

SHARED INTELLIGENCE

Learning the Lessons from Local Government Reorganisation

An Independent Study

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Executive Summary

Discussions about reorganisation and the case for and against creating unitary councils are a constant feature of life in English local government. After the 2015 election the prospect of action was stronger than it had been for some time. Despite this renewed interest in local government reorganisation, there is surprisingly little evidence to support the debate on competing proposals and models.

There have been two distinct generations of “new” unitary councils in non-metropolitan England from which we can now learn: one generation created in the 1990s; and a second generation created over a decade later in 2009. The core differences between the councils that were created in the 1990s and those that were established in 2009 relate to population, size and geography. The first round of reorganisation tended to break up county council areas. While this cohort of new councils included some large authorities such as East Riding of Yorkshire and Herefordshire, the councils created were generally small and largely district-based unitary councils taking on county functions. On the other hand six of the nine authorities created in 2009 covered the whole of a county area. The three smaller councils created then are larger than most of the 1990s generation.

The County Councils Network (CCN) commissioned Shared Intelligence to produce this independent report on the lessons from these two generations of unitary councils to help fill the evidence gap and inform any future decisions about the creation of new unitary councils. In carrying out this research our focus has not been on the case for unitary councils or on the process by which new councils were created. Rather, our focus has been on capacity of the two generations of councils to respond to the opportunities and challenges facing local government today and the implications of that for policy on any further reorganisation.

Our methodology

The main source of evidence for this research is a series of semi-structured non-attributable interviews with current and former leaders, chief executives and senior officers from a sample of councils from the two generations of unitary councils. We have also interviewed a small number of national stakeholders who have had some engagement with this group of councils. In total we have conducted 19 interviews. We have also reviewed published reports of LGA Corporate Peer Challenges of new unitary councils carried out over the last 5 years.

Key Findings

In the period immediately after the 2015 general election it was widely understood that the Government would use four broad criteria to consider any proposals for structural change. These criteria included: affordability, financial sustainability, implications for leadership and impact on service delivery. It is important to note however, that these criteria relate to the outcomes that flow from the creation of the new unitary councils. This research has identified the factors that are likely to determine whether or not these outcomes will be achieved – the input factors which must be reflected in the design of any proposed reorganisation. Those factors are a combination of scale, geography and a sense of place, and the consequences of the interaction between those factors for collaboration, engagement, and political and managerial leadership.

The interviews on which this research is based have shed considerable light on how these factors must be managed if effective unitary councils are to be created. The research has also demonstrated that if Government seeks to achieve local government reorganisation through the facilitation of ‘bottom up proposals’ that are sustainable over the long-term, any proposals must take account of

learning from the two previous rounds of reorganisation. It is also important that they acknowledge that the legacy of the reorganisation process lingers long after the event and is another key contextual factor.

In principle there is considerable merit in a bottom-up approach to future local government reorganisation and it would be to local government's credit if it could make it work. The danger is that in some places it will lead to a period of uncertainty which could be damaging to critical services and potentially leave a fragmented public service and pattern of devolution across non-metropolitan areas.

Scale

- From the interview evidence there is no doubt that larger councils, those with a higher population, are better-placed to deliver economies of scale than smaller councils. They are able to devote a bigger proportion of their resources to the front line.
- The difference in the capacity of different sized unitary councils to respond to today's financial and service pressures appears to be stark, with the larger councils better equipped to succeed. There is a strong sense that even the best performing small unitary councils struggle to marshal the capacity to, for example, participate in devolution opportunities, engage in cutting edge partnership working or think creatively about the next round of savings.
- Our interviewees pointed to the fact that the scope for traditional savings in smaller councils is limited and many of them lack the capacity to use reduced resources as a driver of innovation and respond to the service pressures facing councils. They also reported that previously well-managed and financially sound smaller unitary councils are now becoming less resilient and identifying major risks in key services.
- There is clear evidence from this study on the challenge that many of the unitary councils created in the 1990s faced in taking on responsibility for what had been county council services, particularly social services and education. Underpinning this is an apparent difference in the dynamics involved in splitting up functions such as these, as opposed to absorbing other functions into a larger entity, with resulting impacts on service performance and their capacity to respond to mounting service pressures.

Geography

- While scale is important in its own right, the effectiveness of new unitary councils is influenced by the critically important relationship between scale and physical geography. Many of the councils that were created or given unitary status in the 1990s are "under-bounded": a large proportion of the city or town is in fact part of one or more neighbouring councils.
- Interviewees reported that councils with tight geographies are seriously constrained in their ability to take strategic decisions in key areas including the economy, housing, planning and transport, health and care and children's services. Time and effort is required to negotiate a joint approach with neighbouring councils.
- The geography of an under-bounded council may mean that many of a place's "movers and shakers", its social and civic capital, live in another local authority area. Tight boundaries can also compound demographic and financial pressures.

- The scale and geography of a council determines the extent to which it can actually exploit the advantage of a unitary council of having all services in one organisation. Larger councils covering larger geographical areas are better placed to take these strategic decisions and make the most of their unitary status. Joint working between smaller councils can provide a way of managing these issues, but it takes significant time, effort and scarce corporate and political capacity.

Sense of place

- The third factor in this complex set of relationships is the sense of place including questions of identity and the importance of administrative boundaries reflecting how people live their lives.
- There was a wide consensus among the interviewees that councils work best when their boundaries reflect the way in which people live their lives, where they go to work, learn, shop, spend their leisure time and get health care. Many of the smaller 1990s councils do have a powerful sense of place, but because of their size and geography they often lack the capacity to take advantage of it.

Summary – Today's context for any further unitary councils

The context in which there is a renewed interest in the creation of further unitary councils includes:

- The welcome from ministers following the 2015 general election for 'bottom up' reorganisation proposals;
- A combination of austerity and service pressures which are raising concerns about the cost of two tier local government;
- Financial independence and the need for sustainable units of local government under business rates retention.
- The economic challenge which requires co-ordinated action on housing, planning and infrastructure;
- The pressure for public service reform, including the integration of health and care;
- The move towards greater collaboration and partnership working, including the creation of combined authorities and the governance issues that flow from them.

Capacity to collaborate

- Partnership working and collaboration between public bodies has become more important since the last two rounds of local government reorganisation. Collaboration is considerably easier where the boundaries of the relevant organisations are the same: coterminosity matters!
- Interviewees with experience of the 1990s unitary councils have pointed out that in some cases partner organisations operating across a small geography suffer from a lack of capacity and critical mass and are being reorganised to secure economies of scale.

Engagement

- The ability of unitary councils to engage effectively with local communities is an important issue with potentially significant implications for the scale/geography/place questions.
- Many of the unitary councils established in the 1990s have a very close fit with their local communities. Interviewees have pointed out that this combined with their size enables them to be responsive and fleet of foot. This is undoubtedly a strength of

smaller councils. However, interviewees with experience of the larger unitary councils created in 2009 are confident that they have been successful in devolving decision-making to a locality level in a variety of ways. They argue strongly that this provides a mechanism for effective governance at a very local level.

Political and managerial leadership

- The effectiveness of councils of all shapes and sizes hinges to a significant extent on the quality of their managerial and political leadership.
- Large councils are particularly well-placed to recruit and retain high quality managerial leaders. Smaller councils can also do so, but our interviewees were clear that the challenges of managing a small council are intense and require smaller councils to pay similar salaries as larger councils out of a smaller budget. There are also examples of performance coasting or deteriorating following a change in managerial leadership.
- Similar challenges apply in relation to political leaders. Interviewees pointed to the fact that small councils by definition have a small pool from which to seek effective senior councillors. This can be compounded by factors such as the turbulent political wash created by the process of making the case for and establishing a unitary council. In some cases this has forced some senior councillors into the political wilderness, reducing the pool of potential political leaders locally. Several small unitary councils are currently going through a period of political instability which combined with a small talent pool and annual elections can seriously undermine their effectiveness.

Shadow of history

- It is clear from the interviews on which this research is based that the nature of the process for designing and agreeing unitary arrangements can have a significant impact on a successor council's performance. In several cases district councils "fought" vigorously for unitary status in the face of entrenched opposition from the county. This often created a legacy of sour relationships.
- In particular, many of the 1990s generation faced a particular challenge in taking on responsibility for core functions such as education and social care for which the core successor council – the district – did not previously have responsibility. As noted above these factors were exacerbated in some places as a result of previously senior councillors being removed from leadership roles.

1 Introduction

- 1.1 Discussions about reorganisation and the case for and against creating unitary councils are a constant feature of life in English local government. In the period immediately after the 2015 general election, however, the prospect for action was stronger than it had been for some time, with ministers making it clear that they were “very sympathetic to councils that have the ambition and creativity to take this opportunity to reform”.
- 1.2 While welcoming proposals for the creation of unitary councils through ‘bottom up’ proposals, the government did not publish any formal criteria or set out an evidence-base against which those proposals would be assessed and appeared unlikely to do so. Despite this renewed interest in local government reorganisation, there is surprisingly little evidence to support the debate on competing proposals and models. It is significant that a review of the literature of the effectiveness of the effectiveness of unitary and two tier structures published by the Department for Communities and Local Government in 2010 concluded that “despite growing support for the existence of scale economies in local government, significant gaps remain in the evidence base on the effects of previous rounds of reorganisation. In particular, very little is still known about:
- The direct effects of the process of transition on effectiveness as a whole;
 - The implications of changes in structure for strategic leadership, community empowerment and service performance; and
 - The impact on leadership and empowerment of changes in size.”
- 1.3 We do, however, now have the benefit of two distinct generations of “new” unitary councils which were the product of local government reorganisation in shire counties from which to learn: one generation created in the 1990s; and a second generation created over a decade later in 2009. The County Councils Network (CCN) commissioned Shared Intelligence to produce this independent report on the lessons from these two generations of unitary councils in order to help fill the national evidence gaps identified by DCLG, and inform any future decisions about local government reorganisation.
- 1.4 In carrying out this research our focus has not been on the case for unitary councils or on the process by which new councils were created. Rather, our focus has been on capacity of the two generations of councils to respond to the opportunities and challenges facing local government today and the implications of that for policy on any further reorganisation.

Our methodology

The main source of evidence for this research is a series of semi-structured non-attributable interviews with current and former leaders, chief executives and senior officers from a sample of councils from the two generations of unitary councils. We have also interviewed a small number of national stakeholders who have had some engagement with this group of councils. In total we have conducted 19 interviews. We have also reviewed published reports of LGA Corporate Peer Challenges of new unitary councils carried out over the last 5 years.

- 1.5 This report provides a pen portrait of the two most recent generations of unitary councils (section 2). It then briefly outlines the current context in which this research has been carried out (section 3). The

core of the report (section 4) provides a synthesis of the interviews and the final section (section 5) draws some conclusions from our work for proposals for the creation of further unitary councils.

2 The two most recent generations of unitary councils

2.1 The core differences between the councils that were created in the 1990s and those that were established in 2009 relate to population, size and geography. The first round of reorganisation tended to break up county council areas with largely district-based unitary councils taking on county functions. This included both breaking up “new” counties created in 1974 and establishing cities in longer standing counties as unitary councils. On the other hand six of the nine authorities created in 2009 covered the whole of a county area. The three smaller councils created then are larger than most of the 1990s generation.

1990s Unitary Authorities

2.2 In 1991 the then Secretary of State announced that the government planned to create unitary councils as part of a more general review of local government, including the abolition of the community charge or “poll tax”. This process was led by a Local Government Commission which carried out a staged review of county areas between 1992-98. This led to the creation of 46 unitary councils. Four whole county areas were abolished entirely (and were replaced by 18 unitary councils).

2.3 The average population size of this generation of unitary council was 177,733. This ranges from very small councils such as Rutland (34,560), Hartlepool (88,629) and Bracknell Forest (109,606) to larger cities such as Bristol (380,615) and Leicester (279,923) and the more rural authority of East Riding of Yorkshire (314,076).¹ Even factoring growth in population since 2001,² many of this generation of unitary councils are smaller than the largest district councils such as Aylesbury Vale (184,560) and Basildon (180,521).

2.4 A feature of a significant number of this generation of councils – of all sizes - is that they are under-bounded, with a significant part of the main urban area forming part of one or more neighbouring councils. This results in small cities being geographically bounded, for example, Bristol, Nottingham, Plymouth, Southampton and Portsmouth, all with a landmass that is below half the average for this generation of councils. With the expectation of Herefordshire (217,971 hectares) and East Riding of Yorkshire (240,648) who are more similar to the second generation of unitary authorities, the average landmass of these authorities is very small, at just 28,097 hectares.³

2009 Unitary Authorities

2.5 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. The Government published a document inviting councils in England to make proposals for future unitary structures. This paper provided a policy framework and criteria on which the Government would base its decisions on which applications for unitary status to accept (see box below).

¹ 2001 Census (ONS)

² Mid-Year Population Estimates, 2015 (ONS)

³ Size of Geographical Area (LG Inform & ONS)

The 2009 criteria

The invitation issued to councils in October 2006 to submit proposals for a change to unitary status set out five criteria by which any proposals would be judged. The invitation stated that any proposal must:

- Be affordable, i.e. that the change itself both represents value for money and can be met from the councils' existing resource envelope;
- Be supported by a broad cross section of partners and stakeholders;
- Be reasonably likely to provide strong, effective and accountable strategic leadership;
- Deliver genuine opportunities for neighbourhood flexibility and empowerment;
- Deliver value for money and equity in public services.

2.6 As a result unitary authorities were created in Cornwall, Shropshire, Wiltshire, Northumberland, Durham, Central Bedfordshire, Cheshire East and Cheshire West & Chester. The average landmass of these councils is 228, 167 hectares, with an average population of 361,139. This generation of unitary councils includes three of the 10 largest English unitary councils by population. At the time of the 2011 census Wiltshire had a population of 470, 981, Cornwall had a population of 532,273, and Durham 513,242.

The table below sets out some other key features of the two generations of unitary councils.

Population: 2009 Unitary Authorities were larger....	<ul style="list-style-type: none"> • The average population size of the councils created in 2009 was 361,139 in 2011, with councils ranging from 532,273 in Cornwall to 163,900 in Bedford. The average population of a 1990s unitary was 177,733, with a range from 34,560 in Rutland to 279,923 in Leicester and 314,076 in East Riding of Yorkshire.
Demographics: 2009 unitary authorities have more older people	<ul style="list-style-type: none"> • The later unitary councils have a higher percentage of elderly residents. On average a 2009 unitary has 20.5% of its population aged over 65 compared to 17% in the previous cohort.
Deprivation: the 1990 unitary authorities are more deprived.....	<ul style="list-style-type: none"> • The deprivation ranking of the second cohort of authorities is an average of 100, compared to 75 in the 1996-98 unitary authorities.
Landmass: 2009 unitary councils were eight times larger.....	<ul style="list-style-type: none"> • The average landmass in a 2009 unitary is 228,167 hectares, with Northumberland the largest at 502,608 and Bedford the smallest at 47,640. This compares to 28,097 and a range of 3,254 in Slough to 240,468 in East Riding of Yorkshire and 217,971 in Herefordshire for the 1996-98 councils.
Geography: earlier unitary councils were significantly more urban	<ul style="list-style-type: none"> • There is a clear urban and rural split between the two rounds of reorganisations, with the former unitary authorities prominently urban. On average 88.5% of residents in the 1996-98 councils live in 'urban areas', compared to 58.5% in the 2009 councils. Population density is therefore significantly higher in councils created during the 1990s, with 10.75 people per hectre compared to 2.33 in the later unitary authorities.

3 The current context

- 3.1 The public policy environment is very different today to the one in the late 1990s or in the 2000s. The current interest in further local government reorganisation coincides with a period of significant change for local government. This has important implications for the challenges and opportunities that any new unitary councils must address and therefore the learning that we are seeking to draw from the previous generations of unitary councils.

Austerity

- 3.2 The link between reorganisation of local government and the wider economic context is significant. The 1990s reorganisations took place as the country emerged from the recession of 1990-91. The 2009 reorganisation took place in the context of the response to the world financial crisis in 2008. But it also followed a period of significant increases in local government funding which peaked in 2009 with the average government grant per head of population in 2009 of £1,106 – an increase of 113% since 1996.
- 3.3 In 2010 the Coalition Government initiated its deficit reduction programme. The programme was originally intended to run from 2010/11-2015/16. The average government grant per head of population for 2015-16 was £716, a reduction of 35% since 2009. While it is expected that the Government will ‘reset’ its deficit reduction plan following the Brexit vote, councils still face significant funding reductions over the coming period, with core grants for CCN member councils reducing 89% over the course of this Parliament. As a result of this, councils face continuing budget pressures and many have exhausted the conventional cost-saving and efficiency approaches, particularly upper-tier councils.

Population Growth & Service Demand

- 3.4 Today these financial pressures are compounded by the pressures of an ageing society and the imperative of enabling economic growth with implications for housing, planning and transport policies and programmes. During 2014, 53% of all housing development took place in CCN member areas. County populations have grown by 2.6% between 2010-2014 and the number of households in counties are projected to grow by 18% by 2037.⁴
- 3.5 Recent research by LG Futures for CCN showed that county areas face the most rapid increase in those aged 65 and over, with county councils experiencing an 8.5% increase in the number of social care contacts during the last Parliament against overall reductions in other authority types.⁵ County areas have also witnessed an increase of 57% in the number of children subject to child protection plans and a 20.3% increase in children’s services referrals during the last Parliament.⁶

⁴ CCN Spending Review Submission (2015), p. 13

⁵ LG Futures. Health & Social Care in Counties: Funding, Demand & Cost Pressures (LG Futures & CCN, 2016)

<http://www.countycouncilsnetwork.org.uk/news/2016/ian/health-amp-social-care-counties-funding-demand-amp-cost-pressures/>

⁶ CCN. Delivering Children’s Services in Difficult Times (CCN, 2015) <http://www.countycouncilsnetwork.org.uk/library/july-2013/file113/>

Financial Independence

- 3.6 When the most recent unitary authorities were created in 2009, local tax revenues represented 41% of local authority revenues. Today the figure is closer to 50% and the shift towards local financial autonomy looks set to continue. In September 2015, the then Chancellor announced Government plans to extend the current system of business rate retention, moving towards a fully devolved funding system by 2020/21.
- 3.7 Under the new system, councils would no longer receive revenue support grant (RSG), which will be phased out during this Parliament. While no details have been confirmed by Government we understand that the new system will retain baselines, top-ups and tariffs to enable equalisation and to provide protection for services such as social care. The system is also likely however to allow a greater retention of growth locally, which will need to be balanced against needs redistribution – Government’s commitment to remove the levy on growth underpins this approach.
- 3.8 Government are continuing to engage with the local government sector to set out system design principles, which are due to be tabled in legislation in early 2017.

Public Service Reform

- 3.9 Central to the response of councils to financial pressures and financial independence is greater collaboration and joint working between councils and also with public sector partners. This ranges from councils having a shared chief executive and management team to the integration of health and care, with a particular focus on early intervention. This all means that collaboration between councils and between councils and their partners is becoming increasingly important.
- 3.10 The geographical scale at which councils have to operate is also increasing. The establishment of Local Enterprise Partnerships during the last parliament is just one example of action by central government which has involved a shift to activity to a sub-regional level. Others include the development of NHS Sustainability & Transformation Plans, Regional Adoption Agencies, Sub-National Transport Bodies and multi-county Combined Authorities (see below).

Devolution Deals

- 3.11 Recent years have seen the negotiation of a number of devolution agreements between central and local government in order to secure devolved powers and resources for local areas. Governance featured prominently in these negotiations and in some areas the creation of unitary councils has been proposed as an alternative to the directly elected “metro mayor” model which has been adopted in, for example, Greater Manchester and the West Midlands and is being insisted on by government in most devolution negotiations. Cornwall, a unitary council, is an exception and was not required to introduce a mayor as part of its devolution deal. In many areas councils have or are proposing to create combined authorities as part of devolution deals. These are statutory bodies, created by a parliamentary order, which are intended to put collaboration between councils on a far more robust footing. The potential scope of the functions of combined authorities has been significantly widened by the Cities and Local Government Devolution Act 2016.

Local Government Reorganisation

- 3.12 During the first year of this Parliament, potential structural reform was linked closely to the devolution agenda, raising the possibility of the first formal proposals since the late 2000s.
- 3.13 The then Communities and Local Government Secretary Greg Clark MP made a number of statements encouraging councils “that have the ambition and creativity to take this opportunity to reform” to bring forward proposals for reorganisation. This is in marked contrast to the stance adopted by the previous Coalition Government which saw reorganisation as a distraction from action to secure improved, more efficient service delivery.

Rt. Hon Eric Pickles MP, SoS DCLG 2010-15:

*“Local government reorganisation has been a vanity project by Ministers...
If I am lucky enough to become Secretary of State for Communities and
Local Government I intend to keep a loaded pearl-handled revolver in my
drawer, and the first civil servant who suggests local government
reorganisation will be shot.”*

- 3.14 This position was even maintained following the publication of the Heseltine Review of economic growth in 2012, which proposed the abolition of two-tier local government in England.⁷ Through the remainder of the last Parliament, councils who did express an interest in reorganisation were briskly dismissed - the Local Government Minister telling Cumbria County Council in March 2015 to ‘forget’ any unitary proposals, as it was a distraction from delivering efficient and effective services.
- 3.15 Greg Clark stressed that wherever possible proposals should be formed by consensus locally. But, explaining a new provision in the Act to require discussions to take place in an area, he said: “No authority can reasonably refuse even to discuss the potential for reform....It is reasonable for neighbouring authorities to have conversations about what is the best way to proceed.”
- 3.16 At the time of writing the current Secretary of State for Communities and Local Government, Sajid Javid MP, has yet to make a definitive statement on the subject of local government reorganisation. However, Local Government Minister Marcus Jones MP recently stated that the Government was still open to ‘bottom up proposals’ that had a ‘good deal of local consensus’.⁸
- 3.17 A fast-track path towards unitary status has been enshrined in law. The Cities and Local Government Devolution Act introduced an expedited procedure for creating unitary authorities, and for reviewing ward boundaries and councillor numbers within local authorities, or for the review of local authority areas. It permits reorganisation without the consent of all councils involved through a provision which is time limited until April 2019. Where a new combined authority is to be created, this would allow the simultaneous creation of unitary authorities, if this was desired locally. Where previously the

⁷ No Stone Unturned- In Pursuit of Growth, The Rt Hon Lord Heseltine of Thenford CH, October 2012

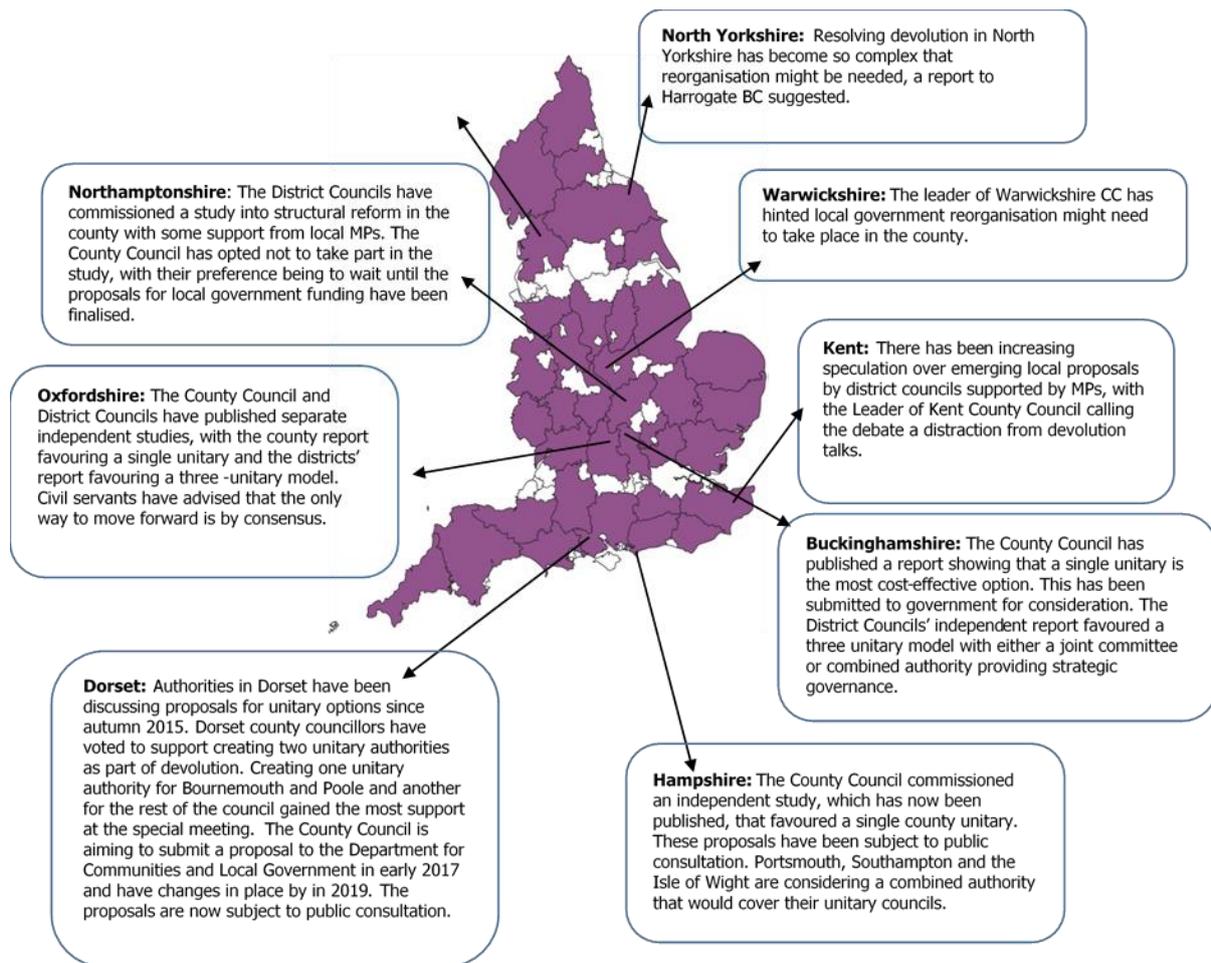
⁸ House of Commons, Westminster Hall Debate. Tuesday 02nd September

<https://hansard.parliament.uk/commons/2016-09-06/debates/16090630000001/LocalGovernmentReformv>

government had to invite or instruct reorganisation proposals the latest legislation acts as a standing invitation for proposals to the Secretary of State.

Unitary Discussions

- 3.18 In practice, at the time of the EU referendum, work on the case for the creation of unitary councils was under way in a number of places including: Buckinghamshire, Dorset, Oxfordshire and Hampshire, with wider reports of proposals potentially developing in other two-tier areas.
- 3.19 The table below captures the state of local discussions at that time.



- 3.20 Essentially two models were being explored: a county-based unitary council, often combined with more empowered town, parish and/or community councils. Alternatively, a sub-county unitary, with the county areas broken up into district-based or merged district councils. In some places, it is proposed that some former county functions such as transport and adult social could be delivered by a combined authority, or other public bodies such as the clinical commissioning group or third sector organisations. In terms of population size, these two models broadly mirror the different pattern of councils created in 2009 (predominantly county unitaries) and the 1990s (which involved the splitting up of county councils).
- 3.21 Although the government have not yet publish formal criteria against which any proposals for reorganisation could be assessed, it is understood that in practice it intended to use high level informal criteria covering four key areas:

- Financial sustainability in the context of the government’s plan for councils to be financially self-sufficient from 2020-21;
- Potential to enable improved delivery of public services;
- Potential to maximise efficiency savings and absorb short-term transition costs;
- Provision of stronger, more accountable leadership.

3.22 These factors are very similar to the formal criteria used in the last round of reorganisation. Significantly they also closely reflect issues about which the DCLG’s 2010 research concluded that “very little is still known” in relation to the effectiveness of unitary and two tier structures.

3.23 This research aims to fill that gap and to explore the relative merits of the emerging options for reorganisation by drawing on the lessons from previous rounds of reorganisation and applying the lessons to the realities facing the sector today.

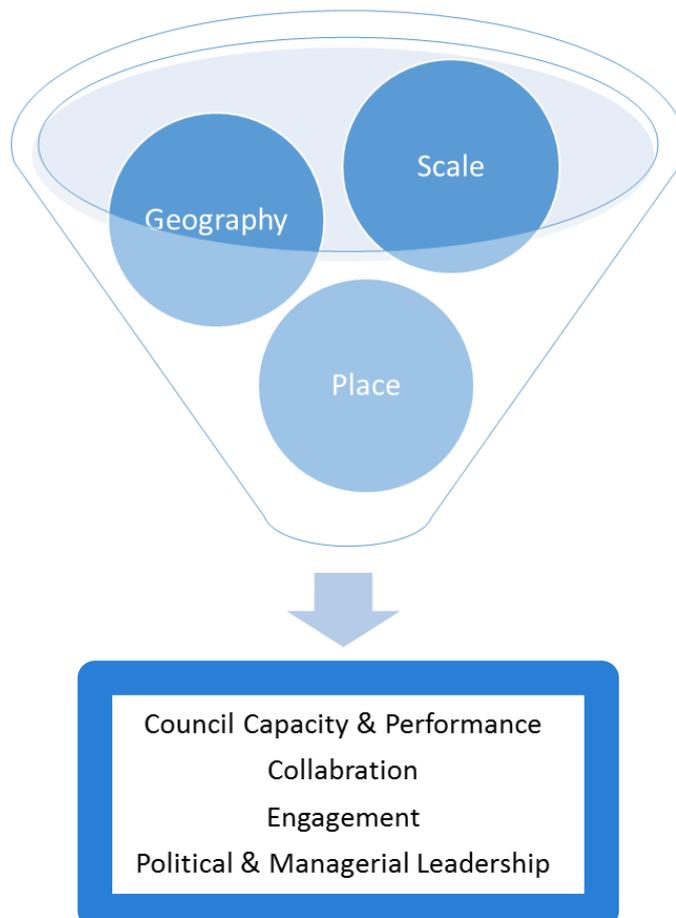
Summary – The context for any further unitary councils

The context in which there is a renewed interest in the creation of further unitary councils includes:

- The welcome from ministers following the 2015 general election for ‘bottom up’ reorganisation proposals;
- A combination of austerity and service pressures which are raising concerns about the cost of two tier local government;
- Financial independence and the need for sustainable units of local government under business rates retention.
- The economic challenge which requires co-ordinated action on housing, planning and infrastructure;
- The pressure for public service reform, including the integration of health and care;
- The move towards greater collaboration and partnership working, including the creation of combined authorities and the governance issues that flow from them.

4 Lessons from the 1990s and 2009

- 4.1 It is clear from the interviews on which this research is based that three interlinked factors have had a significant impact on the effectiveness of the most recent two generations of unitary councils and on their capacity to respond to the opportunities and challenges facing councils today. They are scale, geography and sense of place. It is useful to think of these as three “input factors” that create the conditions for the outcomes of collaboration, engagement and political and managerial leadership, each of which is important in relation to a council’s capacity and overall performance (see diagram below).
- 4.2 While this research did not set out to review the ‘process’ by which these unitary councils were created, it is clear from the interviews that the way these factors play out is influenced by the nature of the transition to unitary status, and in particular the extent to which process was a contested one. This issue and its impact is considered separately, at the end of this section.
- 4.3 This section draws primarily on the non-attributable interviews that form the core of the evidence base for this report. The synthesis of the interviews is supplemented where appropriate by other evidence including peer challenge reports and other relevant literature.



Scale

- 4.4 As was noted in section two, scale is one of the most significant differentiating factors between the councils that were created in the 1990s and those established in 2009. It also goes to the heart of the differences between the options that are being explored today, with one of the most contested issues being the potential population size of any new authorities. Reports suggest that it had been privately indicated to interested authorities that government thinking favoured populations of 400,000-700,000, although this is not formal government policy.⁹
- 4.5 From the interview evidence there is no doubt that larger councils, those with a higher population, are better-placed to deliver economies of scale than smaller councils. They are able to devote a bigger proportion of their resources to the front line. For example, one 2009 unitary has cut the proportion of its back office costs from 18% of its budget to 7%. On the other hand, a council created in the 1990s puts the cost being a council today at 10% of its budget.
- 4.6 National figures on back-office expenditure across the two generation of councils support this conclusion. In the 1990s unitary councils spend on management and support services as a proportion of total service spend increased from 10.1% in 2009/10 to 10.6% in 2013/14. In the 2009 unitary authorities it decreased from 7.2% to 6.8% over the same period.¹⁰

“If you can get more money to the front line, to the things that really matter to the people...then you should do whatever you can to do that.”

Former chief executive of a national regulatory body

- 4.7 The difference in the capacity of different sized unitary councils to respond to today’s financial and service pressures appears to be stark. There is a strong sense that even the best performing small unitary councils struggle to marshal the capacity to, for example, participate in devolution opportunities, engage in cutting edge partnership working or think creatively about the next round of savings.

“The council was noted for its partnership work – it was harmonious and purposeful. The place had its own identify. These are strengths, but they were outweighed by the challenges.”

Recent chief executive of a 1990s unitary

- 4.8 Our interviewees pointed to the fact that the scope for traditional savings in smaller councils is limited and many of them lack the capacity to use reduced resources as a driver of innovation in order to achieve better for less and respond to the service pressures facing councils. They also reported that previously well-managed and financially sound smaller unitary councils are now becoming less resilient and identifying major risks in key services.

⁹ LGC, 16th March 2016 <http://www.lgcplus.com/politics-and-policy/governance-and-structure/dclg-to-unitary-bidders-aim-for-minimum-population-of-300000/7003280.article>

¹⁰ Spend on management and support services as a proportion of total service spend (LG Inform & Public Sector Audit Appointments Limited)

“On most measures the council’s population was average, but it’s school performance was awful and there was no ambition to do anything about that.”

Recent chief executive of a 1990s unitary

- 4.9 During the course of this research interviewees referred to the challenge that many of the unitary councils created in the 1990s faced in taking on responsibility for what had been county council services particularly social services and education. Underpinning this is an apparent difference in the dynamics involved in splitting up functions such as these as opposed to absorbing other functions into a larger entity, with resulting impacts on service outcomes (see box on page 23) and their capacity to respond to mounting service pressures. For some councils this weakness in relation to social care and children’s services has been a continuing challenge leading to various forms of government intervention.
- 4.10 National performance data provides further evidence of the challenge that smaller unitary councils have faced in this area. The box below shows the latest Ofsted ratings for children services in the two generations, the rate of referrals during the period and the increase in children subject to a child protection plan. These would suggest that the smaller councils have been less able to cope with the increased demand for services during the period, with a subsequent impact on inspection ratings.

The Capacity Gap			
Children’s Services			
The following statistics are taken from an analysis of the local authorities, formed under either the 1990s or 2009 reorganisations, inspected under Ofsted’s Single Inspection Framework (introduced in November 2013):			
1990s Unitaries		2009 Unitaries	
No. LAs inspected 29/46		No. LAs inspected 5/9	
<u>% of those LAs inspected that achieved</u>		<u>% of those LAs inspected that achieved</u>	
Good	10%	Good	40%
Requires Improvement	69%	Requires Improvement	60%
Inadequate	21%	Inadequate	0%
Rate of Referrals to Children’s Social Care per 10,000 population 2009/10-2014/15			
	2009/10	2014/15	% Change
1990s	554.7	550.5	-0.8%
2009	490.9	421.3	-14.2%
Number of children in need who became subject to a child protection plan during the year			
	2009/10	2014/15	% Change
1990s	175	255	+46%
2009	225	329	+46%

- 4.11 There are important interactions between organisational scale, the ability of councils to respond to financial and service pressures and a council’s capacity to handle the political challenges involved in

these services (compared with those relating to functions such as housing and planning), to which we return to below.

Geography

- 4.12 The experience of our interviewees would suggest that while scale is important in its own right, the effectiveness of new unitary councils is influenced by the critically important relationship between scale and physical geography. For example, many of the councils that were created or given unitary status in the 1990s are “under-bounded”: a large proportion of the city or town is in fact part of one or more neighbouring councils. Where this is the case it means that the administrative boundaries do not match the economic, health, housing or transport geographies. In these circumstances our interviewees reported that councils are seriously constrained in their ability to take strategic decisions in key areas including the economy, housing, planning and transport, health and care and children’s services. Time and effort is required to negotiate a joint approach with neighbouring councils.

“We want to go for growth, but to do so we are reliant on neighbouring councils who can’t or won’t take a decision. We are being held to ransom.”

Serving chief executive of a 1990s unitary

- 4.13 The geography of an under-bounded council may mean that many of a place’s “movers and shakers”, its social and civic capital, live in another local authority area. Tight boundaries can also compound demographic and financial pressures, for example creating concentrations of older people and low income and low skilled households, with little social or economic diversity and, for example, little aspirational housing.
- 4.14 This can create a situation in which a council’s resource base struggles to meet the costs of a town or city centre which serves a wider area. These factors exacerbate the pressures facing under-bounded unitary councils whatever their size in terms of population.

“Scale is important, but scale for what? Scale to achieve something or scale to meet some administrative requirement. Local government must be about doing something and that should dictate the scale.”

Leader of a 1990s unitary

“We are better able to take the big strategic decisions across a geography that makes sense.”

Serving leader of a 2009 unitary

- 4.15 In principle a key advantage of unitary councils is the fact that they are responsible for the full range of council services and are able to make important links between, for example, housing and social care and planning and the economy. In practice, the people interviewed for this research are clear that the scale and geography of a council determines the extent to which it can actually exploit this advantage. Many smaller councils are hampered by the fact that their boundaries do not reflect the economic, health or transport geography. Larger councils covering larger geographical areas are better placed to

take these strategic decisions and make the most of their unitary status. Joint working between smaller councils can provide a way of managing these issues, but it takes significant time, effort and scarce corporate and political capacity.

Sense of place

- 4.16 The third factor in this complex set of relationships is the sense of place, an aspect which is difficult to capture in formal criteria but which many of our interviewees highlighted as being particularly important. There are a number of dimensions to this, including questions of identity and the importance of administrative boundaries reflecting how people live their lives.
- 4.17 This is most definitely not an area in which a “one-size-fits” all approach works: the geographical scale to which people feel a strong allegiance varies from place to place. Many people’s core affinity is to a town or city, but in many places local ties to historic counties are very strong.
- 4.18 There was a wide consensus among the interviewees that councils work best when their boundaries reflect the way in which people live their lives, where they go to work, learn, shop, spend their leisure time and get health care. Many of the smaller 1990s councils do have a powerful sense of place, but, as several interviewees pointed out, because of their size and geography they often lack the capacity to take advantage of it.
- 4.19 Several interviewees argued that that ‘artificial’ constructs tend not to create the conditions for effective local government. They point to previous authorities such as Avon and Humberside as examples of this.

“The thing that matters most is sense of place.”

Former chief executive with a number of 1990s unitary councils

“The only real limit to how much we could grow is the need to retain the sense of place and identity.”

Serving leader of a 2009 unitary

Capacity to collaborate

- 4.20 Partnership working and collaboration between public bodies has become more important since the last two rounds of local government reorganisation. This takes time and effort, which goes to the heart of the capacity question. Collaboration is considerably easier where the boundaries of the relevant organisations are the same: coterminosity matters!
- 4.21 Our interviewees pointed out that, while many councils in the 1990s generation have had the benefit of common boundaries with agencies such as health and police, they often lack the political and managerial capacity to fully exploit the benefits that brings

“It took an enormous amount of energy to agree a strategy for the city as a whole with neighbouring councils.”

Former chief executive with a number of 1990s unitary councils

- 4.22 Interviewees with experience of the 1990s unitary councils have pointed out that in some cases partner organisations operating across a small geography also suffer from a lack of capacity and critical mass and are being reorganised to secure economies of scale. For example, one council created in the 1990s benefited from a close relationship with its coterminous CCG. Pressures within the NHS have led to the merger of two CCGs breaking that relationship.
- 4.23 This is part of a wider trend towards collaboration across larger geographies including, for example the footprint adopted by NHS England’s sustainability and transformation plans and the creation of sub national transport bodies and combined authorities.

“The local is becoming more strategic since the unitary council was established.”

Serving leader 2009 unitary

Engagement

- 4.24 The ability of unitary councils to engage effectively with local communities is an important issue with potentially significant implications for the scale/geography/place question. Many of the unitary councils established in the 1990s have a very close fit with their local communities. Interviewees have pointed out that this combined with their size enables them to be responsive and fleet of foot.
- 4.25 This is undoubtedly a strength of smaller councils. However, interviewees with experience of the larger unitary councils created in 2009 are confident that they have been successful in devolving decision-making to a locality level in a variety of ways. They argue strongly that this provides a mechanism for effective governance at a very local level. In some places this is enabling localities to become more strategic, addressing issues such as local differences in levels of child obesity and ways of tackling them.

“It is possible to get close to communities in a large council.”

Serving chief executive who has worked in both generations of unitary council

“Many small unitary councils reflect their areas and communities – which is a good thing – but don’t have the resource base to take advantage of it.”

Chairman of a national body working closely with local authorities

Political and managerial leadership

- 4.26 The effectiveness of councils of all shapes and sizes hinges to a significant extent on the quality of their managerial and political leadership. This featured prominently in the criteria adopted in 2009 and is also reflected in current understanding of the factors the government is likely to take into account in considering any new proposals for reorganisation. It is also one of the issues on which DCLG’s 2010 research was inconclusive.

- 4.27 A key question for this research therefore is whether there is a difference between the two generations of unitary councils in the extent to which they create the conditions for effective leadership and their ability to recruit and retain senior staff.

“Chief executive jobs in small unitary councils are not for the feint-hearted.”

Recent chief executive of a 1990s unitary

- 4.28 Large councils are particularly well-placed to recruit and retain high quality managerial leaders. Smaller councils can also do so, and the focus and sense of place many of them have can be attractive. But our interviewees were clear that the challenges of managing a small council are intense and require, for example, an experienced chief executive. To get the quality of senior officers they require smaller councils must often pay the same salaries as larger councils out of a smaller budget. Successful smaller unitary councils have had to punch above their weight in terms of the experience of senior staff they have recruited, and interviewees pointed to examples of performance coasting or deteriorating following a change in managerial leadership.

“Being chief executive in a small unitary is a big exciting job, but it requires consistent high quality leadership. They are big jobs in small councils.”

Former chief executive of a 1990s unitary

“The unitary council has been large enough to provide good career development opportunities for many of our staff.”

Current leader of a 2009 unitary

- 4.29 Similar challenges apply in relation to political leaders. Interviewees pointed to the fact that small councils by definition have a small pool from which to seek effective senior councillors. This can be compounded by factors such as the turbulent political wash created by the process of making the case for and establishing a unitary council. In some cases this has forced some senior councillors into the political wilderness, reducing the pool of potential political leaders locally. Several small unitary councils are currently going through a period of political instability which combined with a small talent pool and annual elections can seriously undermine their effectiveness.

“Members are the magic ingredient for any council and poor political leadership can cause any council to struggle even if it has critical mass.”

Chairman of a national body working closely with local authorities

Peer Review Reports - The Capacity Gap

Evidence from other sources reinforces our interviewees' concerns about the capacity challenges faced by many of the unitary councils created in the 1990s. Shared Intelligence has reviewed published reports of LGA Corporate Peer Challenges of the unitary councils created in the 1990s and 2009. We reviewed a total of 21 reports of peer challenges carried out over the last five years.

These reports highlight the capacity challenge faced by many of the councils that were created in the 1990s. 16 of these councils have published peer challenge reports, and all of them identified scope for improvement in one or more of the following areas:

- Thinking about the future shape of the council;
- Adopting a strategic approach to savings;
- Making the most of their local partnerships;
- Having a comprehensive strategy and vision for the council.

One of the smaller 1990s councils was challenged to think more clearly about the future shape of the organisation and to look for new approaches in making the council better placed to respond to change. It was also advised to build on its good relationship with stakeholders to better utilise external capacity.

A similarly sized council was also encouraged to build on its stakeholder relationships to help it focus on the bigger picture in order to combat financial pressures. The peer challenge pointed to a feeling of being stuck and demoralised by the scale of the challenge that needs to be addressed. A much larger, but under-bounded 1990s unitary was challenged to develop better relations with neighbouring councils to address housing need. A similarly sized council was advised to develop more clearly focused priorities, to do more on community engagement and to assess its resilience to cope with change.

Shadow of history

4.30 It is clear from the interviews on which this research is based that the nature of the process for designing and agreeing unitary arrangements can have a significant impact on a successor council's performance. In several cases district councils "fought" vigorously for unitary status in the face of entrenched opposition from the county. This often created a legacy of sour relationships.

4.31 This experience is supported by other research. For instance, a Joseph Rowntree Foundation (JRF) study in 1999 shortly after the reorganisation in the late 1990s concluded that the 'process of reorganisation was a bruising one for virtually every party closely concerned with it'.¹¹

"There has been a district council mind-set with a focus on district council services."

Recent chief executive of a 1990s unitary

¹¹ JRF. The impact of local government reorganisation on social services work (1999) <https://www.jrf.org.uk/report/impact-local-government-reorganisation-social-services-work>

- 4.32 Many of these places felt historically neglected by the then county council. Securing unitary status therefore became a goal in its own right. Several interviewees with experience of these councils reported that since achieving that goal some of these councils struggled to move on. They have lacked impetus and/or ambition to fully exploit the powers they secured.

“History is more prominent in the memory of some staff and members than many of us would like to admit.”

Serving chief executive of a 2009 unitary

“The politicians were unable to raise their sights. There was a lack of ambition.”

Recent chief executive of a 1990s unitary

- 4.33 In particular, many of the 1990s generation faced a particular challenge in taking on responsibility for core functions such as education and social care for which the core successor council – the district – did not previously have responsibility. As noted earlier these factors were exacerbated in some places as a result of previously senior councillors being removed from leadership roles.

5 Conclusions

- 5.1 The criteria used by then Labour Government in 2006 cover very similar issues to the factors that looked set to be taken into account by Ministers following the 2015 general election in considering any proposals for reorganisation. These include affordability, financial sustainability, implications for leadership and impact on service delivery. It is important to note however, that these criteria relate to the outcomes that flow from the creation of the new unitary councils. This research has identified the factors that are likely to determine whether or not these outcomes will be achieved – the input factors which must be reflected in the design of any proposed reorganisation. Those factors are a combination of scale, geography and a sense of place, and the consequences of the interaction between those factors for collaboration, engagement, and political and managerial leadership.
- 5.2 The interviews on which this research is based have shed considerable light on how these factors must be managed if the effective unitary councils are to be created. The research has also demonstrated that if Government ambition is to indeed reorganise local government through the facilitation of ‘bottom up proposals’ that are sustainable over the long-term, any future reorganisation proposals must take account of learning from the two previous rounds of reorganisation. It is also important that they acknowledge that the legacy of the reorganisation process lingers long after the event and is another key contextual factor.
- 5.3 The research has shown that larger unitary councils are most likely to generate economies of scale and be resilient in the context of continued budget pressures faced today, enabling reductions in back office costs, increases in the proportion of a council’s budget that can be devoted to frontline services and the use of the pressure of reducing resources as a driver of innovation.
- 5.4 It is clear from the interviews and wider analysis of peer reviews on which this research is based that many of the 1990s generation of unitary councils are struggling in the current context and that some have struggled since they were established. On the other hand, the larger unitary councils are demonstrating the benefits of scale while creating mechanisms to provide for effective governance and delivery at a locality level. Previously well-managed and financially sound smaller unitary councils are now becoming less resilient and identifying major risks in key services.
- 5.5 A larger council is likely to be responsible for the geographical area necessary to enable it to take strategic decisions relating to growth, transport, education and skills and health and care, in an integrated way with the broader public sector. The most significant countervailing factors (to scale alone) are the need to avoid artificial constructs and to reflect local people’s sense of place.
- 5.6 It is also clear from this research that smaller unitary councils can attract high quality managerial and political leaders and operate as very effective councils, but many interviewees have stressed how challenging the leadership task is in these councils. Even the best of these smaller councils face a roller coaster existence.
- 5.7 The objective of moving to a situation in which local government is financially autonomous reinforces the importance of scale and geography as councils becoming increasingly reliant on the resources they can generate locally from council tax and business rate income. Recent research by Pixel Financial

Management has shown that in county areas, growth and income from business rates and demand from services is diverse across single county areas.¹² Depending on how the business rates system is designed, the interaction between the new system and any reorganisation proposals will key in ensuring that small populations and or geographies do not concentrate economic, social or demographic challenges that can adversely impact on a council's ability to be self-sustaining.

- 5.8 The pressures facing local government, and counties in particular, are intense in relation to adult social care, children's services and education. Moves towards the integration of health and social care are at a critical point as both the financial and demographic time bombs are ticking away. The direction of travel in the health service is towards larger geographies as with sustainability and transformation plans.
- 5.9 During the course of this research interviewees referred to the challenge that many of the unitary councils created in the 1990s faced in taking on responsibility for what had been county council services particularly social services and education. Many of our interviewees have reported that in many places the disaggregation of social care and education functions following local government reorganisation in the 1990s was particularly disruptive. There is a strong case for arguing that further disruption of this type should be avoided particularly given the need to retain a focus on meeting the needs of an ageing population, securing health and care integration and ensuring the robustness of children's services.
- 5.10 This conclusion has been supported by other research. For instance, a Joseph Rowntree Foundation (JRF) study in 1999 shortly after the reorganisation in the late 1990s concluded that the 'process of reorganisation was a bruising one for virtually every party closely concerned with it'. While 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.¹³
- 5.11 As noted above, this research has not focused on the process by which the decisions to create the last two generations of unitary councils were taken, but several of the interviewees referred to the impact that history can have on a council's performance decades later.
- 5.12 Some of the 1990s and 2009 generations of councils were the product of hard fought battles between the councils involved. The military metaphor was used by several interviewees. There is evidence to suggest that the more contested the process the less effective the successor councils have proved to be. In many cases collateral damage included the marginalisation of experienced and effective political leaders who were not called on to play leadership roles in the successor council(s).
- 5.13 In principle there is considerable merit in pursuing a bottom-up approach to future local government reorganisation and it would be to local government's credit if it could make it work. The danger is that in some places it will lead to a period of uncertainty which could be damaging to critical services and potentially leave a fragmented public service and pattern of devolution across non-metropolitan areas.

¹² Pixel Financial Management. *Independent Analysis of Full Business Rate Retention in County Areas*

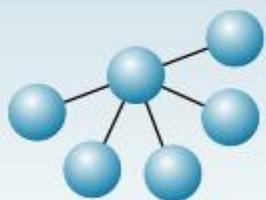
<http://www.countycouncilsnetwork.org.uk/news/2016/aug/new-report-independent-report-business-rates-retention-county-areas/>

¹³ JRF. The impact of local government reorganisation on social services work (1999) <https://www.jrf.org.uk/report/impact-local-government-reorganisation-social-services-work>

- 5.14 If this danger is to be avoided, the sector must be alert to the lessons from the last two rounds of reorganisation and in particular to the challenges that many of the councils created in the 1990s have faced. This requires an honest debate about how the key factors of scale, geography and sense of place interact in different places. This debate should include the councils concerned, the public and wider range of national and local stakeholders from the business and the wider public sector. It also requires that debate to be conducted in a way which provides a platform for more effective local governance in the future and not the start of another round of local government battles.
- 5.15 The following tests, drawn from this research could provide a framework to help to structure a process along these lines.

Tests for proposals for new unitary councils

- Has the potential economies of scale been fully exploited to achieve significant financial savings while maintaining people's sense of place and identity?
- Does the scale (population & geography) of the proposed authority contain the capacity to be financially sustainable?
- Does the proposal provide service resilience in the short, medium and long-term?
- Does the proposed geography enable the council to take strategic decisions in areas such as health and social care, economic growth, transport infrastructure and children's services?
- Does it relate closely to the local economy, the health economy and the transport and accessibility needs of people and businesses?
- Do the proposed boundaries secure optimum alignment with the boundaries of key partners?
- Do the proposed boundaries reflect how local people live their lives? Does the proposed geography constitute a place with an identity to which local people relate?
- Do the proposals create the conditions for an effective, visible and accountable executive with the capacity and capability to provide strategic leadership for the council as a whole and for the strategic services?
- Do the proposals provide for empowered locality governance with the capacity and capability to respond to different local needs and circumstances?
- Is there evidence of overwhelming support for change and widespread support for the proposed option?



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