it could on its own.35

5.3 Experience of other unitary authorities

A review was undertaken by SOLACE Enterprises on the lessons learned from previous attempts at reorganisations in local government36. It highlighted a number of considerations that should be noted by authorities embarking on a reorganisation who wish to realise greater benefits from an earlier date:

► Ensure there is a completely fresh start in order to create a separation between the old and new organisations
► Ensure there is a quality plan in place. Quality is considered to be more critical than the length of the planning process itself
► Recruit the right people early on, starting with the chief executive, and ensure they are used in the right way from the very beginning
► Create a strong vision and objectives for the new organisation and ensure a focus is put on achieving the outcome and goals that have been outlined
► Put appropriate time and resources into getting the finances right
► Effective communication throughout the reorganisation process
► Work closely with Councillors to ensure there is a strong and supportive relationship
► Draw on the experiences and lessons learned from those that have reorganised previously

In order for a county area to achieve, or surpass, the upper range of potential reorganisation savings, each of the points above should be fulfilled.

24 Wiltshire County Council website, Aug 2014
25 Wiltshire County Council website, Aug 2016
“Each of the councils was faced with a choice — should their efforts be focused on creating a ‘brand new council’ or should they be based on an extension/enlargement of the existing council. In retrospect, the interviewees believed that the former was the right approach. Those who chose, for pragmatic reasons, to take the latter route saw it as a lost opportunity.”

Figure 13 – Looking back on the Local Government Reorganisation of 1995–1998: Reflections and Lessons Learned. SOLACE Enterprises

A recent study by Shared Intelligence summarised some additional points which could lead to the success of future unitary authorities created\(^\text{37}\). Looking at scale, geography and public engagement there were a number of clear results that could be seen from current unitary authorities:

- Larger councils enable greater economies of scale, more opportunities (for example, for devolution), heightened resilience and overall greater savings.
- Unitaries with boundaries that reflect the way people live their lives are more successful in creating a sense of place for the community, however smaller councils sometimes lack the capacity to benefit from the sense of place.
- Partnership working and collaboration between public bodies is considerably easier with coterminous boundaries.
- Effective engagement with the public is most appreciated when the authority is seen to be responsive to the needs of the community. Despite assumptions that smaller organisations may be better placed to do this, the report showed that larger authorities have successfully devolved decision making to a local level.
- Success of the unitary is dependent on the quality and abilities of the organisation, the political leadership and the employees.
- In areas where the district and county councils have not been in full agreement for the need to have unitary status, when reorganisation occurred this has had a lasting impact on the successor authority’s performance. Often this created a legacy of resentful relationships.

The impact of reorganisation in the context of public service reform

The context for public service reform is, as the LGA puts it, that:

‘The models by which public services have been delivered for the last 50 years are no longer affordable. In large part this is due to reductions in public spending, but we are also on the brink of significant increase in demand for services and increased public expectation about the quality of services.’

The ‘levers’ for change set out in the Open Public Services White Paper 2011 to drive reform are increased choice, opening services up to a wider range of providers, devolving decision making to the lowest appropriate level and improving the transparency and accountability of public services.

Public service reform therefore is more than service improvement. It refers to a significant change in the way organisations work together and what they do to produce better outcomes at lower costs.

Fundamentally the pursuit of this agenda is about the long-term sustainability of the sector. We have stated above that the savings accruing from different governance scenarios alone will only go some way to closing the funding gap described in the local government context section. Moving beyond reorganisation to fundamental service redesign opens up greater possibilities still, but neither method fills the gap entirely. As such, the situation demands that we should not just be looking to the amount of savings that reorganisation might deliver, rather we should aim to identify which scenario, or scenarios, deliver the most appropriate platform for change; for savings and improvements, now and into the future, so that we are developing a sustainable future for the sector.

The public service reform agenda makes demands of the sector to develop arrangements that will drive these reforms forward, to date progress is slow but can be given fresh impetus by the ability of Councils to grasp a number of issues. These are as follows:

► **Scale**: the relative size of the organisations has an impact on public services and there are advantages and disadvantages to scale depending on the service area being examined.

► **Service optimisation and integration**: the potential of the scenario to streamline service provision across tiers of government and integrate services across local providers. Integration takes on different degrees of importance depending on the area of public service reform analysed.

► **Governance**: the relative complexity or simplicity of governance arrangements also has an impact on cost and service delivery arrangements. There is sometimes a tension between swift and decisive governance and local accountability and involvement.

► **Coterminous boundaries**: the extent to which boundaries with other key partners are aligned. The public service map in different sectors (police, local government, health and local enterprise) has varying degrees of alignment and misalignment with each other, this may matter a great deal in some service areas and less so in others.

► **Community engagement**: the extent to which the relationship between councils and residents’ fosters community activity so that residents are active in working together to boost capacity is a major factor in the delivery of better outcomes in some service areas.

► **Change capacity**: the scenarios have a differential impact on the capacity for change that exists within the organisations; this also relates to the ability to secure support to help with change.

The sections below provide an overview of the policy drivers and national context across a range of areas. Building on the above criteria and characteristics, we provide a high level assessment of the Governance scenarios and the relative advantages and disadvantages of each in delivering a platform for change across the wider public sector.

Given the areas of relative strength and weakness we will now consider each service area for which local government has a leading or supporting role and consider which scenarios provide the best platform for change.

### 6.1 Devolution

The past two years have seen the development of a number of devolution ‘deals’ across the country as shown in the map opposite. Each of these is intended as an agreement to devolve powers and previously centrally controlled funding streams. Some also include investment loans that are granted to combinations of authorities under new governance arrangements, on the explicit understanding that the authorities will use the devolved elements to grow the economy and/or reduce the cost of government and hence be able to pay back the initial investment.

Whilst the first recognised devolution agreement was with Greater Manchester in 2014 and was followed by a number of agreements in City regions, it would be entirely wrong to ignore the substantial growth in devolution in Counties. Cornwall was the first to reach an agreement, in July 2015 focused on local transport, investment and health and social care integration. The unitary council provided the platform through which it negotiated the initial deal.
The stance of the government has not been to ‘roll out’ a national programme of devolution, preferring a bottom up approach in line with a localism agenda, but to ‘wait’ for Councils to approach them with proposals. Once received however, Councils have been met with considerable ‘conditionality’ as to the content and governance of proposals. The required conditions have changed over time, as has the degree of insistence on certain elements such as combined authorities and ‘metro mayors’ which, at least linguistically, seem to suggest thinking that was not necessarily developed with Counties in mind. Over time however there is evidence that this is less of an issue as awareness has developed. A report by the

- Ambitious, both in scope and in what they are trying to achieve
- United i.e., all parties are signed up to the agreement and the governance arrangements enable necessary decisions to be taken and adhered to
- Likely to succeed and that have sufficient leadership to generate an agreed focus and set of actions to deliver the outcomes

The deals agreed to date have a prominent focus on housing, infrastructure, transport, skills and economic growth as well as health and social care. These areas of focus are common to many agreements and are not dependent on the type of Councils initiating them. Many Councils see the possibilities that devolution deals give them as key to future sustainability. In that sense devolution is a doorway not only to growth but also to the main areas of public service reform.

In terms of the six scenarios, and on the assumption that securing devolution agreements is desirable, it is not clear cut which of them is most likely to ‘attract’ a devolution agreement. It should be noted that of the devolution agreements reached in Counties to date, these have had varying forms of governance: some based on single tier, single organisation and others on two tier multi-organisation arrangements. Experience suggests however, and logic dictates, that the greater the number of players the more scope there is for single organisations of any size, to veto decisions, insist on sovereignty and change course in relation to the agreed direction. In view of the scenarios most likely to succeed are those that: enable scale, have clear and united governance, a minimal number of participants, coterminous boundaries that are relevant to the area for improvement (transport issues for example may require more than one County to truly deliver improvements), and have clear consultation and scrutiny mechanisms.

Recent developments suggest that further flexibility may be developing. Leicestershire have proposed a devolution deal without an elected mayor. If reports that this has been received favourably by Government hold true, this may drive county devolution deals under different governance models. This would prove beneficial for county areas that do not want an elected mayor but want the added value that can be experienced through devolution.

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38 Empowering Counties: Unlocking county devolution deals. IPPR November 2015 p.3
39 English Devolution Deals, Department for Communities and Local Government and HM Treasury, National Audit Office, April 2016
40 The East Anglia Devolution Agreement
41 ‘Empowering Counties: Unlocking county devolution deals’. IPPR. November 2015
42 ‘Where next for Devolution?’ The M.J. 10 August 2016
6.2 Economic growth

It is unsurprising that economic growth has been the centre piece of many devolution deals. The forerunners of devolution were, amongst other initiatives, the two waves of City deals in 2012 and 2013. These deals were ‘invest to grow’ arrangements, and much of the investment secured under these deals was targeted at the development of physical or digital infrastructure, buildings, transport, broadband and business incubation. Achieving progress in these areas is in many instances reliant on arrangements that promote the integration of initiatives, and it could be argued that Local Enterprise Partnerships, with their capacity to join together the connectivity, skills and investment agendas to drive growth across their areas, were developed for this purpose. LEP’s enable co-operation across County borders and survey work has shown that there is widespread recognition of this fact.\(^{43}\)

In enhancing the economic competitiveness and growth of an area a number of factors, both global and local, need to work together. Global factors include investment decisions made by international capital markets and some of these factors are influenced nationally, for example, taxation and national infrastructure. However, many of these factors are influenced at the local level such as available skills, transport infrastructure, housing, the quality of the built environment and leisure and recreational activities. There are also a number of intangible factors such as cultural identity and reputation, the ‘brand’ of an area, their social makeup and local entrepreneurialism. It follows from this that those scenarios that create a focussed dialogue that brings together national, local and indeed hyper local factors are the most likely to promote economic growth, and with a new reliance on business rates for funding, as well as a positive relationship between prosperity and demand for services, this is increasingly important.

Caution may be needed however in developing a view that all growth comes from the deliberate, planned and sequenced action of government agencies at all levels. There are alternative forms of economic development that are significantly more ‘bottom up’ in their approach, built through local knowledge and networks and not reliant on significant infrastructure or indeed on strategies that aim to attract, for example, ‘major employers’ to an area. Indeed some of the areas of England that were most resilient in the recession were those that had no ‘major’ industries to fail but had built resilience using multiple players in a number of sectors.

Each of the 6 scenarios brings a different contribution to the picture and there is no one ideal solution, much will depend on local circumstances and the kind of growth that is needed and the conditions that would enable that to happen in any given area. The work of LEP’s and the importance placed upon that work indicates that certain initiatives, particularly those related to the development of infrastructure, skills and connectivity require action above County level. Scenario 1 makes that task more straightforward, and whilst other scenarios do not preclude that work being done effectively, the greater the fragmentation the greater the complexity. This can often result in decisions that relate to sustainable communities (employment, infrastructure, housing and services for example) being taken in different places, by different people, critically answering different constituencies. There is a danger of this particularly in scenarios 2, 3, and 6.

\(^{43}\) See CCN survey May 2014 66% strongly agreed or agreed that LEPs allowed them to develop growth strategies across county borders – ‘a key policy driver behind their creation’.  

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<table>
<thead>
<tr>
<th>Scenario</th>
<th>Suitability to drive devolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unitary</td>
<td>This scenario provides opportunity for alignment with Government policy agendas that favour scale and a limited number of partners to ensure action and accountability. Providing a single point of accountability over a large geographical area, such as the Cornwall Devolution Deal, could provide a platform for a more substantive devolution deal.</td>
</tr>
<tr>
<td>Two Unitaries</td>
<td>Dividing a county into two or three would reduce the scale provided by a single unitary. These scenarios would decrease the overall number of authorities but would present a more complex governance arrangement compared to scenario one and create scope for disagreement. However, this does not preclude the possibility of delivery under this model as current experience demonstrates.</td>
</tr>
<tr>
<td>Three Unitaries</td>
<td></td>
</tr>
<tr>
<td>Shared Support Services</td>
<td>This provides the advantage of retaining scale of the county council however the complexity of two-tier governance and multiple organisations delivering services is maintained. Nonetheless, it should be noted that this is being overcome in devolution deals in some county areas.</td>
</tr>
<tr>
<td>Merged Districts</td>
<td></td>
</tr>
<tr>
<td>Three Unitaries and a Combined Authority</td>
<td>Development of a combined authority aligns with a number of areas that have secured devolution deals to date, with an Elected Mayor providing additional weight in securing a deal. Scale could be provided by the combined authority for strategic services linked to devolution deals. However, as noted elsewhere, this type of reorganisation has not been attempted before and questions over implementation, costs and resourcing of the combined authority would need to be carefully considered.</td>
</tr>
</tbody>
</table>
Where local brand and identity are key factors in stimulating growth then some alignment between the scale of the initiative and the size of the administrative unit is desirable. For example Suffolk’s work on being ‘Greenest County’ has led to growth built on a united focus between public and private sectors, including skills, research and industry with an emphasis on renewables.

There are instances however where the brand is very localised and relates for example to a market town. In these instances larger scale scenarios may be useful in securing necessary infrastructure but it will be reliant on local leadership.

### Scenario Suitability to drive economic growth

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Suitability to drive economic growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unitary</td>
<td>This seems to be the optimal scenario when economic growth is dependent on the development of infrastructure to enable homes, transport, and connectivity to be increased. Single unitaries also give a clarity of focus for an area to attract inward investment and join together with other Counties through the LEP. This scenario maintains and potentially enhances the brand and identity of the county area.</td>
</tr>
<tr>
<td>Two Unitaries</td>
<td>Sub-county unitary scenarios deliver less scale than scenario 1 but this may make sense depending on the size of the Council delivered by 1 and the relationship to local brand and identity. Scenario 3 in particular raises the possibility of decisions in relation to sustainable communities (employment, infrastructure, housing and services for example) being taken in different places, by different people, potentially answering different constituencies.</td>
</tr>
<tr>
<td>Three Unitaries</td>
<td>Both scenarios 4 and 5 retain the ‘historic’ nature of the county boundary and the relative brand that comes with. These scenarios also go some way to simplifying the task of developing a common economic development focus and leaves space for local branding and initiative.</td>
</tr>
<tr>
<td>Shared Support Services</td>
<td></td>
</tr>
<tr>
<td>Merged Districts</td>
<td>Combined Authorities are already leading economic development in some areas and the possibility of alternative service delivery models to attract and work with investors creates the possibility of innovative initiatives. The costs associated with establishing these new arrangements need to be taken into account as well as the impact on democratic accountability in the investment of public funds.</td>
</tr>
<tr>
<td>Three Unitaries and a Combined Authority</td>
<td></td>
</tr>
</tbody>
</table>

### 6.3 Housing and planning

Housing supply has remained constantly beneath levels of demand for a number of years. According to the Chartered Institute of Housing currently the level of demand for around 250,000 new houses per year outstrips supply by a factor of two to one, resulting in an annual compounding of the shortfall.

The new government has made it clear that housing remains an absolute priority, with the Housing Bill setting out how they will meet an ambitious target of 200,000 homes a year, and 1 million homes by 2020. On appointment as the new Secretary of State for communities and local government, Sajid Javid has said; ‘My priorities are to build more homes and increase home ownership’ which could go some way to address the 5.8% reduction in new building in the UK, the biggest drop since October 2011.

A historical challenge embedded in the two-tier system has been the differing responsibilities for housing provision in relation to local and sub-regional planning.

For example, across most counties there is currently:

- No single planning authority (overseeing new development)
- No single housing strategy (managing provision of social housing in addition to general supply and demand)
- No strategic planning and infrastructure function for the entire county (co-ordinating policy and exploiting opportunities) and concerns over the alignment of incentives and funding, such as the Community Infrastructure levy

A variety of initiatives have been developed that aim to address issues that have arisen as a result of this fragmented picture. The duty to co-operate, the development of Strategic Housing Market Assessments and the definitions of Housing Market Areas have all made a contribution, but given the urgency of the issue it may well be that joint plans are not sufficient to move the issue on and that some structural change at the governance level may be necessary.

A single tier structure may enable better partnership working in relation to infrastructure delivery with developers, align funding incentives, and deliver a unified local planning function could provide the ability to work with strategic employers to encourage growth. Additional efforts would have to be taken to ensure housing development decisions consider the full county area and the possible risks of under bounding and delaying local plans and housing delivery are avoided.

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[44] CIH UK Housing Review 2015  
6.4 Children’s social care

Children's Services have been subject to significant demand and financial pressures over the course of the last Parliament and this shows no signs of relenting over the current term. For many Councils the key is to work with partners to ensure more is done to target troubled families at an earlier stage to avoid entry to looked after arrangements. This shift toward early help requires considerable joining up between agencies, to share data and target interventions to avoid not only service costs but a preventable journey in to the care system.

There have been a number of moves over the last 5 years to bring about improvements through changes in the model of delivery. Public service reform in Children’s Social Care is, in part, being driven by the Government. Their ambition was stated in their ‘Putting Children First’ policy paper that said:

‘... by 2020, over a third of all current local authorities will either be delivering their children’s services through a new model or be actively working towards a different model’

However, transferring the delivery of Children’s Services to an alternative service delivery model (ASDM) under the leadership of a single Director of Children’s Services and with a single LCSB in not yet a proven model. There are untested risks associated with the development of ASDMs. In October 2014, Doncaster children’s service became the first to be moved to an independent Children’s Trust, outside of the council’s control. After the first year, the service was rated ‘inadequate’ by Ofsted and so there is currently little evidence that this model of delivery can improve services and deliver better outcomes for children.

A recent Education Committee report on Social Work Reform questioned whether there was evidence to support an extended roll-out of the Independent Trust model. Additionally, they highlighted that there may not be sufficient interest from the charitable sector in delivering such a model. The committee concluded that:

‘Statutory children’s services should remain in local authority control until there is clear evidence that the independent trust model improves outcomes for children and young people.’

Government has imposed Independent Trust or Commissioner models upon those local authorities whose Children’s Services departments had previously been rated as ‘Inadequate’ by Ofsted, e.g., Slough, Rotherham, Doncaster and Birmingham. Further to this, Norfolk County Council has submitted a bid to the DfE’s Innovation Fund to form a strategic partnership with the charity Barnardos to create a jointly run looked after children’s service.

47 ‘Norfolk County Council and Barnardos to develop ‘unique’ strategic partnership’, Norfolk County Council, 5 July 2016
48 Social Work Reform, House of Commons Education Committee, 13 July 2016
In analysing which governance scenario provides the best platform for improved service delivery across children’s social care, it could be argued that it is those options which:

- Drive additional resources towards the front line
- Enable joint working between agencies, joint commissioning and the sharing of data
- Enable early intervention to prevent costly and distressing needs from arising
- Maintain stability in service provision for vulnerable people
- Increase the number of permanency options for people who have been through the care system

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Suitability to improving in children’s services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unitary</td>
<td>Scenario one would provide the maximum stability in service delivery and avoid any fragmentation of existing services. It should maintain the existing co-terminosity with key partner agencies and disruptions to partnership working should be minimised. Economies of scale and efficiencies are maximised under this scenario and it has the greatest potential for data sharing agreements and to redirect any savings towards front line services.</td>
</tr>
<tr>
<td>Two Unitaries</td>
<td>This could lead to the fragmentation of Children’s Services and lead to additional costs for the newly formed authorities. For example, there are statutory requirements for each upper-tier authority to have a Director of Children’s Services and a Local Children’s Safeguarding Board. The fragmentation of Children’s Services within an existing county footprint may increase issues associated with the recruitment and retention of social workers. At present, county authorities deliver the highest performing children’s services of any local authority type. Ofsted rate 55% of county council Children’s Services as ‘Good’, this compares favourably to London (11%) and metropolitan boroughs (17%). Dividing existing teams and resources across smaller authorities may have a detrimental impact on this performance, at least in the short-term.</td>
</tr>
<tr>
<td>Three Unitaries</td>
<td></td>
</tr>
<tr>
<td>Shared Support Services</td>
<td>This should provide stability in service provision and partnership working by retaining county council provision, but neither scenario would release significant additional funding from economies of scale.</td>
</tr>
<tr>
<td>Merged Districts</td>
<td></td>
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</tbody>
</table>
| Three Unitaries and a Combined Authority | The development of an alternative service delivery model in children’s services is yet to prove successful and issues arise as to the ability of Councils to transfer any risks to the providing organisation. Developing this scenario also requires market testing and an assessment of the appetite of charities or private sector organisations to take on statutory services. This will determine whether this is something that would happen in practice and there is sufficient competition within the market for ADSMs to deliver potential improvements in service quality whilst safeguarding vulnerable people. The issue of democratic accountability where these models are developed has yet to be resolved.

As noted in the financial section, additional implementation costs would arise if scenario 6 were to be pursued. This may reduce the ability to invest directly in frontline services to stabilise services before the ASDM had the potential to achieve efficiency savings and integrate services.

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55 Ofsted 2015 https://reports.ofsted.gov.uk/
6.5 Health and social care integration

The public service reform agenda has the integration of health and social care and the management of demand through early intervention and prevention at its core. The 2015 Spending Review announced that every area must develop a health and social care integration plan by April 2017, to be implemented by 2020, showing the scale and pace of this ambition.

This assertion was followed by the announcement in December 2015 that local health and care systems should come together to develop Sustainability and Transformation Plans (STPs).

STPs will, in part, cover better integration with local authority services, including, but not limited to, prevention and social care. Following the NHS guidance on shared planning, STPs are based on geographical areas described as STP ‘footprints’ of which there are 44 in England.

‘It is increasingly understood that tackling the causes of ill-health, empowering patients, and engaging communities are all essential components of creating a sustainable NHS. In some parts of the country, clinical commissioning is beginning to drive changes, whilst in others innovative provider organisations are taking the lead. And providers and commissioners alike are working together on how to dissolve the artificial barriers between prevention and treatment.’

The public service reform agenda, the difficult financial climate, increases in demand and debates on local government reorganisation have seen the emergence of a variety of different proposals to deliver health and social care services. These include models that would see adult social care delivered at a combined authority level or through other structures such as accountable care organisations, although many of these proposals are in their infancy. All of the proposals to date would see public sector partners retaining their statutory responsibilities and accountabilities.

Prior to the introduction of STPs, the key driver of health and social care integration has been the Better Care Fund (BCF). This was introduced as part of the June 2013 Spending Round, with plans implemented from June 2015. This put £3.8bn in a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities.

The BCF was introduced on a ministerial agreed framework. Each area, using targets around care home admissions, delayed transfers of care and patient experience, plan for what they want to achieve with these funds. In this process, there is scope for flexibility around devolution sites to submit plans over a larger footprint.

The conditions of the Better Care Fund include that there should be better data sharing between health and social care (by NHS number) and that there should be a joint approach to care such that, where funding is used for integrated packages of care, there will always be an accountable professional.

Progression of these agendas require levels of joint working above and beyond that which has been achieved before. Different organisations need to agree on the needs of populations and on the interventions that will best meet those needs, relying on shared datasets and a mature approach to benefits realisation. This would require investment and the return on investment to fall in different places and yet be balanced across the whole system.

The public service reform agenda in this area is complex and ambitious. It could be concluded that structures based on greater scale are important. Support for creating the STP footprints encouraged working with local authorities to determine the size of planning footprints, and advised that they should be large enough to enable the strategic planning decisions needed by 2020/21 to deliver sustainable health and care services.

It could also be said that the need for change capacity both in terms of data analysis and workforce transformation is high and coterminous boundaries are necessary not just for the commissioning partners to work together but also for providers to have sufficient scope in their contracts to drive efficient costs and proactively plan to manage the long term pressures. Whilst it is apparent that governance enabling swift decisions amongst partners who have clear authority and lines of accountability is vital the fact that STP footprints do not neatly map to local authority boundaries in some areas is, and will remain, problematic. When looking at county boundaries across England and the boundaries of CCG in the same area, around 86% of county boundaries are coterminous with CCGs which limits the extent of this issue in the scenarios where the county boundaries are retained.

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### Scenario Suitability to improving health and social care integration

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Suitability to improving health and social care integration</th>
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<tbody>
<tr>
<td><strong>Single Unitary</strong></td>
<td>Scenario 1 would offer the best potential to alleviate information sharing issues as it is a single organisation and any data sharing protocols or agreements would involve fewer data owners and points of accountability. As a single large scale organisation they could also have greater capacity to work with the NHS to drive efficiencies and more leverage in strategic discussions around the split of funding between local government and the NHS. An additional benefit could be the potential to join up of social care and housing services which are currently delivered at different tiers of local government. The Kings Fund(^{53}) have highlighted the importance of housing to personal wellbeing: ‘Suitable accommodation that is safe and warm is one of the foundations of personal wellbeing, whether in childhood, when vulnerable as adults, or in old age. It enables people to access basic services, build good relationships with neighbours and others, and maintain their independence—all resulting in a better quality of life.’</td>
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<tr>
<td><strong>Two Unitaries</strong></td>
<td>Scenarios 2 and 3 would involve the disaggregation of strategic services which could cause a number of issues with health and social care integration, and make the development of the STP more complex. There would be an additional social care team within each newly formed local authority area which would increase the points of contact for NHS partners, there will also be changes required to partnership arrangements and potential duplication of procedures and structures, such as Health and Wellbeing Boards, as well as a more complex arrangement to co-ordinate. An increase across a county footprint in the number of authorities with the responsibility or social care could potentially have a disruptive effect for clients and staff, which in turn may have a detrimental impact on outcomes. This assertion is supported by a Joseph Rowntree Foundation (JRF) study in 1999 shortly after the reorganisation in the late 1990s. This concluded that the:</td>
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<tr>
<td><strong>Three Unitaries</strong></td>
<td>‘Process of reorganisation was a bruising one for virtually every party closely concerned with it’. Whilst acknowledging the benefits of being ‘closer to customers’, they highlighted a ‘financial crisis’ through the loss of economies of scale, a significant loss of expertise and the disaggregation of social services work into several authorities leading to unevenness in service provision.’(^{54}) Scenarios 2 and 3 may also lead to a fragmentation of local care markets at a time when these are subject to significant instability, an increase in providers exiting the market and debates around sustainability. An increase in lead social care authorities across a county footprint could lead to care providers seeking to renegotiate existing contracts, as such reducing the economies of scale achieved by the existing local authority. Smaller authorities would also have a reduced level of buying power due to being responsible for a smaller number of clients, therefore making it more likely that they would be able to negotiate the same level of discount as the existing county authority.</td>
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<tr>
<td><strong>Shared Support Services</strong></td>
<td>The retention of the County Council in scenarios 4 and 5 could ensure many of the benefits associated with 1. However the low level of savings associated with these scenarios will do little to free up resources to provide additional funding in areas of increased demand.</td>
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<tr>
<td><strong>Merged Districts</strong></td>
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<tr>
<td><strong>Three Unitaries and a Combined Authority</strong></td>
<td>Scenario 6 considers a joint service delivery arrangement for strategic services across county council boundaries. This could include an integrated social care and health care service being placed within a new Trust or other service delivery model which may achieve a number of benefits, including:</td>
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<td></td>
<td>► Facilitating greater operational integration of care service pathways with Health</td>
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<td></td>
<td>► Sharing of costs and risks</td>
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<td></td>
<td>► Clear separation of commissioning and provision of services</td>
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<tr>
<td></td>
<td>► Ability to restructure the workforce and provide competitive pay for social workers to help retain and attract talent</td>
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<tr>
<td></td>
<td>However, this separation also poses a number of risks. For example:</td>
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<td></td>
<td>► The potential weakening of democratic accountability in a key area of service provision</td>
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<td></td>
<td>► Legal issues and complexities about the ability of councils to transfer risks to external bodies</td>
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<td></td>
<td>► The councils ability to directly control an alternative delivery model</td>
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<tr>
<td></td>
<td>The set up and maintenance costs of these new and separate ventures could be high and the financial analysis showed this model could result in an overall cost, rather than saving, resulting no immediate additional funding for frontline services.</td>
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</table>

6.6 Crime and community safety

There are 43 police forces in England and Wales; each led by a directly elected Police and Crime Commissioner (PCC). Police reform has been a constant and occasionally controversial priority of the government’s wider attempts at public service reform. Schemes such as Direct Entry and Police Now are clear efforts to introduce new ideas, thinking and challenge to the historically stable culture of policing in this country.

Whilst correlation between policing structures and crime statistics is notoriously inconsistent, there is general acceptance that the quantum of recorded crime has fallen significantly in recent years. Despite this, the former Home Secretary, now Prime Minister, was clear that emerging and increasingly diverse challenges mean that reforms must continue against an on-going backdrop of fiscal austerity.

In terms of broader reform within local government, the pattern has been more inconsistent than in services such as health and social care. Collaboration on areas such as youth justice and community policing has been largely driven by local political pressures, whilst changes to strategic policing remain within the purview of the Home Office.

The mismatch in boundaries makes working together problematic; whilst only a handful of forces share common areas with the 27 upper-tier counties, most are larger clusters. The benefits of collaboration between Police and local government are substantial, information held by both parties is essential not only in dealing with but in preventing crime, but this takes considerable time and effort to develop the granular detail necessary to make a difference. The more Councils that a police force has to deal with in this way places additional strain on diminishing resources.

The picture in relation to local community safety priorities is similarly complicated. Decisions have been taken by Community Safety Partnerships (CSPs) which were introduced in the Crime and Disorder Act 1998. These partnerships consist of representatives from police, local authorities, fire and rescue services and the NHS. At present approximately 300 CSPs exist in England, with many of these on a District Council footprint in two-tier areas. Some areas have taken the decision to consolidate such arrangements across a broader geographic area, or in county areas establish a strategic partnership at the upper-tier level to deliver countywide initiatives to take advantage of economies of scale.

Funding arrangements for community safety activities have altered since the introduction of Police and Crime Commissioners (PCCs). Since 2013/14 the Community Safety Fund was delivered to local authorities and other partners through the PCC. However, as of 2015/16 this grant was absorbed in to the general Police Grant allocated to PCCs. Therefore, the allocation of funding at a local level for community safety and crime and disorder activities, and mechanisms for its distribution, are at the discretion of individual PCC’s. Such funding decisions will have a direct impact on the size and scale of community safety services provided by local authorities.

The reforms set out in the Police and Crime Bill 2016 whereby PCCs may be able to take control of fire services from councils, could potentially have a detrimental impact on direct local authority involvement in delivering community safety activities.

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55 "Direct Entry at Inspector" College of Policing
56 ONS National Crime Survey 2016
6.7 Waste

Within two-tier arrangements, waste collection and disposal are subject to different lines of accountability with district councils responsible for local collection and county councils commissioning disposal. A number of supra county level collaborations in recent years have under-lined the ‘upwards’ momentum of scale in terms of waste management with a recent report by the waste management company Viridor arguing for an aggregated model ‘beyond traditional municipal and county boundaries’\(^57\) in order to remain competitive.

Waste management and sustainability naturally leans towards scale in terms of the logistics of collection and disposal. Therefore scenario 1 would appear to provide the most appropriate platform for reform. However, supply-side changes of attitude and habit are just as critical to achieving and embedding long-term change as changes to waste management often come up against political sensitivities\(^58\) which makes joint working arrangements difficult to negotiate. This highlights the importance of local messaging and leadership which cannot be ignored.

This does not mean that savings cannot be made where two-tier operation -1. Not only this, but the partnership has also led to an increase in recycling rates.

6.8 Localism and locality governance

Part of the drive towards localism and wider public service reform under the Coalition and Government since 2015 has been to empower communities and neighbourhoods to do more for themselves at time of reduced funding for local services. The 2015 Conservative Manifesto set out that the ‘Big Society’ was a vision of a more engaged nation, one in which people ‘take more responsibility for ourselves and our neighbours; communities working together, not depending on remote and impersonal bureaucracies’.\(^60\)

Building on the ideals of community empowerment, the Cities and Local Government Devolution Act 2015 sets out the principle of moving decision making and delivery power away from central government, recognising that local decision making is best placed

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Suitability to improving Crime and Community Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unitary</td>
<td>Scenarios 1-3 present opportunities to bring together services that influence crime and community safety such as housing, planning and trading standards. Scenario 1 would lead to a refinement of current CSP arrangements in two-tier areas, leading to a reduction in the number of partnerships across the county footprint. Therefore, the advantages of scale set out in Scenario 1 outweigh 2 and 3, which are based on sub-county level disaggregation. This will result in additional partners that the Police force would be required to work with and these additional points of contact may add additional complexities to the multi-agency arrangements already in place. Scenarios 2 and 3 would see some refinement of such arrangements, although to a lesser extent, that would deliver economies of scale and reduce pressure on officer resources to attend several meetings within a county footprint. Under current legislation every upper-tier authority has a statutory duty to establish a Local Children’s Safeguarding Board (LCSB). The creation of additional upper-tier authorities, as in scenario 2 and 3, would result in duplication of LCSBs.</td>
</tr>
<tr>
<td>Two Unitaries</td>
<td></td>
</tr>
<tr>
<td>Three Unitaries</td>
<td></td>
</tr>
<tr>
<td>Shared Support Services</td>
<td>Scenarios 4 and 6 may provide opportunities for more efficient commissioning, but may do little to address consistent local prioritisation</td>
</tr>
<tr>
<td>Merged Districts</td>
<td>Scenario 5, based on the notion of merged districts would address the consistency issue to some degree</td>
</tr>
<tr>
<td>Three Units and a Combined Authority</td>
<td>Combined authorities may present the possibility of developing a new set of partnership arrangements in the fields of crime and community safety. To date a number of the devolution deals (Greater Manchester, Greater Lincolnshire and the West Midlands) have contained aspects relating to Police, Fire and criminal justice.</td>
</tr>
</tbody>
</table>

\(^{57\) Chartered Institute of Waste Managers January 2016
\(^{54\) Form and Function: A comparative evaluation of new unitaries and two-tier pathfinders – Qualitative research. Interim report. DCLG. March 2010
\(^{59\) ‘Dosset Waste Partnership – councils working together’. Dorset councils online
\(^{60\) The Conservative Manifesto 2015
to not only address local challenges but also to pursue local opportunity and embrace local capacity. In the context of this analysis, where scenarios that drive large scale change and large levels of savings involve the removal of layers of governance, this poses a significant risk in relation to the loss of local involvement and identity. This has implications also for accountability, as there is evidence to suggest that with the advent of combined authorities and Mayors there is some way to go in ensuring that these new arrangements are capable of involving local people and adequate scrutiny.

‘The resourcing and strength of local scrutiny for services devolved as part of devolution deals will be an important area of focus for central government and local areas. Effective scrutiny will require appropriate resourcing and expertise in some functional areas and sectors not historically associated with local government. The Cities and Local Government Devolution Act 2016 requires every combined authority to appoint at least one overview and scrutiny committee comprising members drawn from its constituent authorities together with an audit committee, both of which will contain independent members. Greater Manchester is the only example amongst the combined authorities that have agreed devolution deals where new scrutiny arrangements at the combined authority level have yet been piloted, though they were not designed to address the specific provisions of the devolution deal. There is consensus locally and with expert advisers that the arrangements that have been piloted are not sustainable in their current form and are now seeking to establish new arrangements in line with the requirements of the Act before their new powers and services are devolved.’

In researching this report it is clear that, where the transition from two-tier to single-tier governance has worked best, the ambition of increasing community participation was explicit from the outset, and formed an important element of the initial proposal and subsequent publicising of the new democratic structures. The devolution of some powers and budgets to a local level can help to ensure that people are more involved than previously. Reorganisation could present a clear opportunity to create a better locality focus as:

- Whole, natural communities can plan and act together to facilitate the best quality and most relevant services for their area
- Services can be targeted more effectively at specific challenges based on a county-wide strategic view of the community and the families and individuals within this community
- The locality approach provides an opportunity for partners to combine resources to better achieve specific community related outcomes

The larger 2009 unitaries recognised this opportunity, creating greater locality focus by moving towards unitary structures. Estimated net budget expenditure on community development shows that the larger unitary authorities created in 2009 have, on average, invested significantly more resources than other non-metropolitan unitary authorities.

‘Community development expenditure in the 2009 unitary authorities is noticeably higher than the English average’

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**Figure 15:** Average estimated net expenditure on community development from 2012/13 to 2016/17 (£ millions), DCLG Budgeted Revenue Accounts
The community governance structures put in place by councils undertake different roles, specific to their local areas. Many of them empower communities to set priorities and decision making and as such measuring the aggregate benefits is not possible. However, there is significant evidence about the benefits of engaging and developing communities. Evidence shows that community engagement develops social networks, which increases physical and mental health and creates fewer health inequalities, and leads to lower crime rates, and potentially higher levels of employment.61

The debate about the organisation of local government has always centred on a decision about the best ‘unit’ of administration but our analysis suggests that different services may be best administered at different levels. Some of the most successful examples from the last formal round of reorganisation were in those councils who centralised power in some service areas, for example, housing, social care, and devolved it in other service areas. This can be achieved through various restructurings; cooperative working with local councils, service delegation to parish and town councils, or joint service provision with principal councils supporting their parish and town councils to improve the service delivered to the community62.

Many more sources concur with the importance of continued engagement with the community. The National Association of Local Councils (NALC) highlights the value of engaging parish and town councils with key issues and granting them the authority to bring services closer to the public63. The public have historically reacted positively to having their opinions heard and actioned64, and, through engagement, town and parish councils will likely better identify the needs of the local community. The example of Cornwall Council provided in the below table demonstrates how they have combined their unitary status with empowering town and parish councils within their devolution deal.65

Even in services like social care there can be advantages gained from highly centralised planning, joint commissioning and prioritisation, but also highly localised delivery of services, through provision arrangements that are part of and engaged with local communities, for example, through neighbourhood based ‘pods’ of integrated health and social care staff, sharing accommodation and working together.

Seen in this way the ‘choice’ may not be ‘either’ or a single option, but a ‘both and’ option that combines the best of both worlds, maximising economies of scale and enhancing community governance.

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61 ‘Working with Communities, Developing Communities. Guidance for Primary Care’. Royal College of General Practitioners (RCGP). March 2013
63 ‘Power to the People’. LGA and NALC. June 2016
65 ‘Power to the people’. LGC’s special report on town and parish councils, supported by NALC. June 2016

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Below are some examples of where this approach has been taken.

<table>
<thead>
<tr>
<th>Council</th>
<th>Example Description</th>
</tr>
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<tbody>
<tr>
<td>Wiltshire Council</td>
<td>Wiltshire Council provides a good example of putting locality governance into practices within a large unitary council. They identify that a single unitary authority can result in both savings and closer links with local communities when the capabilities of the local areas are recognised. In realising that strong communities can cope with challenging circumstances and can often find their own solutions to problems they face, Wiltshire has chosen to promote local councils working across coterminous boundaries to maintain a sense of both whole county community and local independence. Building on their initial success, the local Area Boards created are being given increased power over service delivery, tailoring it to meet specific local needs. Between 2009 and 2012 the Area Boards' discretionary budgets have helped to lever in an additional £12mn of external funding into community projects. Area Boards have also been effective in avoiding any less representation, with 32,000 people attending Area Board events.</td>
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<tr>
<td>Shropshire Council</td>
<td>Shropshire has established 28 local joint committees to encourage public participation in decision-making. The committees were also set up to be responsible for scrutinising local service delivery, and calling council officers, councillors or representatives of other service providers to account where necessary. Unitary, town and parish councillors sit on each committee. Partners such as health and police, local businesses and community groups can also be appointed, although they do not have voting rights. A strength of the new committees is that they are backed by delegated budgets, ranging this year from £17,000 to £71,000, depending on the population. Committees can use these funds to commission services, or invite local groups to submit bids for particular projects. Each committee has a lead officer selected from a position of seniority within the council indicating the commitment placed by the unitary in the new structure.</td>
</tr>
<tr>
<td>Durham County Council</td>
<td>In Durham the unitary authority replaced a county council and seven district councils. The new authority put partnership working and delegated budgets at the heart of its new approach. Durham's 14 Area Action Partnerships each has its own budget and biannual forum focussed on the empowerment of the local community. These partnerships have been recognised as a key community engagement mechanism, allowing local residents to shape the delivery of local services. These partnerships have been recognised as a key community engagement mechanism, allowing local residents to shape the delivery of local services. The AAPS participatory budgeting events have engaged 30,400 people, and have been studied as a good practice model by Cabinet Office representatives. Through participatory budgeting the AAPS have allocated £1.4mn to nearly 60,000 beneficiaries, bringing in £3.2mn of external funding for local community projects. Earlier this year, Durham were awarded the MJ Achievement Award for Excellence in Governance and Scrutiny, which recognised the council’s AAP approach to community engagement.</td>
</tr>
<tr>
<td>Northumberland County Council</td>
<td>Northumberland County Council has opted for a combination of Councillor-led area committees and community forums to get local people involved. They were established as a way to give local people a chance to express their concerns and shape the priorities.</td>
</tr>
<tr>
<td>Cornwall Council</td>
<td>To maintain community linkages, Cornwall established Community Partnerships, and set up One Stop Shops Partner organisations work with the Council to deliver services in these locations. More recently, the unitary status has provided the platform through which it has negotiated the initial deal with the Treasury and is now working with sectors, including the focus areas of health and transport, to develop new and innovative services. Cornwall Council secured one of the first devolution deals, and Cornwall’s success has been assisted by their devolution of further powers to town and parish councils. Cornwall Councils devolution framework offers local communities the opportunity to take on services, choosing their preferred level of involvement from a series of options, all of which come with support. On top of this, Cornwall Council provides technical and professional support, as well as providing training for town and parish clerks and councillors. Given that 66% of town and parish councils reported a capacity gap that they needed to address to engage in the new agenda, this is key in moving further devolution forward.</td>
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</table>

The scenarios analysed as part of this study would all present varying degrees of engagement capacity. Scenario 2 and 3 may be said to offer a greater locality focus however, the three unitary split may not be as straightforward to communicate to the general public. Scenario 4 presents no change to the district councils, and the local services provided and the community should experience fewer changes through the merging of districts in scenario 5 than the unitary options.

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67 Communities and Local Government Committee: Written evidence from Wiltshire Council. May 2012.
68 https://areaboards.wordpress.com/about-the-area-boards/
70 ‘Health and Wellbeing Board Good Practise, Durham: Area Action Partnerships’. LGA.
71 ‘Local voices and innovative approaches: governance and scrutiny in Durham’. MJ Achievement Awards 2016
72 Cornwall Councils website
6.9 Conclusions

In this section we have set out to consider each scenario in relation to the public sector reform agenda, briefly touching on the priority actions and analysing the potential of each of the scenarios to help or hinder the progression of the agenda. From the analysis, a pattern emerges in relation to the scenarios themselves.

Scenario 1 is very strong in its relationship to parts of the agenda that require scale, service integration, coterminous boundaries and uncomplicated governance arrangements. Wherever progress demands joint plans with partners, data sharing and action at scale to pursue pro-active measures to inspire growth or manage demand we have found that scenarios 1 and also 6 (3 unitaries and a combined authority) are the most favourable to these agendas.

Scenarios 2 and 3 (3 unitaries) often appear together throughout the analysis. In many areas of public service reform they represent an improvement. For police, health and other partners looking for the key players in a given geography, the reduction in the number of organisations as a whole will be welcomed and useful. However these scenarios always feel sub-optimal, their advantages over Scenario 1 never really emerge in the analysis.

Scenario 4 and 5 (merged districts) often appear together also, with the focus on shared services across county boundaries, and the merger of districts, represent the least disruptive of the options, however they feature very little in the public service reform analysis. Neither address needs of this agenda as they contribute very little to the areas of joint governance, service integration and scale that many of the areas of reform potentially require.

Scenario 6 represents perhaps the most radical of the options being considered, and in relation to the public service reform agenda has potentially much to offer. Indeed many of the areas covered by devolution deals are amenable to a combined authority approach, with the capacity to transcend county boundaries, as well as the potential for innovation in alternative service delivery models. A common theme in the analysis however is the untried and unproven nature of the proposed arrangements, the relatively poor financial return as a result of the need for additional resourcing for the combined authority or ASDM to provide the necessary change capacity and scale, and the danger to public accountability. There are common elements therefore between scenario 6 and scenario 1, and the effort that has put in to strengthen community engagement and accountability in county unitaries is perhaps worthy of attention within Combined Authorities and ASDM’s.
7.1 Overall summary

We have taken an evidenced based approach to inform the debate that is of importance to the future of public services in county areas. This discussion is hastened by growing demand for local government services, funding reductions, devolution and structural reform debates, and by future funding arrangements that create considerable uncertainty. The report presents a high level financial analysis, non-financial analysis and an analysis of the different scenarios relationship to the public service reform agenda in a number of key areas. A summary of the findings are set out below.

7.1.1 Financial analysis

All the scenarios analysed have the potential to deliver financial savings across the 27 two-tier counties in England and the results are summarised in the table below:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Cumulative net saving/cost (five years)</th>
<th>Annual saving (post implementation)</th>
<th>Reduction to spend (excl. Care and Education)**</th>
<th>Implementation costs</th>
<th>Payback period</th>
<th>FTE reduction***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unitary</td>
<td>£2.37-£2.86bn</td>
<td>£621-781mn</td>
<td>6.0-7.5%</td>
<td>£277-393mn</td>
<td>Two years, two months</td>
<td>7,085-8,594</td>
</tr>
<tr>
<td>Two Unitaries</td>
<td>£1.17-£1.70bn</td>
<td>£361-520mn</td>
<td>3.5-5.0%</td>
<td>£371-519mn</td>
<td>Three years, two months</td>
<td>5,011-6,299</td>
</tr>
<tr>
<td>Three Unitaries</td>
<td>(£33mn)-£526mn</td>
<td>£98-266mn</td>
<td>0.9-2.6%</td>
<td>£401-585mn</td>
<td>Seven years</td>
<td>2,542-3,751</td>
</tr>
<tr>
<td>Shared Support Services</td>
<td>£160-568mn</td>
<td>£63-205mn</td>
<td>0.6-2.0%</td>
<td>£84-173mn</td>
<td>Four years, eleven months</td>
<td>655-2,280</td>
</tr>
<tr>
<td>Merged Districts</td>
<td>£531-839mn</td>
<td>£165-266mn</td>
<td>1.6-2.6%</td>
<td>£188-325mn</td>
<td>Three years, eight months</td>
<td>1,442-2,269</td>
</tr>
<tr>
<td>Three Unitaries and a CA*</td>
<td>(£36mn)- (£366mn)</td>
<td>£87-257mn</td>
<td>0.8-2.5%</td>
<td>£680mn-£1.10bn</td>
<td>Seven years plus</td>
<td>2,448-3,764</td>
</tr>
</tbody>
</table>

*CA = Combined Authority
**Annual saving (post implementation) as a percentage of the total county spend, excluding Social Care and Education expenditure
***Does not include any reduction in members

The financial analysis within this report uses a tried and tested approach and is presented in relation to the potential savings that could be achieved within the average sized county.

While this study has used national data across 27 county councils and 201 district councils, and specific data from a representative sample of councils to develop assumptions, the results only present an indicative level of savings for the average county. Therefore, whilst the results give a national picture that could be used to inform national decision making and guide local discussions, further detailed analysis would be required if any area were to pursue any of the scenarios to ascertain precise savings.

7.1.2 Reorganisation vs. redesign

This report has sought to provide evidence from a number of authorities in the last round of reorganisation who exceeded the upper end of the savings targets by up to 50% over and above those identified in their original business cases. This appears to be based on the opportunity which each council took to redesign structures and services and to deliver transformation rather than to simply reorganise and ‘scale up’ current ways of working.

7.1.3 Public service reform analysis

Moving beyond reorganisation to fundamental service redesign opens up greater possibilities still, but neither method closes the funding gap entirely. As such, the situation demands that we should not just be looking to the amount of savings that reorganisation or redesign might deliver, rather we should aim to identify which scenario, or scenarios, deliver the most appropriate platform for change; for savings and improvements, now and into the future, so that we are developing a sustainable future for the sector.

In terms of public service reform, this report has found a correlation between the scenario that delivers the highest level of savings and that which relates best to key areas of public service reform. We found that areas like social care and health integration, devolution, economic growth, transport, crime, and financial viability and sustainability benefited from the scenarios that were characterised by maximum scale, clear governance, enhanced coterminous boundaries with partner agencies and high change capacity. However, in both the County Unitary and
Combined Authority scenarios, we found risks in engagement and accountability which would need specific attention.

### 7.1.4 Next steps

We have analysed a number of options from a financial and public service reform point of view. We have identified from the last round of reorganisation the actions that successful councils took to exceed savings targets, for example, by redesigning structures and services rather than just reorganising them.

The upper range of savings that could be achieved only go some way to addressing the financial and service delivery pressures facing county and district authorities, as well as other parts of the public sector. Therefore, it is important that the sector and wider stakeholders now consider the findings of this study and its implications for governance, devolution, service efficiencies and sustainability in county areas. Partners should consider the practices that can deliver savings and which governance scenario can provide the best platform for service sustainability and improvement into the future.

We have found a correlation between the options that deliver the highest level of financial savings and sustainability and the options which most positively relate to the key drivers for public service reform.

Our findings aim to provide evidence to inform the specific debates that could now proceed in localities in light of the financial challenge and wider delivers of public service reform in county areas. Whilst the results give a national picture that could be used to inform national decision making and guide local discussions, further detailed analysis would be required if any area were to pursue any of the scenarios to ascertain precise savings.
Appendix A: Methodology for council size

In England, the Local Government Boundary Commission for England (LGBCE) is responsible for reviewing the boundaries and electoral arrangements of local government areas. There is no set guidelines for an optimal council size across England however, the LGBCE will take local factors into consideration when recommending any specific size.

There are a number of factors that should be considered when deciding on council size. These include:

- Ratio of electors per councillor
- Geographical profile of an area
- Specific nature and characteristics of an area
- Guidance for Local Government Boundary Commission for England (LGBCE)

8.1 Existing county council sizes

Looking at a sample from a number of the 27 county councils the number of councillors vary from 45 to 84. Across all 27 county councils, the average number of councillors is 67 with the average number of councillors in the district councils being 47.

As can be seen in the table below there is a wide range in the number of electors per councillor and hectare per councillor which highlights there is a wide variation across England authorities.

The table above includes the largest (Kent) and smallest (Dorset) county councils, based on electorate size, in England currently. As can be seen, Kent has 39 more councillors than Dorset which suggests that a larger electorate size would require a greater number of councillors. However, Cumbria, like Dorset, has one of the smaller sized electorates but has the same number of councillors as Kent. This stresses the point that the size of an elected council will vary dependent on a county area’s individual circumstances. The Boundary Commission recognise that diversity is a key strand of local government and must be tailored to the needs and characteristics of the local area.

In analysing the consolidation of the district councils in scenario 5, the size of the elected council has been estimated between 50 and 60 members to reflect a slight increase to the current average district council membership of 47.

8.2 Existing unitary authority sizes

Some of the current unitary authorities have varied the number of councillors they have elected, as shown in the below table. As can be seen there is a current average across this sample of 92 councillors which equate to an average of 3,296 electors per councillor.

<table>
<thead>
<tr>
<th>County council</th>
<th>Electorate size</th>
<th>Number of councillors</th>
<th>Electors per councillor</th>
<th>Area in hectares</th>
<th>Hectare per councillor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kent</td>
<td>1,537,900</td>
<td>84</td>
<td>18,308</td>
<td>354,486</td>
<td>4,220</td>
</tr>
<tr>
<td>Essex</td>
<td>1,454,000</td>
<td>75</td>
<td>19,387</td>
<td>346,452</td>
<td>4,619</td>
</tr>
<tr>
<td>Surrey</td>
<td>1,182,100</td>
<td>81</td>
<td>14,594</td>
<td>166,252</td>
<td>2,052</td>
</tr>
<tr>
<td>Lincolnshire</td>
<td>741,400</td>
<td>77</td>
<td>9,629</td>
<td>593,729</td>
<td>7,711</td>
</tr>
<tr>
<td>North Yorkshire</td>
<td>603,000</td>
<td>72</td>
<td>8,375</td>
<td>803,772</td>
<td>11,163</td>
</tr>
<tr>
<td>Buckinghamshire</td>
<td>531,100</td>
<td>49</td>
<td>10,839</td>
<td>156,495</td>
<td>3,194</td>
</tr>
<tr>
<td>Cumbria</td>
<td>496,500</td>
<td>84</td>
<td>5,911</td>
<td>676,660</td>
<td>8,055</td>
</tr>
<tr>
<td>Dorset</td>
<td>421,400</td>
<td>45</td>
<td>9,364</td>
<td>254,170</td>
<td>5,648</td>
</tr>
</tbody>
</table>
Wiltshire County Council previously had 47 members of their council and increased this by 104% on becoming a unitary authority. In comparison, to reach 126 members, Cornwall only increased their council size by 50% and there are currently ongoing discussions in relation to reducing this.

In the financial analysis, the number of members required for a single unitary authority has been estimated at 90 to 100 members to reflect the current average size of the elected councils in unitary authorities. This works on an increase of almost 50% on the average number of members in county councils currently (67 members).

For scenarios 2 and 3 that involve the division of the county area and the creation of more than one unitary authority we have based the number of members required on the current average in county councils. This is because each of these new organisations will be reduced in size, cover a smaller geography and therefore represent fewer electorates.

<table>
<thead>
<tr>
<th>Unitary authority</th>
<th>Electorate size</th>
<th>Number of councillors</th>
<th>Electors per councillor</th>
<th>Area in hectares</th>
<th>Hectare per councillor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornwall</td>
<td>411,674</td>
<td>123</td>
<td>3,347</td>
<td>354,619</td>
<td>2,883</td>
</tr>
<tr>
<td>Shropshire</td>
<td>228,191</td>
<td>74</td>
<td>3,084</td>
<td>319,728</td>
<td>4,321</td>
</tr>
<tr>
<td>Wiltshire</td>
<td>342,196</td>
<td>98</td>
<td>3,492</td>
<td>325,534</td>
<td>3,322</td>
</tr>
<tr>
<td>Northumberland</td>
<td>244,610</td>
<td>67</td>
<td>3,651</td>
<td>501,367</td>
<td>7,483</td>
</tr>
<tr>
<td>Durham</td>
<td>374,451</td>
<td>126</td>
<td>2,972</td>
<td>222,597</td>
<td>1,767</td>
</tr>
<tr>
<td>Cheshire East</td>
<td>268,206</td>
<td>82</td>
<td>3,271</td>
<td>116,636</td>
<td>1,422</td>
</tr>
<tr>
<td>Cheshire West and Chester</td>
<td>256,791</td>
<td>75</td>
<td>3,424</td>
<td>91,670</td>
<td>1,222</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>303,731</strong></td>
<td><strong>92</strong></td>
<td><strong>3,296</strong></td>
<td><strong>276,021</strong></td>
<td><strong>2,996</strong></td>
</tr>
</tbody>
</table>
Appendix B: Variation in council tax

As referenced in the main report, there are variations in the amount of council tax paid across county areas due to the fact that whilst the 27 upper tier counties levy a single level of council tax (per county), the district councils each set their own level.

The following table shows the highest and lowest levels of band D council tax applied by district councils within each county area. As can be seen there are variations from £7 to £198 within a county area.

<table>
<thead>
<tr>
<th>County</th>
<th>Highest council tax</th>
<th>Lowest council tax</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>District council</td>
<td>Amount</td>
</tr>
<tr>
<td>Oxfordshire</td>
<td>£284.52</td>
<td>Oxford</td>
<td>£86.63</td>
</tr>
<tr>
<td>Suffolk</td>
<td>£334.80</td>
<td>Ipswich</td>
<td>£137.43</td>
</tr>
<tr>
<td>Dorset</td>
<td>£289.36</td>
<td>Weymouth and Portland</td>
<td>£116.96</td>
</tr>
<tr>
<td>Norfolk</td>
<td>£244.01</td>
<td>Norwich</td>
<td>£75.46</td>
</tr>
<tr>
<td>Lancashire</td>
<td>£290.73</td>
<td>Preston</td>
<td>£145.69</td>
</tr>
<tr>
<td>West Sussex</td>
<td>£276.93</td>
<td>Adur</td>
<td>£141.72</td>
</tr>
<tr>
<td>Hertfordshire</td>
<td>£249.84</td>
<td>Watford</td>
<td>£118.24</td>
</tr>
<tr>
<td>North Yorkshire</td>
<td>£223.93</td>
<td>Harrogate</td>
<td>£94.48</td>
</tr>
<tr>
<td>Lincolnshire</td>
<td>£254.52</td>
<td>Lincoln</td>
<td>£126.99</td>
</tr>
<tr>
<td>Essex</td>
<td>£266.97</td>
<td>Harlow</td>
<td>£140.13</td>
</tr>
<tr>
<td>Cambridgeshire</td>
<td>£250.47</td>
<td>Fenland</td>
<td>£130.31</td>
</tr>
<tr>
<td>Staffordshire</td>
<td>£204.87</td>
<td>Cannock Chase</td>
<td>£100.34</td>
</tr>
<tr>
<td>Worcestershire</td>
<td>£222.21</td>
<td>Redditch</td>
<td>£119.00</td>
</tr>
<tr>
<td>Hampshire</td>
<td>£207.81</td>
<td>Gosport</td>
<td>£106.42</td>
</tr>
<tr>
<td>Kent</td>
<td>£246.02</td>
<td>Shepway</td>
<td>£150.00</td>
</tr>
<tr>
<td>Leicestershire</td>
<td>£206.63</td>
<td>Oadby and Wigston</td>
<td>£117.09</td>
</tr>
<tr>
<td>Gloucestershire</td>
<td>£192.12</td>
<td>Cheltenham</td>
<td>£104.36</td>
</tr>
<tr>
<td>Devon</td>
<td>£213.39</td>
<td>West Devon</td>
<td>£126.78</td>
</tr>
<tr>
<td>Warwickshire</td>
<td>£215.29</td>
<td>Nuneaton and Bedworth</td>
<td>£133.05</td>
</tr>
<tr>
<td>Northamptonshire</td>
<td>£207.91</td>
<td>Northampton</td>
<td>£128.65</td>
</tr>
<tr>
<td>Surrey</td>
<td>£221.76</td>
<td>Woking</td>
<td>£149.59</td>
</tr>
<tr>
<td>East Sussex</td>
<td>£245.33</td>
<td>Hastings</td>
<td>£177.44</td>
</tr>
<tr>
<td>Cumbria</td>
<td>£216.94</td>
<td>Barrow-in-Furness</td>
<td>£159.95</td>
</tr>
<tr>
<td>Nottinghamshire</td>
<td>£184.72</td>
<td>Mansfield</td>
<td>£140.46</td>
</tr>
<tr>
<td>Derbyshire</td>
<td>£193.34</td>
<td>Derbyshire Dales</td>
<td>£149.89</td>
</tr>
<tr>
<td>Buckinghamshire</td>
<td>£170.62</td>
<td>Chiltern</td>
<td>£137.65</td>
</tr>
<tr>
<td>Somerset</td>
<td>£152.48</td>
<td>South Somerset</td>
<td>£145.52</td>
</tr>
</tbody>
</table>

Independent Analysis of Governance Scenarios and Public Service Reform in County Areas  September 2016
The below table shows the estimated unallocated financial reserves per county area as of Apr 2016 and Mar 2017, from the published RA forms. For example, the total for Buckinghamshire is the sum of the reserves held within the county council and the four district councils in Buckinghamshire.

<table>
<thead>
<tr>
<th>County area</th>
<th>Estimated unallocated financial reserves level at 1 Apr 2016 (£000's)</th>
<th>Estimated unallocated financial reserves level at 31 Mar 2017 (£000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buckinghamshire</td>
<td>£26,814</td>
<td>£27,828</td>
</tr>
<tr>
<td>Cambridgeshire</td>
<td>£46,401</td>
<td>£50,764</td>
</tr>
<tr>
<td>Cumbria</td>
<td>£41,907</td>
<td>£39,593</td>
</tr>
<tr>
<td>Derbyshire</td>
<td>£63,377</td>
<td>£49,839</td>
</tr>
<tr>
<td>Devon</td>
<td>£27,576</td>
<td>£27,069</td>
</tr>
<tr>
<td>Dorset</td>
<td>£19,666</td>
<td>£17,796</td>
</tr>
<tr>
<td>East Sussex</td>
<td>£23,846</td>
<td>£22,907</td>
</tr>
<tr>
<td>Essex</td>
<td>£130,772</td>
<td>£111,129</td>
</tr>
<tr>
<td>Gloucestershire</td>
<td>£32,414</td>
<td>£32,140</td>
</tr>
<tr>
<td>Hampshire</td>
<td>£46,582</td>
<td>£46,092</td>
</tr>
<tr>
<td>Hertfordshire</td>
<td>£80,670</td>
<td>£81,463</td>
</tr>
<tr>
<td>Kent</td>
<td>£84,681</td>
<td>£82,164</td>
</tr>
<tr>
<td>Lancashire</td>
<td>£73,131</td>
<td>£72,006</td>
</tr>
<tr>
<td>Leicestershire</td>
<td>£13,759</td>
<td>£13,267</td>
</tr>
<tr>
<td>Lincolnshire</td>
<td>£28,962</td>
<td>£28,355</td>
</tr>
<tr>
<td>Norfolk</td>
<td>£59,780</td>
<td>£61,332</td>
</tr>
<tr>
<td>North Yorkshire</td>
<td>£74,509</td>
<td>£70,958</td>
</tr>
<tr>
<td>Northamptonshire</td>
<td>£38,108</td>
<td>£40,463</td>
</tr>
<tr>
<td>Nottinghamshire</td>
<td>£43,420</td>
<td>£39,233</td>
</tr>
<tr>
<td>Oxfordshire</td>
<td>£61,908</td>
<td>£60,484</td>
</tr>
<tr>
<td>Somerset</td>
<td>£33,622</td>
<td>£31,267</td>
</tr>
<tr>
<td>Staffordshire</td>
<td>£40,655</td>
<td>£34,789</td>
</tr>
<tr>
<td>Suffolk</td>
<td>£91,746</td>
<td>£96,111</td>
</tr>
<tr>
<td>Surrey</td>
<td>£64,505</td>
<td>£59,162</td>
</tr>
<tr>
<td>Warwickshire</td>
<td>£35,640</td>
<td>£30,455</td>
</tr>
<tr>
<td>West Sussex</td>
<td>£63,834</td>
<td>£62,812</td>
</tr>
<tr>
<td>Worcestershire</td>
<td>£27,852</td>
<td>£27,582</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£1,376,137</strong></td>
<td><strong>£1,317,060</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>£50,968</strong></td>
<td><strong>£48,780</strong></td>
</tr>
</tbody>
</table>
This area of savings relates to reductions in the cost of delivering non-Support Services (i.e., those services not classified as Support Services for the purpose of this analysis). It breaks down as two key categories:

1. Savings through duplication of roles across the district councils (for the purpose of this analysis, it has been assumed that there is no duplication in frontline roles but there is duplication across middle management of those service delivery roles)
2. Savings through optimising the way services are delivered. The efficiencies are based on taking a whole systems approach to service redesign without the boundaries of two-tier government impeding innovation. Specifically, savings should be achievable through procurement scale and contract management, convergence of systems and processes, better use of assets and optimising processes through utilising regional best practice

A 3–5% optimisation savings range has been assumed across non-Support Services after staffing costs have been extracted from the cost base. However, it should be noted that there is an assumption that across care and education (accounting for £10.1bn of a total £27.5bn net spend) optimisation savings cannot be made.

Set out below are some examples with evidence from other local authorities of the types of service optimisation savings that can be delivered through this process. More detailed analysis of service delivery across the authorities within each county area will be required to understand the specific opportunities service by service to quantify how the 3–5% could breakdown across services.

### 11.2 Regulatory

It has been assumed that a saving against current budgets can be achieved through, for example, using a more efficient delivery model across county areas for the delivery of regulatory services, ensuring greater integration across historically two-tier functions.

1. **Creation of a single building control service**

   There could be opportunities to create a single building control service, which could involve the consolidation of multiple services into one.
   
   Efficiencies would be gained through a reduction in senior management posts, in sharing facilities, integration of local teams, and scheduling of work.

2. **Integration of pest control and environmental health**

   Efficiencies can be achieved through the integration of pest control and environmental health, which are currently fragmented across the two-tier structure. This could allow the integration of roles, teams and functions.

### 11.3 Planning

It is assumed that a reduction against net budgets could be achieved through service optimisation as a result of creating a single planning authority.

1. **Creation of a single planning authority**

   The efficiencies of a single planning authority include the reduction in the number of local plans produced leading to efficiencies in the consultation process, and elimination of inefficiencies resulting from plans being unaligned.
Professionalisation of the planning service leading to attracting greater expertise and retention levels, leading to better quality decisions and fewer appeals. There could also be some efficiency in the planning policy process.

There may be efficiencies in closer and more co-ordinated working between the Highways Authority and the planning authority.

An ability to plan more strategically across county areas and to direct resources where there is greatest need.

ii. Business application consolidation
A single planning authority could facilitate the consolidation of planning case management systems, and building control. The support and maintenance of these systems can also be significant.

11.4 Local taxation and benefits
There is often significant variance in the unit cost and performance of this administrative and support function across county areas.

It has been assumed that the unit cost of local taxation collection and benefits administration could be harmonised to achieve improved performance across district authorities. If performance improvement were achieved, significant savings could be realised.

The analysis does not include any savings associated with housing benefits due to the national implementation of the ‘Universal Credit’ and welfare reform, led by DWP

i. Creation of a single Revenues and Benefits team
Achieving an efficiency level equating to current upper quartile performance, through integrating teams and distributing workloads to improve productivity

ii. Business application consolidation
Consolidation of the IT systems, resulting in reduced support and maintenance costs. This is taking account of a number of outsourced teams.

11.5 Highways and street cleaning
It has been assumed that a saving could be made against current service expenditure for open spaces and street cleaning through service efficiencies. The opportunity areas include asset management (e.g., plant rationalisation and vehicles), procurement (consolidating contracts, rationalise suppliers), integration of contract management teams, combining roles such as parking with environmental enforcement, better shift management and scheduling.
Notes
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