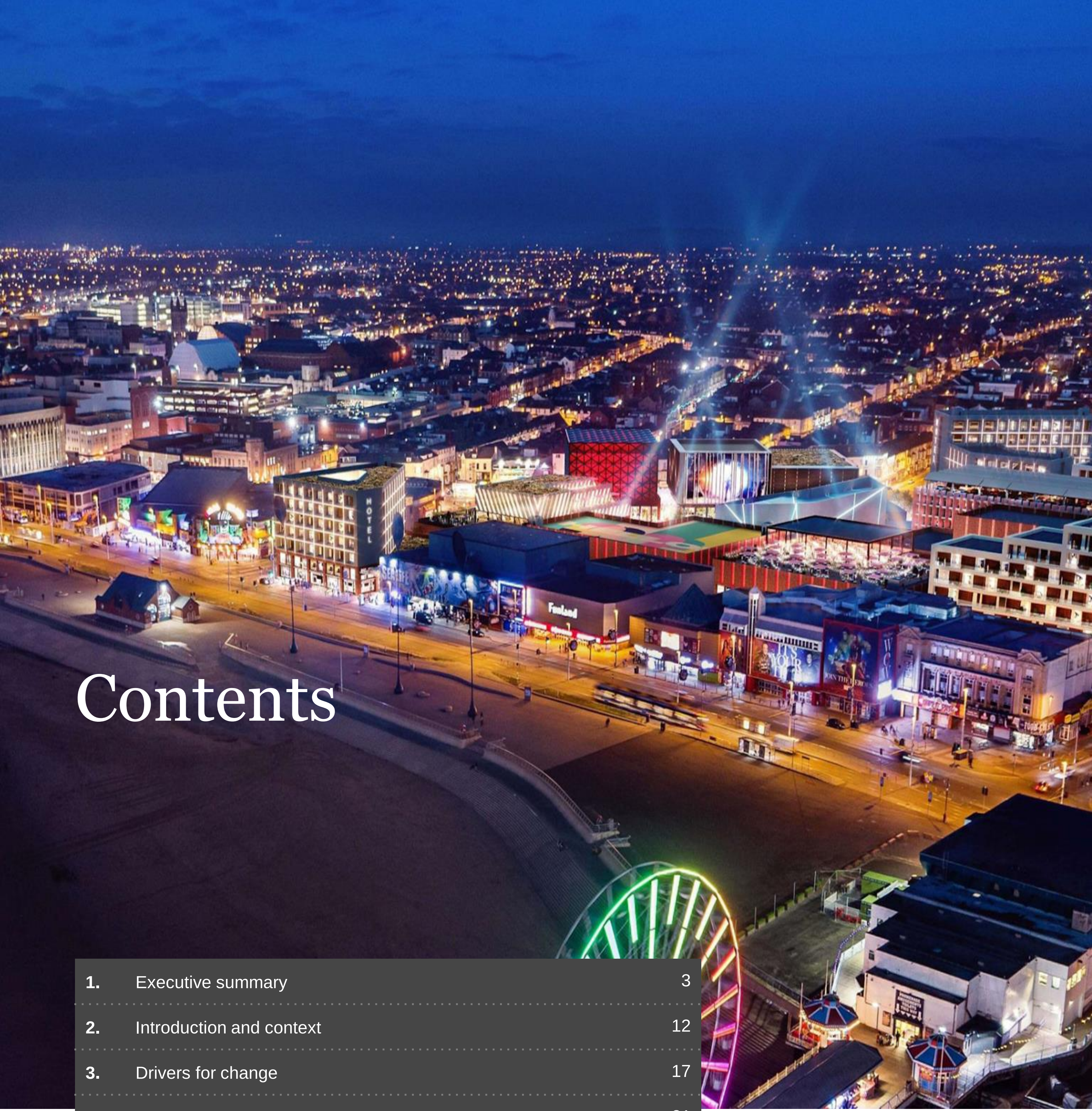
Evaluating the importance of scale in proposals for local government reorganisation

August 2020



Contents

1

Executive summary

Introduction

The impending publication of the White Paper on devolution and local recovery has accelerated the debate about local government reorganisation in England. In doing so, an explicit link has been made between this agenda, ‘levelling up’ and the potential establishment of more combined authorities.

Alongside this, after a decade of having to make substantial savings local government continues to face significant financial challenges, with further pressures brought about as a result of the Covid-19 pandemic.

Together, these factors have increased the appetite for change at both a national and local level. Many have suggested the two-tier model of local government is reaching the limits of what can be achieved in different areas. It has been argued that the way in which services are administered and delivered will need to be re-thought if the country is to secure a fair recovery, focused on improved outcomes for everyone.

The importance of scale

Though county and district councils have worked well together in many parts of the country over many years, particularly during the recent response to Covid-19, it is becoming increasingly clear that improving the resilience of public service provision and critical support for the most vulnerable must be a priority at all levels of government.

In many places, this has resulted in a resurgence of interest in merging county and district councils to create unitary authorities. Where this is being considered it is clear that the implications of scale and the benefits of establishing new unitary authorities need to be clearly understood.

The debate about scale in local government has been repeated over many years and several rounds of local government reorganisation, with a particular focus on the ‘optimum’ population thresholds around which new unitary authorities should be established.

The most recent official Ministerial statement on unitary population size was made in June of this year, and outlined that unitary councils are expected to be ‘substantially in excess of 300-400,000’. It is anticipated that the White Paper will provide further details on the criteria for unitary proposals.

In developing both the White Paper and local proposals for the creation of new councils, careful thought needs to be given to scale and its implications for the number of new unitaries which could be established in any given geography.

Purpose of this report

The purpose of this report is to consider the importance of scale in proposals for local government reorganisation.

Particular focus is given to the potential costs, risks and implications associated with the process of dis-aggregating the services delivered by county councils in scenarios where more than one new unitary could be established within existing county geographies. These issues are assessed alongside an examination of the potential benefits associated with local government reorganisation more generally.

The implications of scale and disaggregation have been assessed through the prism of four unitary scenarios based on current county council boundaries. All of these scenarios represent potential options for reform, as does retaining the existing two-tier system of local government. Other types of reform could also be considered, such as the merging of small unitary authorities with a neighbouring county and/or district councils. However, these additional approaches to reorganisation have not been explored in this report.

Drawing on new quantitative financial modelling and a range of qualitative evidence, the report sets out a range of financial and non-financial benefits that may be brought about through the establishment of unitary local government. The implications of alternative models of delivery are also considered at a high level.

The report identifies considerations relating to:

- the **costs** associated with disaggregation;
- what this might mean in terms of **risk and resilience** of service provision;
- how service **performance** might be impacted;
- what it could mean for the **place** agenda; and
- issues arising from the response to **Covid-19**.

It also sets out the financial implications of four unitary scenarios:

- Establishing one unitary authority in every two-tier area in England.
- Establishing two new unitary authorities in every two-tier area in England.
- Establishing three new unitary authorities in every two-tier area in England.
- Establishing two new unitary authorities and a children’s trust in every two-tier area in England.

The report has been published now to inform the development of the White Paper and different unitary propositions that may come forward as a result.

Financial analysis

What are the quantitative costs and benefits of scale and disaggregation?

The table below outlines the results from quantitative analysis for all 25 two-tier areas in England. Section 4 of this report sets out in detail the methodology. The analysis suggests that the single unitary scenario offers the greatest financial benefit.

Summary for all 25 two-tier areas	1UA	2UA	3UA	2UA + Trust
Total annual benefit (£m)	708	592	512	541
One-off transition costs (£m)	-421	-560	-697	-662
Annual disaggregation cost (£m)	-	-244	-415	-328
One-year impact of disaggregation (£m)	-	-472	-838	-694
Five-year impact of disaggregation (£m)	-	-1,930	-3,283	-2,674
Net benefit after five years (£m)	**2,943**	**1,032**	**-340**	**269**
Recurring annual benefit after five years (£m)	**708**	**348**	**97**	**213**
Gross benefit after five years (£m)	**3,364**	**1,591**	**358**	**930**

The costs of disaggregation, including the foregone benefits are outlined for each of the scenarios below:

Summary for all 25 two-tier areas	2UA	3UA	2UA + Trust
Single unitary (1UA) annual saving (£m)	708.2	708.2	708.2
Less increased costs due to disaggregation (£m)	-244.4	-414.8	-327.8
Less reduction in achievable annual saving (£m)	-115.9	-196.3	-167.3
Recurrent annual saving (£m)	347.8	97.1	213.1
Reduction in annual savings compared to scenario 1 (£m)	360.3	611.1	495.1

Benefits of transformation

It is important to note the figures cited in this report account for the potential savings and costs associated with the reorganisation process alone.

The experience of previous rounds of reorganisation suggests the process can also serve as a catalyst for transformation. Were transformation to be pursued at the same time as reorganisation, the potential benefits on offer could be two or perhaps even three times those associated with reorganisation alone (albeit the costs of implementation would also rise).

While this report does not consider potential transformation benefits in any detail, there would be a proportional relationship between the potential benefits on offer and scale – i.e. the single unitary scenario is likely to offer greater transformation benefits than the other scenarios identified in this report.

Cost

Cost

This theme relates to the financial costs and savings associated with reorganisation and considers the benefits achievable through economies of scale as well as the additional costs likely to be incurred as a result of disaggregation.

Impact of scale

Increasing the scale at which a local authority operates will realise financial benefits through economies of scale. Financial benefits can be generated by reducing duplication across front and back office functions and senior management, reductions in property costs and through the more effective management of supply chains. Operational benefits can also be maximised across service areas such as waste and planning.

The analysis carried out during the development of this report demonstrates that should government seek to establish county unitary authorities in all remaining two-tier areas in England. There is the potential to realise benefits of £2.9bn, with the average cumulative five year benefit for a mid-sized authority area totalling £126m.

The scale at which reorganisation takes place will have a material difference in meeting the rising service costs in key areas such as adults, children's and waste services. Analysis has shown that due to the economies of scale that can be achieved and payback period of under a year, a mid-size single unitary could realise enough benefits to meet 95% of the projected increases in service cost over the next five years, compared to 39% under a two unitary scenario.

Impact of disaggregation

In instances where more than one new unitary is established in an existing county geography, services provided by the county council would need to be disaggregated (e.g. children's services) and there would be a further impact on other county-wide services where they exist (e.g. fire and rescue services). The analysis shows that this would result in additional costs being incurred, both as a result of the disaggregation process, but also in terms of the opportunity costs associated with not maximising the potential benefits on offer. For example, such a scenario may require two or even three directors of children's services to be appointed in an area previously served by one.

Were government to pursue reorganisations that disaggregate county services, a scenario of two unitary authorities in each two-tier area across the country reduces the realisable benefits to £1.0bn, with the average cumulative five year impact for a mid-sized authority area totalling £51m. In a three unitary scenario there would still be a net deficit position of nearly £340m after nationally, with the five year impact for a mid-sized authority area totalling -£1.6m.

Implications of alternative approaches and delivery models

One means of mitigating this requirement in certain service areas would be to consider establishing an alternative service delivery model. For example, it might be possible to consider putting in place a children's trust to deliver children's services across an area previously served by a county council to avoid some of the impacts of disaggregation. However, this approach has the potential to add additional complexity to the system and would reduce the financial benefits associated with reorganisation.

The financial analysis has shown that while this scenario, in every area in England, could deliver a net benefit over five years of £269m, or £22m for a mid-sized county, the implementation and recurring costs of a trust reduces the benefit compared to both a single and two unitary scenario.

Non-structural reform and enhanced collaboration (where the two-tier system is retained) can offer financial benefits and would clearly avoid the consequences associated with disaggregation. However, the benefits likely to be delivered through these sorts of arrangements are typically lower, take longer to accrue, and require relatively complex governance and oversight.

Risk and resilience

Risk/resilience

This theme relates to the risks that will arise in instances where disaggregation is required in order to establish more than one new unitary in a county geography.

Impact of scale

While there is no inherent connection between the scale of an organisation and its ability to manage risk in absolute terms, the fact that the majority of the critical care services are currently the responsibility of county councils is a particular challenge in the debate about local government reorganisation. The scale of the councils engaged in the management of services such as children's and adult social care, has enabled them to develop the capacity and safeguarding arrangements required to support and protect some of the most vulnerable people in society. Furthermore, it has provided these organisations with the ability to manage their supply chains more effectively than might otherwise be the case.

Conversely, smaller organisations have a tendency to rely on smaller teams, where levels of fragmentation (individuals and teams with multiple responsibilities) tend to be higher. In such instances, there is greater likelihood of single points of failure occurring, which can undermine the ability of those organisations to manage risk as robustly as might otherwise be the case.

Impact of disaggregation

The process of disaggregating county services would pose a risk to some of the more critical areas of local government provision. For example, when considering what this might mean for children's or adult social care services, a number of issues become apparent:

- There is already fierce competition when recruiting to senior leadership roles in local government. Increasing the number of authorities overall may increase the demand for senior leaders in an employment market that is already struggling to provide candidates with sufficient experience.
- The process of disaggregating adult and children's care functions is likely to add a layer of complexity to service delivery and increase the risk of disruption to critical services and safeguarding arrangements.
- The process of disaggregation could favour one newly created authority over the other in terms of how the experiences and knowledge of individuals is distributed. This would need to be considered when examining potential options in any geography.
- Disaggregation introduces additional parties into the system which could create a competitive environment for third party providers, potentially creating instability in care markets and impacting on the capacity and quality of commissioning.
- Disaggregation can cause fragmentation of strategic oversight, limiting the scale of information available and increasing complexity within the system.
- Disaggregation of enabling and support functions (e.g. HR, finance, customer management) will require further investment to ensure they can remain operational.
- Disaggregation has the potential to drive longer-term disruption in terms of diluting teams, and undermining attempts to attract and retain talent.

Implications of alternative approaches and delivery models

A further consideration would be the addition of a trust into a reorganisation model. While the ambition and design principles of an alternative delivery model would be to deliver better outcomes, the creation of such a vehicle would - amongst other aspects - require additional leadership posts and governance arrangements. This would lead to additional costs and further complexity to an already crowded system, creating further points of interaction and potential points of failure. It also has an impact on how commissioning and the care sector or market is managed and whether stability of provision can be maintained. In addition, there is limited evidence that the implementation of these types of models can lead to an immediate improvement in service outcomes.

Performance

Performance

This theme relates to the potential impacts of scale and disaggregation on service performance.

Impact of scale

One of the attractions of the unitary model is the inherent simplicity associated with operating a single organisation responsible for all local government services in an area. While the evidence base linking scale and local authority performance is relatively inconclusive, in areas where performance in county council services is improving or high, it is likely that the process of disaggregation would have a detrimental impact.

In addition, increasing the scale at which a local authority operates has the potential to facilitate improvements in performance by providing opportunities for integration with other service providers.

There are arguments that organisations can become too big and that in doing so they become inefficient and unable to respond to resident needs and demands effectively. However, there is relatively little evidence to suggest that large authorities cannot be agile and efficient in their operations or that arrangements cannot be put in place to address these challenges.

To future-proof services, drive change and deliver savings there needs to be the ability to invest and drive innovation. There is greater capacity and resilience in a larger council to be able to achieve this aim.

Impact of disaggregation

The process of disaggregation has the potential to disrupt performance across a range of service areas, but the implications of this are particularly stark in relation to people services:

- There is a risk that there could be substantial disruption in unpicking joint commissioning and integrated management structures which have been the result of careful redesign, any reversal of this will be perceived as a "step back".
- The processes of breaking up partnership - for example, unpicking existing health Integrated Care System (ICS) arrangements - is likely to be a very complex and resource intensive exercise which would cause a "substantial distraction" to service delivery.
- Shared services that go beyond county boundaries add a further layer of complexity when considering disaggregation. In such instances, shared service arrangements would either need to be terminated, putting both parties under pressure - one for loss of service the other through loss of income – or another possibility would be that one party would continue to provide the services which would take up a much higher proportion of its capacity, putting the organisation under increased strain.
- Alongside breaking up existing enabling and support functions (e.g. HR, finance, customer management), further complexities and inefficiencies could be introduced into the system through disruptive changes to established ways of working and other key enablers (e.g. workforce management, technology).
- Disaggregation introduces additional parties to the system. Increasing the number of organisations working has the potential to make what may already be relatively complex arrangements even more complicated.

Implications of alternative approaches and delivery models

There is relatively little evidence the implementation of alternative delivery models of the type examined in this report leads to improved performance. The creation of additional processes and the need for an intelligent client function introduces new steps to the system, building in additional complexity. There is the potential that existing arrangements to manage and safeguard data are undermined, further impacting the performance of any new organisations created.

Place implications

Place

This theme concerns the role that scale can play and the impact of disaggregation on the ability of new unitaries to act as effective place shapers in their geography.

Impact of scale

The establishment of larger authorities, with responsibility for strategic and operational functions covering an entire geography, offers a number of advantages. The benefits of strategic growth and planning can be maximised when delivered at scale across a wider area and potentially attract more inward investment.

The need to facilitate the building of a large number of new homes each year creates a major pressure on all local authorities to navigate the links between housing need and demand, planning, and wider infrastructure planning, financing and delivery. However, the availability of land does not always reflect local authority boundaries. The process of reaching agreement to manage these issues in a coordinated fashion across a broader functional economic area would be more complicated between multiple authorities than it would be under a single entity operating at scale.

The ability to communicate as a single or coherent voice for the place is important when trying to reshape a whole system. This coordination can help an authority get into the position of being seen as an equal player with large investors and government. A number of the organisations engaged during the development of this report stated that operating at scale had enabled them to attract larger multinational corporations to invest.

Impact of disaggregation

The process of disaggregating county-wide strategic services has the potential to drive a range of challenges:

- A more complicated stakeholder landscape can lead to less efficient decision-making and can reduce the effectiveness of some relationships. More effort could be expended in looking for the right person to speak to rather than building trusted partnerships aiming towards a unified purpose and delivering tangible outcomes.
- Disaggregation can create and concentrate economic disparities between new administrative boundaries. Any disaggregation could also create a situation where one new authority does not have a sufficient core of urban population which will mean it is less resilient and has increased service pressures for a dispersed population. These implications need to be considered in any options appraisal exercise.
- Another consideration regarding the relationship between scale and decision-making is in county areas that have a large rural footprint. Disaggregation can limit the potential of clear place leadership as the 'single voice' representing a place can be lost, as well as creating disparities in the potential for investment between the new areas. This needs to be considered in any options appraisal exercise.
- Place identity and brand are key levers to encourage and attract investment, disaggregation could hamper efforts to effectively position county areas to exploit opportunities for growth and develop an international profile.

Implications of alternative approaches and delivery models

The establishment of combined authorities covering new unitary councils is a potential opportunity to mitigate these challenges. It has been suggested in some two-tier areas that through the process of reorganisation, disaggregated smaller unitary authorities could delegate strategic growth functions, such as transport, to a new combined authority to maintain strategic scale in delivery.

However, the creation of combined authorities does not necessarily guarantee that the challenges of disaggregation on economic growth and housing functions can be easily mitigated. Through disaggregation, points of failure in the devolution negotiation process are increased, while there is currently no precedent for the simultaneous creation of unitary councils and a strategic delivery body for economic functions.

Covid-19

Covid-19

This theme relates to the lessons learnt from the Covid-19 crisis and the ongoing recovery, and what they might mean in the context of the debate about local government reorganisation.

Impact of scale

Operating at scale can enable more effective responses in times of crisis - as has been demonstrated during the response to Covid-19. Though local government has responded well to the virus in both single and two-tier areas, the experience has highlighted the potential of larger organisations to maximise the power of more substantial data analytics and reporting, and more straightforward governance arrangements.

Areas with consolidated responsibilities typically benefit from a simplicity in governance, meaning that they can respond to crises quickly and in a coordinated manner. Typically, scale has enabled larger authorities to be more resilient to financial shocks, ensuring they are more likely to be able to maintain service delivery in times of crisis.

Increased scale does not necessarily mean a disconnection from communities. Although to ensure that the community voice is heard, local governance structures need to give appropriate consideration to the options appraisal and design phases of reorganisation.

Structural changes in a system can offer opportunities for different approaches to local governance and renewed roles for town and parish councils. The Secretary of State for Housing, Communities and Local Government has expressed that town and parish councils should be empowered through the reorganisation process.

Impact of disaggregation

The process of disaggregation has the potential to result in several challenges, particularly relating to the ability of authorities to recover from the pressures associated with responding to Covid-19:

- Disaggregation significantly reduces the potential for reorganisation to meet pre-existing funding shortfalls and contribute towards service sustainability over the next five years. A single unitary could reduce the average mid-sized county funding gap by 34% compared to 14% under a two unitary scenario, and 6% under the a two unitary and trust model.
- The process of disaggregation could result in an uneven distribution of local income streams and impact post-Covid financial sustainability. Across two-tier areas there are inconsistencies in opportunities for income across individual or clusters of districts. Some are much stronger - and have benefited from a high business rate base or income from fees, charges and commercial income due to large shopping developments or transport hubs.
- Disaggregating authorities could place disproportionate pressure on the newly created unitaries depending on the geography and size of the new organisation.
- Disaggregation has the potential to disrupt the delivery of key strategic functions (e.g. adult and children’s social care, fire and rescue services) that are not only critical to the ongoing response to Covid-19 but also to the future recovery from the pandemic.

Implications of alternative approaches and delivery models

Non-structural reform and enhanced collaboration (where the two-tier system is retained) could potentially build on some of the successes that have been seen in mobilising and responding to Covid-19. There have been good examples relatively recently of two-tier areas responding well to other types of crises (e.g. the response to extreme weather and flooding in Derbyshire).

However, the scale of the Covid-19 crisis has been unprecedented. It has thrown some of the issues explored in this report into sharp focus and has asked further questions about the resilience of the two-tier system.

Summary and reflections

The analysis undertaken during the development of this report has shown that in any assessment of local government reorganisation the implications of both scale and disaggregation need to be taken seriously.

Importantly, as we approach the publication of the government's much anticipated White Paper, it has provided key insights to inform the potential criteria for structural reform, including population thresholds, and new evidence in which to judge what are likely to be competing proposals.

All of the scenarios examined by this report represent potential options for reform, as does retaining the existing two-tier system of local government.

Of the four scenarios analysed, it is clear that in financial terms the implementation of single unitaries in each of England's two-tier areas would deliver significantly greater benefit.

It is also clear that should an alternative approach be pursued, the process of disaggregating current county services does present a number of material costs, but also non-financial risks and complexities.

Where reorganisation is being considered, the evidence set out in the report should be used to inform the development of local proposals.

The evidence should be considered alongside the government's "tests" for new unitaries, which are designed to assess whether the establishment of new councils would deliver improved outcomes, stronger leadership, provide opportunities for service transformation, reflect a credible geography, have broad support from stakeholders, deliver efficiency savings and be sustainable over the longer term.

2

Introduction and context

Introduction and context

What is the current context?

The events of the first few months of 2020 have been unprecedented in modern history, with the response to, and recovery from Covid-19 consuming the attention of all sectors and all levels of government.

The focus now is on reset, recovery and renewal, with government also starting to return to key policy promises. Public sector reform, structural change and devolution are areas of potential change that had already gained renewed interest and currency in the months before the pandemic took hold. As the debate about issues of fairness, equality and prosperity continue, they are all being connected to the government's 'levelling up' agenda.

A number of significant policy and funding issues impacting local government have also been postponed due to the Covid-19 crisis. The financial debate has been heightened ahead of the outcome of the Spending Review - now due in the autumn - and by new pressures all councils are experiencing as a result of rising costs and a reduction in income streams.

Though the global pandemic has delayed the publication of the Devolution and Local Recovery White Paper, its publication is now imminent. Many commentators and the local government sector more widely are anticipating that a new round of local government reorganisation will be triggered as a result.

It is looking increasingly likely that the forthcoming White Paper will link reorganisation with recovery and devolution and that another wave of structural change can be expected over the next few years…

Much debate has taken place as to the optimum size of the unitary authorities. Drawing on previous research from 2006, a population threshold of 300,000 to 800,000 has commonly been cited.

While the government is yet to formally set out its position, the most recent official Ministerial statement on unitary population size was made in June and outlined that unitary councils are expected to be "substantially in excess of 300-400,000". It is anticipated that the White Paper will provide further details on the criteria for unitary proposals.

As we approach its publication, various areas have been public in their desire to consider reform – e.g. Surrey, Somerset, Lincolnshire, Lancashire and North Yorkshire. All proposals will be shaped by the White Paper and the local context of their areas.

In developing the White Paper and any local proposals for reform, careful thought needs to be given to a wide-range of evidence to inform the scale and number of new unitaries which should be established in any given geography. If more than one new unitary were to be created in a county area, this may require services that have been previously delivered across the whole place to be split or disaggregated across multiple organisations.

Relatively little attention or detailed analysis has been paid to the complexities associated with disaggregating current strategic services. This report identifies and considers some of the issues and potential impact of disaggregation when splitting into multiple organisations.

Purpose and structure of report

This report, commissioned by the County Councils Network (CCN), is aimed at independently and objectively evaluating these issues and the importance of scale in proposals for local government reorganisation. Particular focus has been given to the potential benefits that can be achieved through aggregation at county scale and the implications, costs and risks associated with disaggregation.

The implications of scale and disaggregation have been assessed through the prism of four unitary scenarios based on current county council boundaries. All of these scenarios are potential options for reform, as is retaining the existing two-tier system of local government.

Other forms of reform could also be considered, such as merging small unitary authorities with neighbouring county and districts.

The report starts by summarising the policy drivers influencing the reorganisation agenda and wider local government landscape. It then summarises the twenty lines of enquiry used in the report and analyses the importance of scale and implications of disaggregation.

It presents new financial modelling carried out across all twenty five county areas on the financial implications of different unitary models and the potential financial benefits and implications of disaggregation.

Drawing on structured interviews with county authorities, desktop research, and financial modelling, the report then seeks to unpack the financial analysis to investigate the qualitative implications across the identified lines of enquiry. The conclusion then seeks to draw these findings together in a set of reflections to be considered as part of the future debate on local government reorganisation.

Introduction and context

What was the approach taken for the study?

In order to ensure a balanced analysis and evaluation of the importance of scale in proposals for local government reorganisation the following methodology was undertaken:

- **Financial model and quantitative analysis:** The approach taken and assumptions underpinning the estimated financial benefits and costs associated with the adoption of a different unitary model across all county areas in England are set out in the appendix.

- **Stakeholder engagement:** A series of stakeholder conversations were held with a representative group of county councils, alongside existing unitary authorities, in order to establish a better understanding of the local and regional landscape. This included gathering information regarding service delivery, strategy, vision and priorities for places, and existing partnerships.

- **Desktop research:** Analysis of views and evidence from a range of sources was undertaken, including previous analyses of local government reorganisation, as well as evidence relating to the costs, risks and implications associated with disaggregating into multiple authorities (e.g. research findings relating to the correlation between council size and performance, views of Ofsted, the Care Quality Commission and other regulators).

- **Developing key lines of enquiry:** Twenty key lines of enquiry were developed through understanding the context in which the issue of disaggregation is being explored.

- **Qualitative analysis:** As well as the key lines of enquiry, five themes were also applied and were used to inform further discussions with representatives from authorities in a number of different areas across different geographies.

.

The study has drawn on multiple sources of data, insight and intelligence from local authorities...

What do we mean by disaggregation?

In instances where reorganisation is being considered, thought needs to be given to the number of new unitaries that could be established in any given geography. If more than one new unitary were to be created, this may require services that have been previously delivered by a county council to be split or disaggregated across multiple organisations.

Any proposal that requires the disaggregation of current services will need to take account of the following issues:

- Duplication of support and customer functions such as HR, finance and customer management.
- Challenges in appointing to the newly created positions and leadership roles in particular.
- Additional governance structures increasing complexity and potentially adding to the transaction costs in the system.
- Lack of a coherent, single voice for the place which could lead to competition/contradiction in messaging and prioritisation of outcomes.
- Increased complexity in partnership working with key players such as the NHS, fire and rescue, and police due to increased numbers of stakeholders and systems.

These issues will need to be considered alongside the government's "tests" for new unitaries, which are designed to assess whether the establishment of new councils would deliver improved outcomes, stronger leadership, provide opportunities for service transformation, create a credible local geography, deliver efficiency savings and be sustainable over the longer term.

Introduction and context

What are the key issues explored in this report?

This report is focussed on understanding what the most significant issues are when considering disaggregation of local authority services and the level of impact that change might have on those services and outcomes for residents. To inform the analysis set out in the report, both qualitative and quantitative approaches have been taken. The summary of the issues they assess are outlined below:

- **Qualitative:** exploring the issues of disaggregation, their impact and where that impact will be felt on places, residents and the council itself. This analysis was undertaken through desktop research and discussions with relevant organisations and individuals.

- **Quantitative:** financial methodology and assumptions used are set out on page 66; calculating the financial impact of disaggregation at both a macro (across all county councils) and local level; consideration of the benefits and costs of change and how both might be impacted depending on the quantum of disaggregation in a particular place.

This has led to the development of twenty key lines of enquiry. These are outlined below:

Key lines of enquiry in evaluating the importance of scale in proposals for local government reorganisation	
Scale and aggregation. *What are the benefits of aggregating non social care services?*	**Impact of scale on performance.** *Do larger organisations perform better?*
Economies of scale. *Does an increased number of smaller organisations equate to higher costs?*	**Integration and Partnership working.** *What are the optimum arrangements that enable effective partnership working?*
Transition costs. *What is the cost to disaggregate into multiple authorities?*	**Clarity of interactions.** *What are the challenges for partners where they need to interact with multiple parties?*
Two-tier and single-tier. *What are the issues of two-tier and single-tier functionality/performance?*	**Place shaping.** *What is the best structure to capitalise on cross-boundary opportunities a deliver better outcomes at scale?*
Workforce and leadership. *What are the implications of scale on workforce and leadership needs?*	**Economic growth and inward investment.** *What is the impact of scale on growth and investment?*
Corporate memory. *What is the impact on corporate memory where there is disaggregation?*	**Governance and decision-making.** *What are the acceptable models of governance for areas that represent over 800k people?*
Role of the market. *What is the impact of scale on market sustainability?*	**Sustainability of service.** *How resilient are smaller authorities to financial shocks or rises in demand that have not been anticipated?*
Fragmentation. *What impact does fragmentation have on service design and delivery?*	**Funding and income streams.** *What are the potential risks to funding and income streams?*
Splitting care services. *What would the impact be of disaggregating services?*	**Delivering in crisis.** *What structures and governance provide the best conditions for successfully managing the response and maintaining service delivery during a crisis?*
Alternative models of delivery. *What is the impact of moving to alternative delivery models?*	**Community.** *What does 'good' look like in terms of engagement with local communities? Does it follow that smaller organisations are closer to residents and businesses?*

Introduction and context

What are the themes that the key lines of enquiry cover?

Following discussion of the key lines of enquiry the following five themes emerged. These were used to frame both the qualitative and quantitative analysis. All five themes were given equal attention as previous studies into scale and disaggregation have focused on financial and cost implications, losing sight of the impacts on both residents and the place as whole.

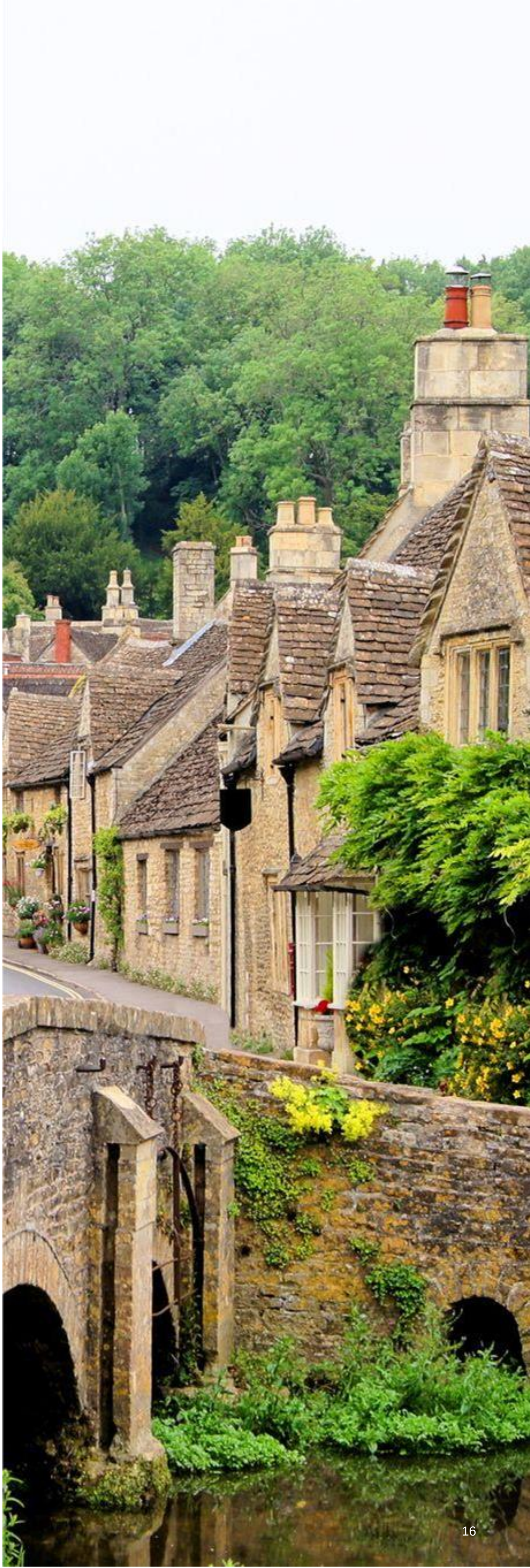
Cost
Financial costs and benefits associated with reorganisation.

Risk/ Resilience
Risks to organisation and service resilience.

Performance
The impact on organisation and service performance.

Place Implications
The impact of scale on governance.

Covid-19
Lessons learnt to date from the Covid-19 crisis and ongoing recovery.



3

Drivers for change

Why is reorganisation being considered now?

Why change?

Across most two-tier areas, positive progress has been made towards collaborative working despite ongoing financial pressures and increasing demands on services. That said, many in the sector feel that the parameters two-tier authorities are working within are reaching the limits of what can be achieved in relation to driving cost savings, better outcomes and more aligned service delivery.

Tackling the Covid-19 pandemic has both increased financial pressure on public services but also highlighted that there is a need now, more than ever, for an integrated, joined-up approach. This applies to the place - both in terms of infrastructure and the economy - to service delivery, to meeting demand and ultimately, to improving outcomes for citizens. Even before Covid-19, local authorities were continuing to operate in an uncertain climate, particularly in relation to income streams and a lack of clarity regarding the longer-term financial settlement and outcome of the Spending Review. Moreover, the impact of the economic downturn as a result of Covid-19 requires an unrelenting focus on recovery and supporting the jobs market.

What are the drivers for change?

It is not just the financial and economic challenges facing local government that have prompted the need to consider change. Many hold the view that there are additional benefits to the unitary governance such as:

- **Efficiencies**: Local authorities have been required to make significant revenue savings since 2010/2011. However, some areas have not yet achieved a balanced budget position or ongoing financial sustainability. Any new structure will need to provide the means to enable further efficiencies.

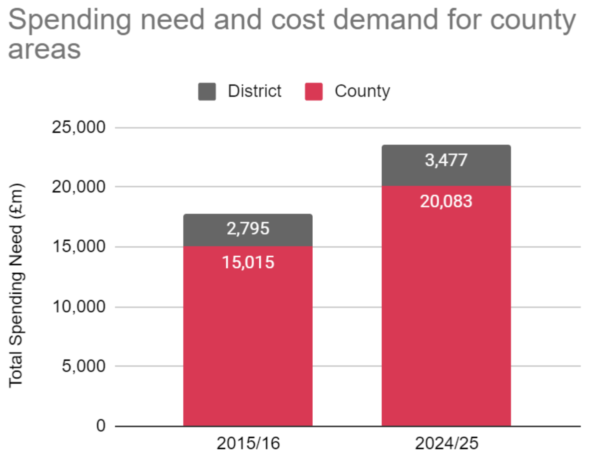
- **Economy**: There is a need to build an effective base for economic recovery post-Covid and for taking advantage of opportunities to work with key stakeholders such as central government, investors and partners for inclusive, environmentally sustainable growth. Any new structure should enable this type of collaboration and provide a single powerful voice for the area covering local priorities, funding and strategy for the future.

- **Place & Transformation**: Longer term transformation of services and outcomes for a place are key and a major plank of the government's levelling up agenda. Any future structure needs to consider how to enable that approach and ensure there is clear and accountable leadership which is responsive to local communities. Town and parish councils also need to be able to operate effectively as well as any locality arrangements that are in place. There is potential to enhance the responsibilities of this tier of local government, as has been the case with previous rounds of reorganisation.

Sustainability

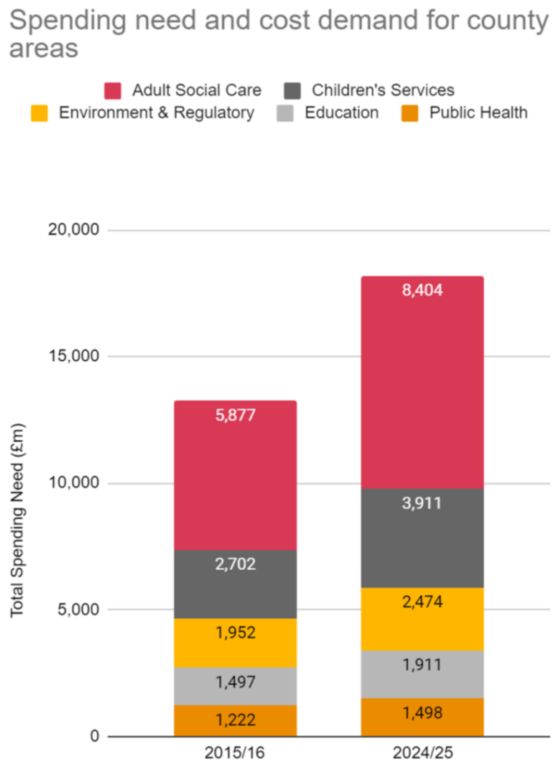
In 2019, PwC were commissioned by CCN to undertake an independent analysis of the financial pressures that local authorities in England have experienced (and will continue to do so) over the period 2015-2025.[1] This included detailed modelling on the estimated 'spending need' of different types of councils, incorporating projected demand for services, unit costs and cost drivers such as inflation.

The analysis showed that by 2024/25 county areas will see the costs of providing services rise by £5.75bn, a 32% rise in costs.



Care costs are also set to rise during the same period, a concern which has been exacerbated as a result of the current fragility of the market. It is also anticipated that district council services such as regulatory and waste services will feel the impact of large increases in costs over the course of the decade.

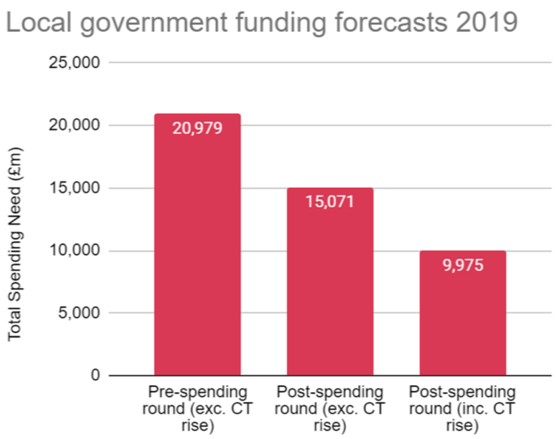
Covid-19 has intensified the need for greater efficiencies and cost reduction...



The financial challenge

Previous analysis by PwC shows that, as a result of rising costs and reductions in funding, county and district councils are to face a combined cumulative funding gap of £21bn between 2020/21 and 2024/25, 40.4% of the national funding shortfall.[1]

Revised funding forecasts show that funding provided at the 2019 Spending Round reduced this deficit by 28%, with a further reduction of £5bn possible by raising council tax by a cumulative 12% over the next five years. However, this leaves a remaining gap of almost £10bn.[2]



The economic recovery challenge

As well as serious implications for people's health and the NHS, Covid-19 is having a significant impact on businesses and the economy.

Pressure on public sector finances is increasing in part due to the rise in government spending to support the economy as well as to reduce certain taxes. For example, VAT receipts were 45% lower at the end of June this year compared to June 2019, while public sector borrowing in the first quarter of 2020/21 alone is now more than double the amount for the whole of 2019/20.[1]

Indications of the scale of the impact on county areas are already emerging. As of June 30th 2020, 3.5 million employees have been furloughed in county authority areas, accounting for almost half the England total (46%). 32 of the 36 county authority areas have also seen their Universal Credit and Jobseeker's Allowance claimant count at least double between March and June 2020.[2] In order to tackle societal and economic problems of this scale, a completely joined-up system across the public sector is needed that is aligned to place, people and outcomes.

The recent study by Grant Thornton (2020) supports the need for a joined-up approach to economic recovery. They found that county authority areas face up to 5.9 million employees working in the most 'at risk' sectors, which accounts for just over half (53.4%) of total employees. (Compared to 44% for the Core Cities in England and 38% for London).[3] They also project that Covid-19 could cause the biggest decline in annual GVA (Gross Value Added) output in county areas of 14.9% (London and Core City averages are 13.3% and 13.9% respectively). In total, 34 out of 36 counties face a decline in economic output greater than the England average of 14.3%.

With county areas already facing a significant financial challenge before the crisis, Covid-19 has intensified the need for greater efficiency and cost reduction. The pandemic has given rise to an unprecedented rise in short-term costs and lost income for both county and district authorities. The challenges posed by the post-Covid recession require councils to consider the most effective local structures to support recovery and the levelling up agenda.

In the midst of these financial and economic challenges, local government is having to re-evaluate its role in society...

Transforming places

The role of local government is consistently being buffeted - and has been for some time - by accelerating societal change, globalisation, the rise of new technologies and the impact of climate change. These megatrends are having serious consequences, not just in terms of how local authorities operate, but also in challenging traditional notions of what local government is for. With a clear focus on sustainable and inclusive growth, there is an opportunity for local government to change and adapt even further, elevating the system and place leadership role that already exists.

At the same time as managing these ongoing and increasing pressures, local government is also facing continuing uncertainty as the outcome of the Spending Review will not now be known until later this year, and other strategic reviews such as Fair Funding and business rates retentions are still pending.

Leadership

One of the key drivers for reform in the sector is the desire to deliver stronger, more accountable leadership at a local and strategic level. In many places this will be seen as a prerequisite for greater devolution and, in due course, for the establishment of new combined authorities.

Local government is already a leader in the public sector system, but this has been cemented in the role played over the last few months. The sector, and in particular top tier authorities, have been responsible for joining up the efforts of the different agencies; standing up shielding arrangements; and putting into place coordinated track and trace processes; as well as continuing to deliver the universal services that all residents rely on.

The response to the recent crises has further emphasised the need for all public sector agencies - and particularly local government and health - to work as a single system rather than as separate entities.

Place and communities

In the run-up to the last general election there was a growing consensus that not all places were as fair or prosperous as others.

This led to the development of central government's 'levelling up' agenda which will continue to be a core theme in their recovery planning. There are also lessons to be learnt in how the third sector and wider communities generated capacity in the system during Covid.

The recovery and renewal phase of the strategy, to mitigate the impact of current financial challenges, will require place-based leadership and coordinated action in order to ensure the interventions made and the outcomes delivered are fair and inclusive. It is expected that local government will continue to lead this approach.

Investment in infrastructure, housing, skills and jobs as well as improvements to the local environment are all expected to take precedent in the coming months. Consideration is also likely to be given to how Local Enterprise Partnerships in particular will work with their local authorities in creating and driving the local industrial, economic and skills strategies as well as engagement with businesses. It is also clear that government has an appetite to establish more combined authorities - all local authorities should be mindful of the opportunity this represents.

4

Financial analysis

Introduction

This section outlines a high-level assessment of the potential financial impact of reorganisation across each of the four scenarios set out in the Executive Summary and below. This assessment includes the transition and disaggregation costs, expected benefits and estimated payback costs.

A full financial modelling report, providing a breakdown of assumptions, benefits, transition cost and specific disaggregation impact across the four scenarios can be found in the appendix.

The financial implications have been assessed through the prism of four unitary scenarios based on current county council boundaries. All of these scenarios are potential options for reform, but come with different benefits and associated costs.

- Scenario 1: Single unitary authority (1UA)
- Scenario 2: Two unitary authorities (2UA)
- Scenario 3: Three unitary authorities (3UA)
- Scenario 4: Two unitary authorities plus a children's trust (2UA +Trust)

The financial calculations set out in this report are based on data provided by a representative sample of county councils, supplemented by other sources of publicly available information. PwC's work with multiple local authorities undergoing reorganisation and transformation programmes has been used as the basis for the assumptions in this analysis.

The figures cited in this report draw on input data from all 25 two-tier county areas. Each area has been modelled, differentiating this analysis from previous studies where averages have been used.

In addition, calculations have been made for an example mid-sized authority. These calculations should not be misinterpreted as being based on the average. The mid-sized authority calculations take current variations in scale across all 25 two-tier areas in England into account (there are a large number of two-tier areas which serve relatively small populations).

The benefit figures take into account potential one-off transition costs and recurring costs of disaggregation, including opportunity costs of missed benefits due to disaggregating.

These benefits do not include transformation benefits, and focus solely on the process of reorganisation. In reality reorganisation offers is rarely seen as an end in itself but rather creates the conditions for further transformation that drives additional benefits and aims to improve outcomes.

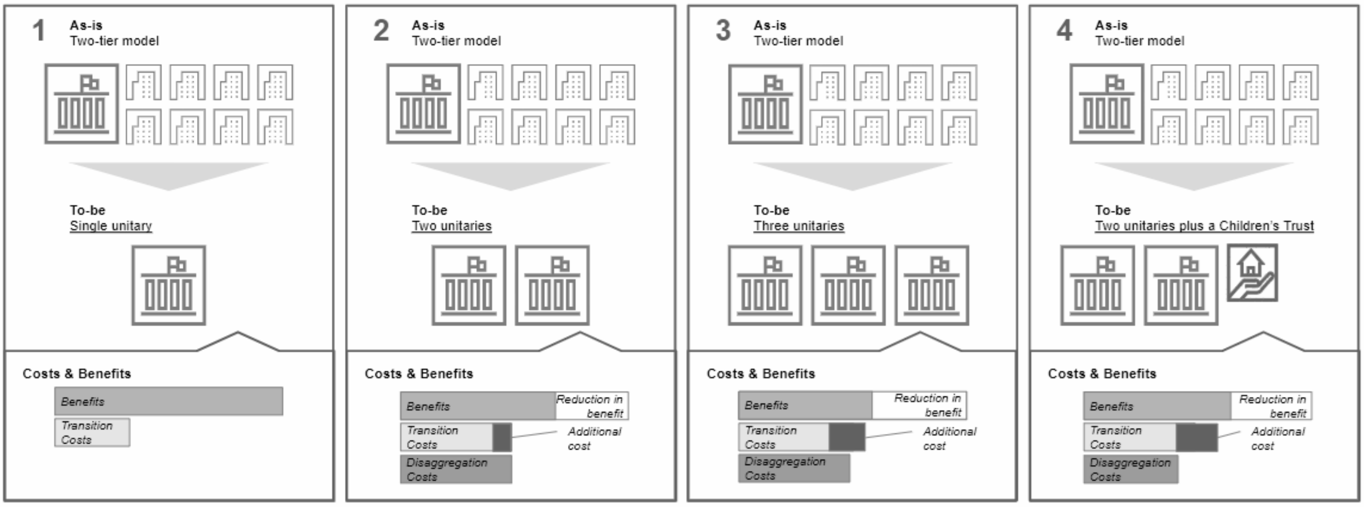
Definitions

Throughout this report there are references to particular data, assumptions or benefits. An explanation of these definitions is set out below.

- **Macro analysis:** Aggregation of analysis using data inputs from all 25 two-tier areas.
- **Mid-sized authority:** Proxy council findings using inputs and assumptions based on the averages from other two-tier areas.
- **Net annual benefit after implementation:** The expected annual financial benefit of reorganisation minus the cost of transition and disaggregation (where appropriate).
- **One off transition costs:** Costs of implementing the change to the unitary based models of local government, these costs include rebranding, programme management and ICT costs.
- **Recurring annual impact of disaggregation:** The total annual cost of disaggregation including costs from duplicated effort, democratic structures and opportunity costs from decreased benefits compared to not disaggregating.
- **Payback period:** The length of time for a net benefit to be realised from reorganisation.
- **Net benefit after five years:** The expected financial benefit of reorganisation minus the cost of transition and disaggregation (when appropriate). This assumes that only 75% of the benefit is realisable in year one.
- **Annual duplicated leadership cost:** The cost of leadership structures required for each additional organisation created through disaggregation.
- **Annual duplicated service delivery cost:** The cost of additional service delivery resource required from the loss of economies of scale due to splitting service delivery functions through disaggregation.
- **Annual duplicated democratic structure cost:** The cost of additional SRA structures for additional unitaries created through disaggregation.
- **Annual cost of running a trust:** The annual running cost of a children's trust, including staffing and property.
- **Total disaggregation cost:** Recurring cost of duplicated leadership, service deliver, democratic structures and a children's trust (when appropriate).
- **Increase in transition costs:** The increase in one off transition costs incurred as a result of creating additional organisations through disaggregation.
- **Decrease in recurring annual benefits:** The opportunity cost / foregone benefit due to disaggregation compared to moving to a single unitary council.
- **Five-year impact of disaggregation:** The total financial impact of disaggregation over a five year period including recurring and one off costs as well as foregone benefits.

The macro level analysis uses data to individually model all 25 county areas across the unitary scenarios…

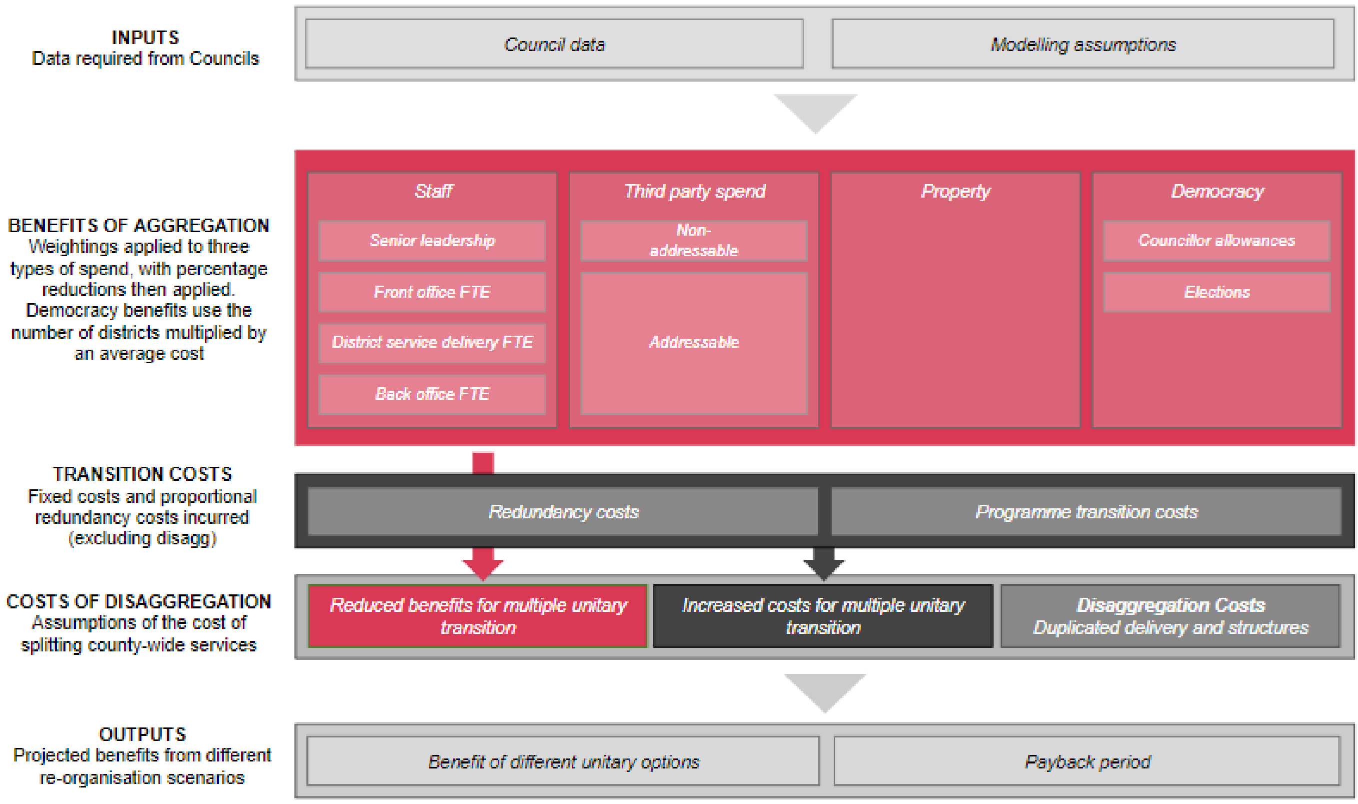
The diagram below outlines the model behind the costs and benefit estimates set out in this report:



Outputs

The analysis produced two types of output. The first is for each individual council using input data which uses a combination of publicly available information for all 25 two-tier areas as well as specific, more detailed, insights from a representative sample of county councils which have been used to inform the wider assumptions.

The second output used the total of the 25 two-tier areas to give a macro-level figure for all areas.



Decreasing scale in local government sees an increase in the cost of disaggregation and decreased benefits…

Summary

The table below summarises the financial analysis for all 25 two-tier county council areas. This analysis has been developed through inputting key data for each of the 25 areas. Scenario 1 offers the greatest net benefit after five years, whereas scenario 3 offers the lowest.

Summary for all 25 two-tier areas	1UA	2UA	3UA	2UA + Trust
Total annual benefit (£m)	708	592	512	541
One-off transition costs (£m)	-421	-560	-697	-662
Annual disaggregation cost (£m)	-	-244	-415	-328
One-year impact of disaggregation (£m)	-	-472	-838	-694
Five-year impact of disaggregation (£m)	-	-1,930	-3,283	-2,674
Net benefit after five years (£m)	**2,943**	**1,032**	**-340**	**269**
Recurring annual benefit after five years (£m)	**708**	**348**	**97**	**213**
Gross benefit after five years (£m)	**3,364**	**1,591**	**358**	**930**

For the example council it can be seen that scenario 1 offers the greatest potential benefit after five years. On the other hand, scenario 3 not only has the lowest but also shows the largest negative impact of disaggregation over the five years. Scenarios 2 and 4 are closer in results, but the additional capacity, capability and risk required to implement scenario 4 makes this a potentially less palatable option based on financial drivers alone.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Total annual benefit (£m)	30.1	25.4	22.5	23.6
One-off transition costs (£m)	-16.9	-22.5	-25.4	-26.6
Annual disaggregation cost (£m)	-	-9.4	-16.1	-12.8
One-year impact of disaggregation (£m)	-	-18.5	-28.8	-27.4
Five-year impact of disaggregation (£m)	-	-74.9	-123.5	-104.4
Net benefit after five years (£m)	126.3	51.3	-1.6	21.8
Recurring benefit after five years (£m)	30.1	16.0	6.4	10.9
Payback period (years)	Less than 1	1.8	5.3	3.0

Scenario 1: Single unitary authority

This scenario is based on a situation where 25 two-tier county areas in England reorganise to become single unitary authorities covering a whole county area. This would include the aggregation of all district authorities and the county into a single organisation from which all services would be delivered. The analysis shows the findings for this scenario for the mid-sized county area and potential scale of benefits in the event government opted to pursue reorganisation of this type across all 25 areas.

The table below shows the breakdown of the potential costs and benefits. Based on the analysis the cumulative net benefit across all 25 country areas over five years could be over £2.9bn. Due to this being an exercise of aggregating services there are no costs of impacts of disaggregation to be considered.

Single unitary model	Cost / Benefit for all 25 two-tier areas	Cost / Benefit for mid-size council
Net annual benefit after implementation (£)	**708,165,999**	**30,136,204**
One off transition costs (£)	**-420,899,437**	**-16,893,024**
Recurring annual impact of disaggregation (£)	**0**	**0**
Net benefit after 5 years (£)	**2,942,889,057**	**126,253,943**
Payback period (years)	**Less than one year**	**Less than one year**

The move to single unitary offers the greatest net benefit of all four scenarios...

£2.9bn

in potential net five year benefit for all 25 county areas, the highest across all four scenarios.

£126m

in potential net five year benefit for a mid-size council.

Scenario 1 key findings

Were government to pursue this scenario across the country, there is potential to realise £2.9bn benefits over five years, with a per annum post-implementation net recurring saving of £708m. For a mid-sized authority area this is £126m over five years, with a per annum post-implementation net recurring saving of £30m. Across all four scenarios this not only offers the greatest opportunity to realise the maximum financial benefit but also has the shortest payback period of less than a year.

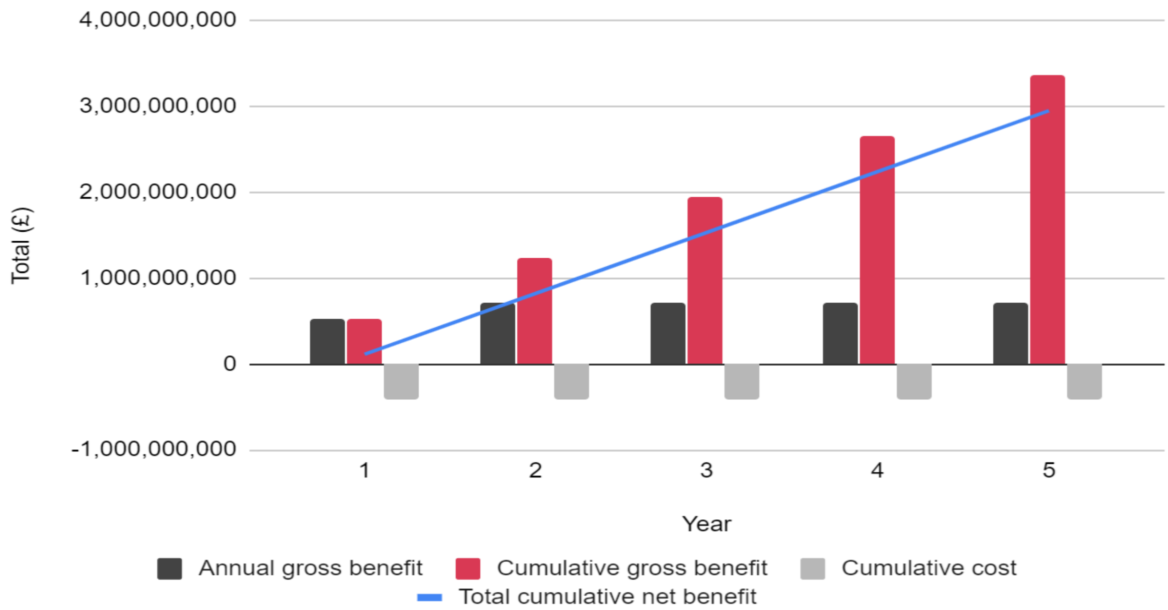
While the £2.9bn macro saving is at similar levels to previous studies, the overall saving is actually much higher due to the fact that there are now fewer two-tier areas compared to before and a lower baseline expenditure, therefore there are higher potential benefits per authority.

Due to economies of scale this scenario also offers the greatest savings potential for reduced FTE, third party spend, property and cost of governance arrangements.

One off transition costs and investment amounts to £421m for all 25 two-tier areas. This is the lowest total of all four scenarios. The key difference with the single unitary authority is that there are no disaggregation costs that relate to the creation of multiple local authorities.

Scenario 1 payback

The graph below shows the estimated timing of cost and savings and the overall net position for the scenario for all 25 two-tier areas:



Scenario 2: Two unitary authorities

This scenario models the creation of two unitary authorities in all 25 two-tier counties in England. This would include the aggregation of all district authorities and the disaggregation of the county council into two organisations. The table below shows the breakdown of the potential costs and benefits including the financial implications of disaggregation. Based on the analysis the cumulative net benefit across all 25 country areas over five years could be over £1.1bn.

Two unitary model	Cost / Benefit for all 25 two-tier areas	Cost / Benefit for mid-size council
Net annual benefit after implementation (£)	**347,838,872**	**16,034,061**
One off transition costs (£)	**-559,625,489**	**-22,481,617**
Recurring annual impact of disaggregation (£)	**-364,424,882**	**-14,102,143**
Net benefit after 5 years (£)	**1,031,511,892**	**51,328,327**
Payback period (years)	**2.0**	**1.8**

This scenario involves the disaggregation of county-wide services. A summary of the financial impact of this for the example mid-sized council is outlined below:

Two unitary model	Cost / Benefit for mid-size council
Annual duplicated leadership cost (£)	**-4,134,000**
Annual duplicated service delivery cost (£)	**-4,908,372**
Annual duplicated democratic structure cost (£)	**-365,000**
Annual cost of running a trust (£)	**0**
Total disaggregation cost (£) (Recurring)	**-9,407,372**
Increase in transition costs (£) (One off)	**-5,588,594**
Decrease in recurring annual benefits (£) (Opportunity cost)	**-4,694,771**
Five-year impact of disaggregation (£)	**-74,925,616**

The cost of disaggregation not only has direct cost implications but also decreases the level of realisable benefits...

£1.0bn

in potential net five year benefit for all 25 county areas, this is a **66%** decrease compared to scenario 1.

£51m

in potential net five year benefit for a mid-size council, this is a **60%** decrease from scenario 1.

Scenario 2 key findings

Were government to pursue this scenario across the country, there is potential to realise £1.0bn benefits over five years, with a per annum post-implementation net recurring saving of £348m. For a mid-sized authority area this is £51m over five years, with a per annum post-implementation net recurring saving of £16m. This is a 47% decrease on the mid-sized net annum potential benefits compared to scenario 1, the payback period is longer too at just under two years - double the payback period for scenario 1.

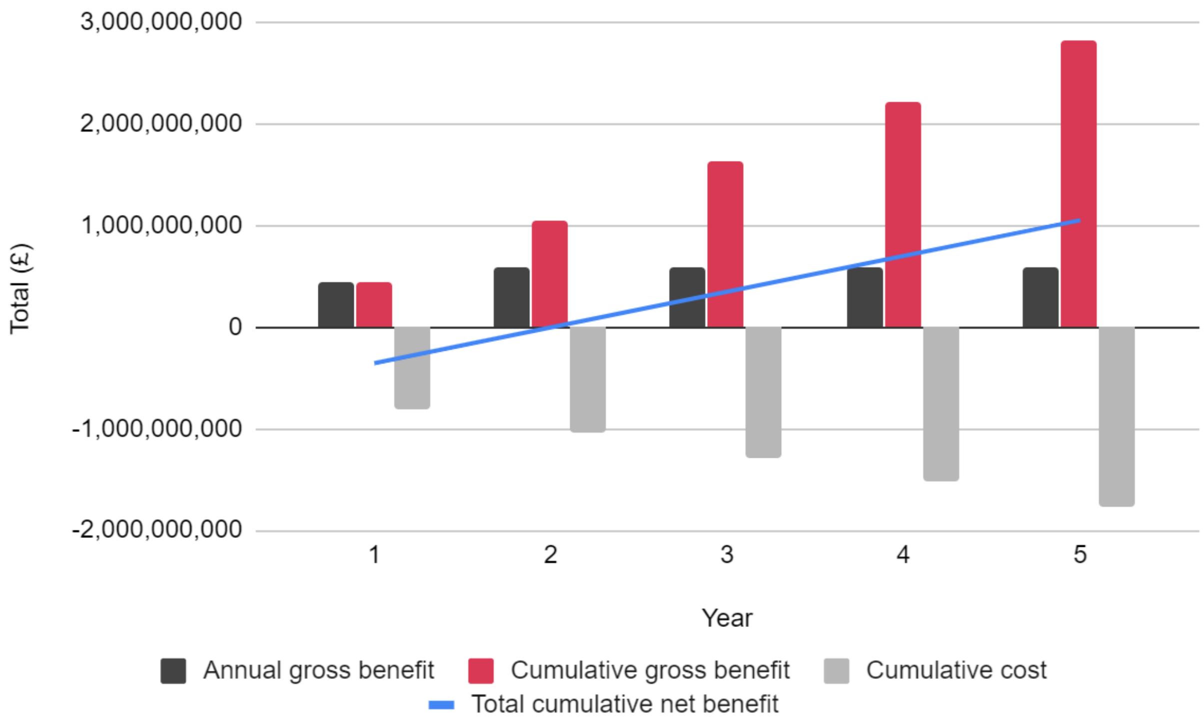
This scenario is based on consolidating into two organisations. The benefits from property are also lower than scenario 1 which is the consolidation into a single authority. The potential property benefit is £54m across all 25 two-tier areas, this is 17% lower than scenario 1.

Due to economies of scale this scenario offers the second largest savings potential for reduced FTE, third party spend, property and democratic costs. One off transition costs and investment totals £560m for all 25 two-tier areas, this is a 33% increase on scenario 1.

Were government to pursue this scenario across the country, the total cost associated with disaggregation over five years would be £1.9bn.

Scenario 2 payback

The graph below shows the estimated timing of cost and savings and the overall net position for the scenario for all 25 two-tier areas. .



Scenario 3: Three unitary authorities

Under this scenario, all 25 two-tier counties in England would move to a three unitary model. This would include the aggregation of all district authorities and the disaggregation of the county council into three organisations. The table below shows the breakdown of the potential costs and benefits. Based on the analysis there is a cumulative net loss across all 25 country areas over five years of over £300m.

Three unitary model	Cost / Benefit for all 25 two-tier areas	Cost / Benefit for mid-size council
Net annual benefit after implementation (£)	**97,096,865**	**6,420,762**
One off transition costs (£)	**-697,322,404**	**-28,087,451**
Recurring annual impact of disaggregation (£)	**-611,069,133**	**-23,715,442**
Net benefit after 5 years (£)	**-339,805,596**	**-1,613,860**
Payback period (years)	**8**	**5.25**

This scenario involves the disaggregation of county-wide services. A summary of the financial impact of this for the example mid-sized council is outlined below:

Three unitary model	Cost / Benefit for mid-size council
Annual duplicated leadership cost (£)	**-8,268,000**
Annual duplicated service delivery cost (£)	**-7,102,116**
Annual duplicated democratic structure cost (£)	**-730,000**
Annual cost of running a trust (£)	**0**
Total disaggregation cost (£) (Recurring)	**-16,100,116**
Increase in transition costs (£) (One off)	**-11,194,427**
Decrease in recurring annual benefits (£) (Opportunity cost)	**-7,615,326**
Five-year impact of disaggregation (£)	**-127,867,803**

The costs of disaggregating into three unitaries in some smaller county areas can offset the benefit of reorganisation…

-£340m

in potential net five year loss for all 25 county areas, this is a decrease of **112%** compared to scenario 1.

-£1.6m

in potential net five year loss for a mid-size council, this is a decrease of **101%** compared to scenario 1.

Scenario 3 key findings

Were government to pursue this scenario across the country, there would still be a net deficit position of nearly £340m after five years, with a per annum post-implementation net recurring saving of £97m. For a mid-sized authority area this a net loss of £1.6m over five years, with a per annum post-implementation net recurring saving of £6.4m. This recurring mid-sized benefit is a 60% decrease in the potential benefits compared to scenario 2 and 79% decrease compared to scenario 1. The payback period is also longer at five years.

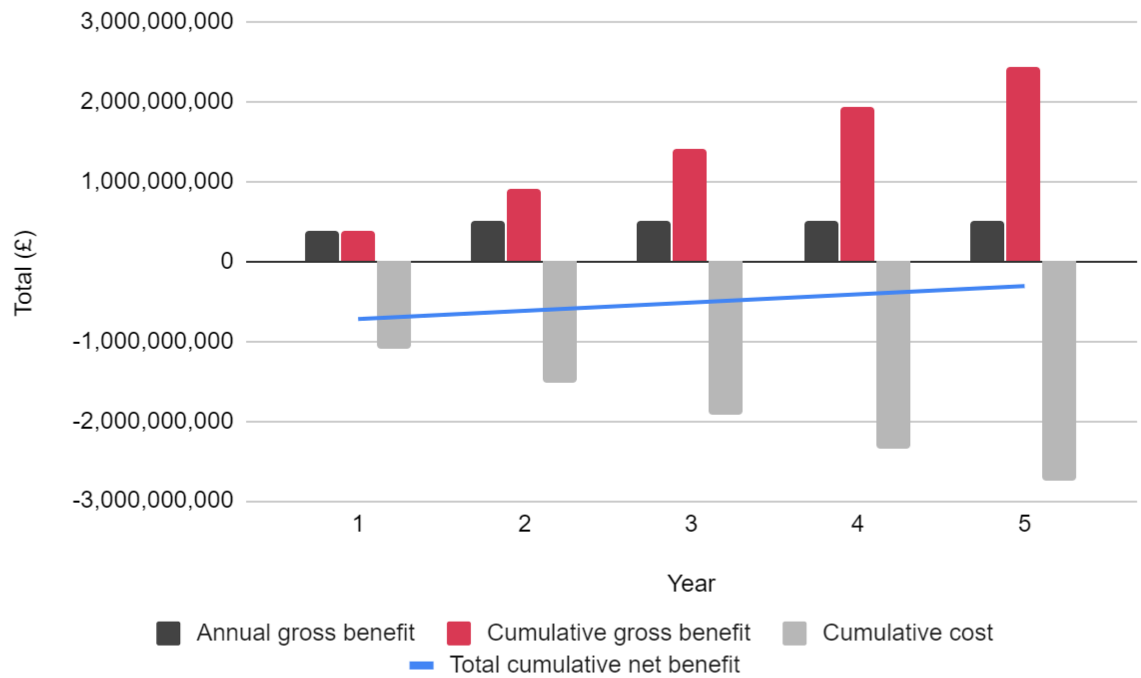
This scenario is based on consolidating into three organisations so the benefits from property are also the slightly lower than scenarios 1 and 2. The potential property benefit is £43m across all 25 two-tier areas, this is 33% lower than scenario 1.

Compared to the previous two scenarios the move to three unitaries offers the lowest savings potential for reduced FTE, third party spend and democratic or governance costs. One off transition costs and investment totals £697m for all 25 two-tier areas, which is a 66% increase on scenario 1.

The cost of disaggregation annually is £415m which is 70% higher than scenario 2. The total five year impact of disaggregation including missed benefits and opportunity costs is £3.3bn across all 25 two-tier areas, which is a 74% increase on scenario 2.

Scenario 3 payback

The graph below shows the estimated timing of cost and savings and the overall net position for the scenario across all 25 two-tier areas.



Scenario 4: Two unitary authorities plus a children's trust

Under this scenario, all 25 two-tier counties in England would move to a two unitary model with a separate children's trust being established to manage children's services. This would include the aggregation of all district authorities and the disaggregation of the county council into three organisations and the creation of a children's trust. The table below shows the breakdown of the potential costs and benefits. Based on the analysis the cumulative net benefit across all 25 country areas over five years could be over £268m.

Two unitary plus trust model	Cost / Benefit for all 25 two-tier areas	Cost / Benefit for mid-size council
Net annual benefit after implementation (£)	**213,113,987**	**10,875,440**
One off transition costs (£)	**-661,837,863**	**-26,645,544**
Recurring annual impact of disaggregation (£)	**-495,052,012**	**-19,260,764**
Net benefit after 5 years (£)	**268,504,341**	**21,822,701**
Payback period (years)	**3.7**	**3**

This scenario involves the disaggregation of county-wide services. A summary of the financial impact of this for the example mid-sized council is outlined below:

Two unitary plus trust model	Cost / benefit for mid-size council
Annual duplicated leadership cost (£)	**-4,134,000**
Annual duplicated service delivery cost (£)	**-4,761,372**
Annual duplicated democratic structure cost (£)	**-365,000**
Annual cost of running a trust (£)	**-3,500,000**
Total disaggregation cost (£) (Recurring)	**-12,760,372**
Increase in transition costs (£) (One off)	**-9,752,520**
Decrease in recurring annual benefits (£) (Opportunity cost)	**-6,500,392**
Five-year impact of disaggregation (£)	**-104,431,242**

Although there is a higher benefit compared to scenario 3, it's still less beneficial than scenarios 1 and 2…

£269m

in potential net five year benefit for all 25 county areas, this is a **91%** decrease from scenario 1.

£22m

in potential net five year benefit for a mid-size council, this is a **83%** decrease from scenario 1.

Scenario 4 key findings

Were government to pursue this scenario across the country, there is potential to realise almost £270m benefits over five years, with a per annum post-implementation net recurring saving of £213m. For a mid-sized authority area this a net lost of £22m over five years, with a per annum post-implementation net recurring saving of £11m. This is a 31% decrease in the mid-sized recurring potential benefits compared to scenario 2 and 63% compared to scenario 1, the payback period is longer too at just under three years.

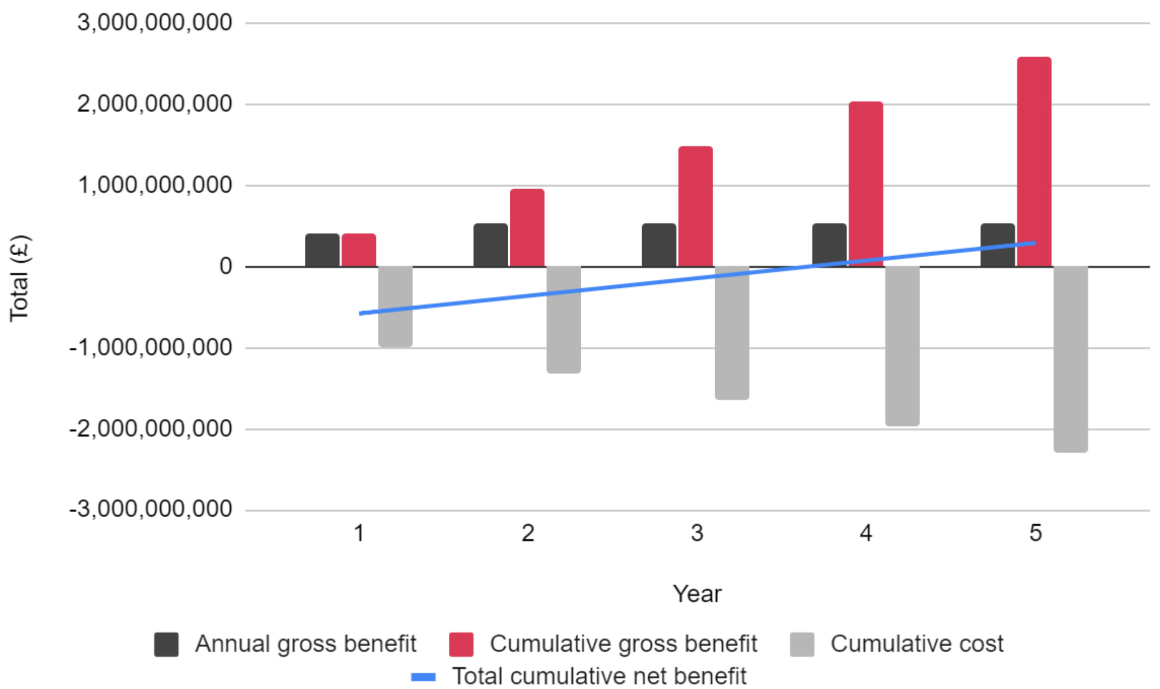
This scenario is based on consolidating into three organisations (two councils and a trust) so the benefits from property are also slightly lower than scenarios 1 and 2 and the same as scenario 3. The potential property benefit is £43m across all 25 two-tier areas, this is 33% lower than scenario 1.

Compared to the other scenarios the move to two unitaries and a trust model offers one of the lowest savings opportunities for reduced FTE, third party spend and democratic costs.

One off transition costs and investment totals £662m for all 25 two-tier areas, this is a 57% increase compared to the costs of scenario 1, but 5% less than scenario 3. The cost of disaggregation annually is £328m, including the additional running costs of a children's trust. This is 34% higher than scenario 2 which is the disaggregation into two unitaries only. The total five year impact of disaggregation including missed benefits and opportunity costs is £2.7bn across all 25 two-tier areas, this is a 42% increase on scenario 2.

Scenario 4 payback

The graph below shows the estimated timing of cost and savings and the overall net position for the scenario.



5

Research, analysis and policy implications

Introduction

The financial analysis provides an important perspective at the heart of the debate regarding the importance of scale and the challenges associated with reorganisation and disaggregation.

Section 4 sets out the quantitative research and evidence base explaining that decreasing scale in local government results in a possible increase in the cost of disaggregation and change and overall a decrease in the financial benefit that can be realised.

However, behind the numbers there are equally important policy implications and potential impacts that need to be assessed when considering the advantages and disadvantages of maximising or reducing scale in reorganisation.

As set out on page 21 of this report, the methodology for the qualitative analysis has included stakeholder engagement, desktop research and the development of twenty key lines of enquiry and five themes. This approach provides the structure for this section of the report. The most important issues identified with scale and disaggregation, their implications and where that impact will be felt on places, residents and the council itself are explored here.

What are the themes that the key lines of enquiry cover?

Following discussion of the key lines of enquiry, the following five themes emerged:

- **Cost** - Financial costs and benefits associated with reorganisation.
- **Risk/Resilience** - Risks to organisation and service resilience.
- **Performance** - The impact on organisation and service performance.
- **Place Implications** - The impact of scale on governance.
- **Covid-19** - Lessons learnt from Covid-19 crisis and ongoing recovery.

All of the scenarios referred to in this section represent potential options for reform, as is retaining the existing two-tier system of local government, but they come with different costs, risks and associated challenges.

34

The impact of scale and disaggregation have been explored by looking at 20 key lines of enquiry…

Cost

1. **Scale and aggregation.** *What are the benefits of aggregating services (other than social care)?*
2. **Economies of scale.** *Does an increased number of smaller organisations equal higher cost on an ongoing basis?*
3. **Transition costs.** *What is the cost to disaggregate into smaller authorities?*
4. **Two-tier and single-tier.** *What are the issues of two-tier and single-tier functionality/performance?*

Risk/ Resilience

5. **Workforce and leadership.** *What are the implications of scale for council workforces and leadership teams?*
6. **Corporate memory.** *Is there a loss of corporate memory through disaggregation?*
7. **Role of the market.** *What is the impact of scale on market sustainability? Particularly in relation to the social care market.*
8. **Fragmentation.** *What is the impact of fragmentation in smaller organisations?*
9. **Splitting care services.** *What would the impact be of disaggregating care services?*
10. **Alternative models of delivery.** *What is the potential impact of alternative delivery models?*

Performance

11. **Impact of scale on performance.** *Is it fair to say that larger organisations perform better?*
12. **Integration and Partnership working.** *What is the best structure or governance arrangement to enable effective and impactful partnership working?*
13. **Clarity of interactions.** *What are the challenges for partners where they need to interact with multiple stakeholders?*

Place Implications

14. **Place shaping.** *What is the best structure to capitalise on cross-boundary or more strategic opportunities?*
15. **Economic growth and inward investment.** *What is the impact of scale on growth and investment?*
16. **Governance and decision-making.** *What are the acceptable models for areas that represent over 800k people?*

Covid-19

17. **Sustainability of services.** *How resilient are smaller authorities to financial shocks and unexpected demands?*
18. **Funding and income streams.** *What are the risks to current funding streams?*
19. **Delivering in crisis.** *What impact does structure have on the ability to deal with crisis?*
20. **Community.** *Does it follow that smaller organisations are closer to the community?*

Cost

1. Scale and aggregation: Policy implications

- Increasing the level at which a local authority operates at can realise **financial benefits through economies of scale.**
- The process of disaggregation of county-wide or strategic services (such as children's services) has the potential to **duplicate effort in key areas** such as leadership, service delivery and in democratic structures.

1. Scale and aggregation

Key findings from the analysis:
Reorganisation offers an opportunity to develop new approaches to service delivery with a clear, single point of access for residents and local businesses.

There are also likely to be operational benefits to having a single waste authority in terms of being able to negotiate with contractors on a larger scale and removing the need to have separate collection and disposal services. In terms of planning, a single service could enable a place-based approach, joining up all assets and opportunities rather than working to multiple local and industrial plans.

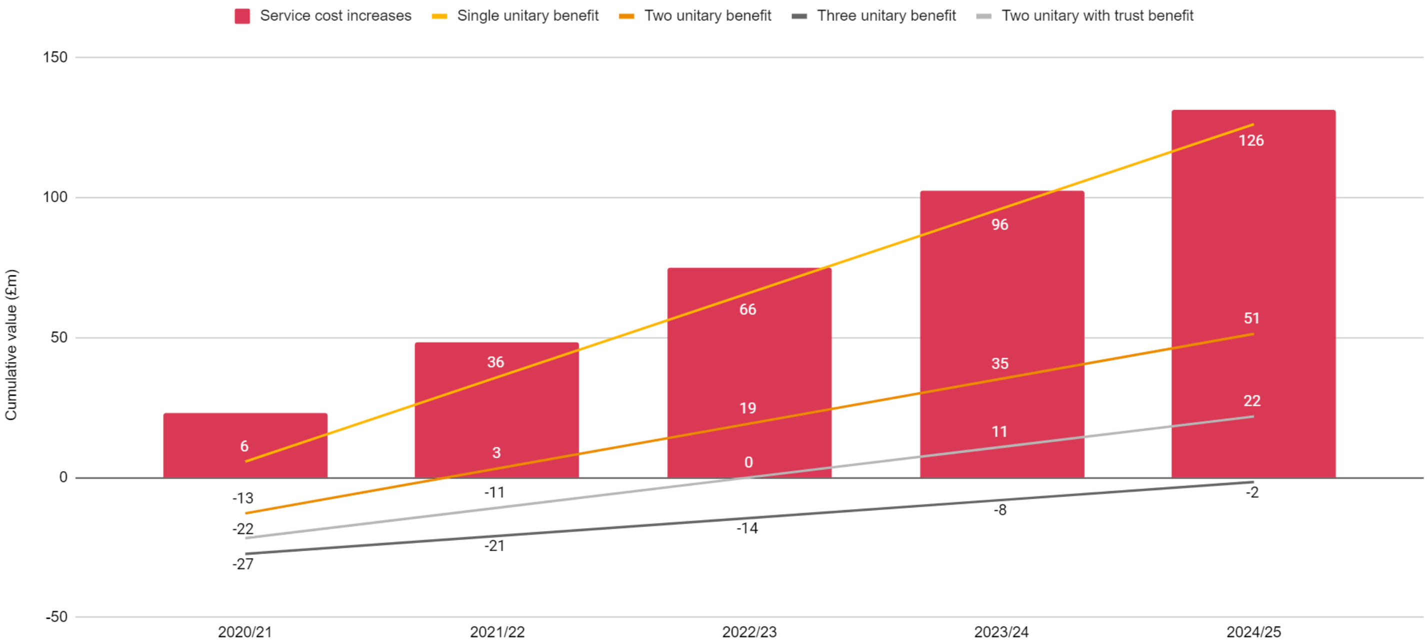
The financial analysis supports these conclusions. Should government decide to pursue a single unitary model in all 25 county areas in England, £2.9bn benefits would be delivered over five years, with the average per annum saving post-implementation for a mid-sized authority area totalling £30m.

Using cost projections for county and district authorities from a previous report commissioned by the CCN, the chart below shows the projected annual increase in service cost pressures for country and district councils over the next five years. Between 2020/21 and 2024/25 the combined increased cost of service provision for county and districts resulting from demand, inflation and other cost drivers is set to increase annually by an average of £702m, or cumulatively by £3.55bn.[1]

The analysis has shown that scenario 1 (single unitary) offers the shortest payback period at less than one year for the macro analysis. Scenario 3 (three unitaries) has the longest payback period at eight years.

The scale at which reorganisation takes place will have a material difference in meeting the rising service costs in key areas such as adults, children's and waste services. The analysis has shown the projected cumulative increases in service costs for a mid-size council compared to the cumulative financial benefits for each scenario over the next five years. A single unitary could meet 95% of the projected increases in service cost over the next five years compared to 39% under a two unitary scenario.

Projected cumulative increase in service cost for two tier areas against the cumulative net benefit for each scenario over five years for a mid-size council



Cost

Cost

2. Economies of scale: Policy implications

- Increasing the scale at which a local authority operates at can potentially realise **financial benefits** through front and back office functions, reductions in property costs and increased savings from third party spend by strengthening the position of authorities in relation to their supply chains.

2. Economies of scale

Key findings from the analysis:
Previous studies undertaken explore the link between the scale and cost of local government structure. For example, the link between organisation size and administrative overheads was explored by Andrews & Boyne (2009).[4]

The analysis provides support to the argument that economies of scale can be achieved by aggregating smaller councils into larger units and by combining counties and districts into unitary authorities. Benefits are realised as larger organisations are able spread fixed central or overhead costs (senior management, IT, property). Those costs are likely to be a lower percentage of the total budget in larger local authorities.

In the analysis undertaken by Andrews & Boyne they found that there was a linear relationship between the size of the population served by a local authority and central administrative costs for every measure tested. The evidence therefore suggests that administrative overheads fall with size. The cost benefits of single larger organisation may be achieved from having a single senior management team, removing duplicative roles, rationalising and optimising other support functions and operational costs of frontline service delivery.

One of the largest ongoing costs associated with disaggregation is that of duplicated management structures. Through the process of splitting one authority into two or three there is immediately a need to implement new and multiple arrangements.

The stakeholders highlighted that the additional cost in doing this stems from the fact that the salaries and sizes of these management structures do not typically scale with the decreasing sizes of the new authorities. The analysis also shows that in the event all 25 two-tier areas reorganised to a single unitary model, this would maximise the potential of economies of scale. The potential savings realised are estimated to be up to £247m when creating single - rather than multiple - senior management teams. (Full financial analysis breakdown in appendix).

It is possible to conclude that multiple smaller authorities in the same geographical area will have decreased power in the market and in fact may even be competing with each other. The analysis undertaken as part of this study supports this, the table below shows that the maximum potential benefit across all 25 two-tier areas is achieved at the largest scale.

Scenario	Potential property benefits from reorganisation (£m)
1UA	65
2UA	54
3UA	43
2UA + Trust	43

The stakeholders also noted that larger authorities can also benefit from the consolidation of cross-cutting functions both in customer management and in enabling services.

Summary of selected benefits for all two-tier areas	1UA	2UA	3UA	2UA + Trust
Annual Front Office FTE Savings (£)	68,836,679	55,158,034	41,302,007	44,164,617
Annual Back Office FTE Savings (£)	39,128,217	29,393,426	19,564,109	23,535,092
Annual Property Savings (£)	64,934,135	54,208,221	43,289,423	43,289,423

Cost

Cost

2. Economies of scale cont.

Discussions with stakeholders also revealed that larger authorities have the potential to achieve greater property savings (as a result of having fewer FTE post reorganisation).

There is also the potential to lower the cost of supporting democratic structures where there are fewer layers of local government. Fewer councillors will be required and therefore a saving can be made from a reduction in basic and special responsibility allowances as well as the potential for a reduced number of elections.

An additional aspect to take into account is that of third party spend. For example, a larger organisation with higher spend will not only be able to receive greater economies of scale in its purchasing but it will also have increased commissioning power in the market to better negotiate with suppliers for improved services for better value. Moreover, in decreasing the size of an organisation's spend footprint it will lose its purchasing power with suppliers and could be subject to less favourable terms.

Increasingly, change is becoming a constant presence in local authorities. Looking ahead over the next two years, organisations are having to drive change to deliver savings, the ability to invest and innovate through these change initiatives is much harder on a smaller scale and it is much easier to be caught in a cycle of making short term budget cuts.

Linked to this, a key capability that was commonly cited by stakeholders as being enabled by scale was that of technology. The scalability of delivering digital platforms requires substantial upfront investment that is easier to achieve from a large organisation and the benefits of doing so will help support greater efficiency and connections to potentially isolated residents and communities.

Investment in technology at scale in a coordinated way also allows for the potential of aggregating data and insight to better inform strategic and operational decision-making. As mentioned in the executive summary (page 5), this study assesses the impacts of reorganisation alone and does not factor in potential benefits associated with transformation. In reality, reorganisation is most effective when it is used as a catalyst for transformation and the benefit of being able to embark on a technology enabled transformation at scale is that the design can consider how to aggregate information and data across a wider geography.

3. Transition costs: Policy implications

- Increasing the number of authorities / organisations that are being created **increases both the one off and recurring costs of transition.**

3. Transition costs

Key findings from the analysis
Boyne (2009) highlights a key cost consideration of transitioning to smaller authorities in that through becoming smaller you lose purchasing power within the market, which could lead to paying increasing prices or not receiving intended services.[4]

Disaggregating larger authorities into smaller ones inevitably leads to some cost implications that have been described here as transition costs. These are costs that are in addition to any typical implementation costs you would find in structural change such as ICT cost and transition, design and support costs.

In addition to duplicate management structures, another product of disaggregation is duplication in service delivery. In splitting a service or function, additional FTE could be required to account for lost efficiency as a result of separating functioning teams and services.

Following the logic of duplicated management structures, the disaggregation of authorities would likely necessitate more members with special responsibility allowances increasing the overall cost of the democratic structure across the locality.

The nature of disaggregating organisations means that services will need to transition not only while operating at the same rate but also in many cases having to deliver budgetary savings. Splitting these services will not only act as a threat to delivering savings but also a potential distraction to service delivery. Stakeholders engaged during the development of this report felt that in order to mitigate this risk there would be increased costs to boost capacity through this period so an impact on service delivery is not felt.

Cost

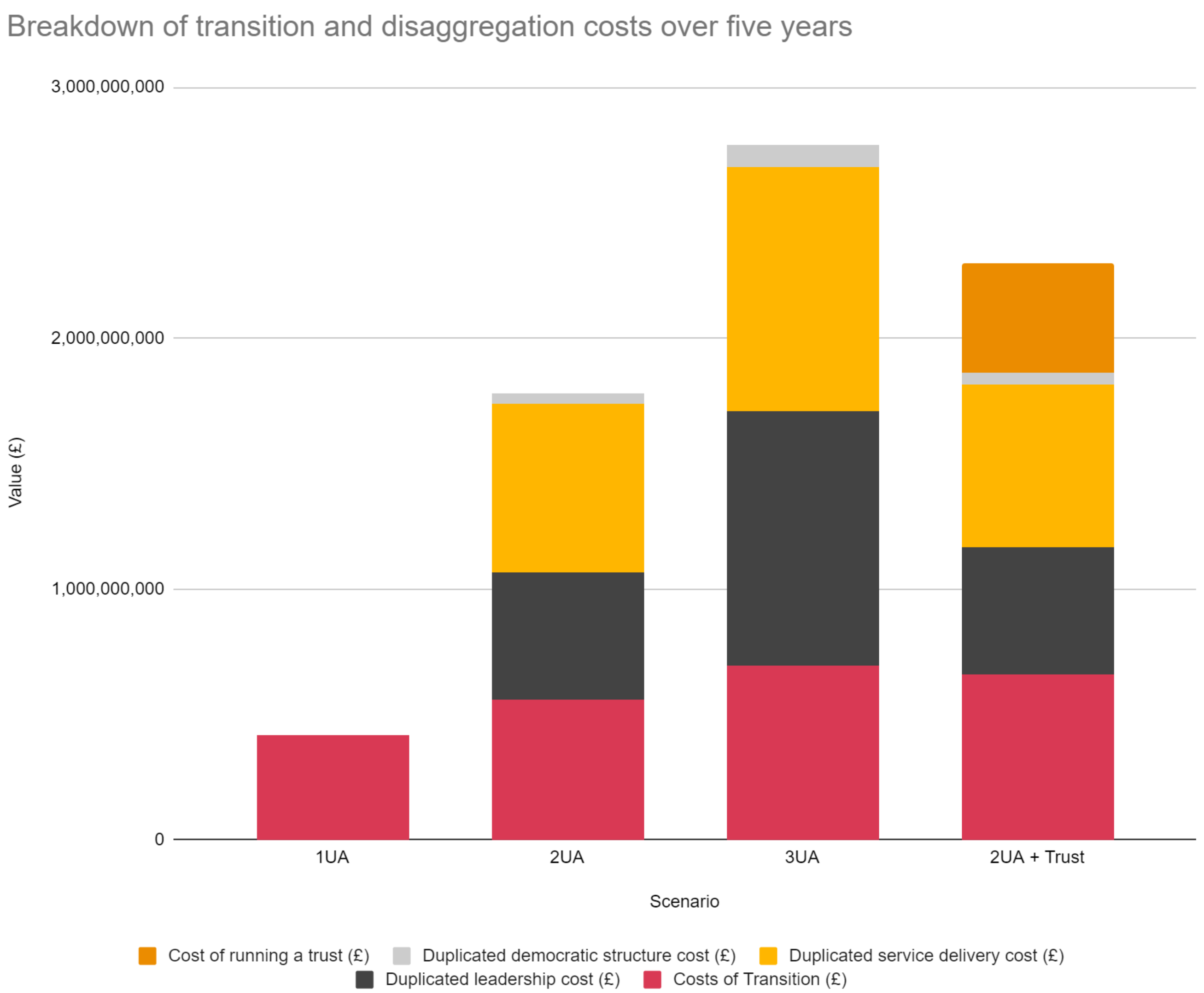
3. Transition costs cont.

Following this theme, even with increased temporary capacity in place there could be an argument to say that performance will be impacted through the process of disaggregation, from the disruption of splitting teams with the backdrop of current pressures frontline officers are currently facing.

In order to achieve better value and efficiency from their property portfolio, some of the stakeholders we engaged have co-location agreements in place. If these arrangements needed to be unpicked as a result of disaggregation, it would not only create additional cost and effort for those councils involved, but will also apply greater pressure on the partner organisations.

There may also be some potential unintended consequences such as cost-shunting and reduced focus on outcomes.

The financial analysis demonstrates that increasing the number of authorities / organisations that are being created increases the one off cost of transition, increasing the overall cost of disaggregation. The graph below shows how the transition costs of reorganisation can differ between the four scenarios. This key line of enquiry demonstrates that the increased costs of transition would need to be factored into any options appraisal.



Cost

Cost

4. Two-tier and single-tier: Policy implications

- Non-structural reform and two-tier collaboration can offer financial benefits, however these are **typically a lot lower than the potential savings realisable through structural change**. In addition this can limit the potential for further savings through system-wide transformation.

4. Two-tier and single-tier

Key findings from the analysis:
While good progress has been made on two-tier collaboration in recent years - with many shared arrangements in terms of service delivery and management teams in place - there are still challenges in achieving the levels of efficiencies and savings required by the sector. As highlighted during engagement with stakeholders, there are areas for development - such as in waste collection and disposal - and planning where there is a still a need for each of the district areas to have individual local plans and planning services.

It has been a common refrain that the two-tier system of local government can sometimes cause confusion for residents as they are unsure which authority to contact for specific services. Any reorganisation, either two-tier collaboration or structural change in local government should consider how to best enable clear communication and guidance in accessing services.

One of the key limitations of the tier two structure that was raised in the study was that of coordinating internal change and decision-making. Despite having productive relationships with district councils on a bilateral basis, decision-making can become much more complex when accounting for multiple parties.

In considering the importance of scale and the cost implications of disaggregation, it is important to analyse whether some of the financial and service improvements outlined in this report could be obtained through a non-structural reform model. In this model all councils are maintained, as is the scale in upper-tier services, while efficiency and performance gains are sought through more collaborative and joined-up service models across service delivery, back-office operations and rationalisation of assets.

In 2019, PwC undertook a study for CCN to explore the potential financial and non-financial benefits that could be achieved through non-structural reform across county areas in England.[5] Modelling 24 county areas, the report analysed the potential benefits of operational efficiency; third party spend; senior management consolidation and premises rationalisation.

The table outlines the summary of savings and costs, with a 'low' and 'high' range based on the level of collaboration that could be achieved. These figures would reflect the benefits of transformation too whereas the findings as outlined in this study are for reorganisation alone.

Saving/Cost	Low	High
Cumulative national five year net saving (£m)	228	762
Total national one off costs (£m)	-369	-691
Recurring national annual savings (£m)	204	497
Payback period (years)	3.1	3.5

The 'high' projected five year net saving of £762m is lower than the projected savings over the same period for single (£2.9bn) and two unitary scenarios (£1.0bn). Further information can be found on page 26.

Risk and resilience

5. Workforce and leadership: Policy implications

- Disaggregation will create **increased demand for senior management positions** in local government, in a market which is in many cases **struggling to attract talent** to leadership posts.

5. Workforce and leadership

Key findings from the analysis:
According to the Local Government Association (LGA), 71% of councils are experiencing recruitment and retention challenges. One of the key reasons for this appears to be the competition with other sectors.[6]

It would therefore be reasonable to suggest that creating a need to fill more posts within a place will be challenging, particularly in roles such as Directors of children's services, as demand would continue to outweigh the supply. The LGA go on to explain that in response to these pressures many authorities are looking to develop talent in-house, however this takes time, particularly in relation to leadership roles.

Engagement with stakeholders showed that the majority supported these findings, indicating there is already challenge to attract and retain leadership talent within local government. They explained that these results included capacity and performance issues, increasing risk to the organisations concerned.

One area that was highlighted as being critical to this debate was social care. This is likely to be even more challenging if demand for a high calibre workforce in strategic services were to be disaggregated across two or more organisations in close geographical proximity.

For key leadership roles in the council the costs associated with their employment don't necessarily change significantly with scale, however there would be duplication of costs if there were to be more local authorities requiring leadership teams.

The analysis shows that in a scenario where two unitaries are created, the cost is estimated to be £101m in duplicated management structures from disaggregating across all 25 two-tier areas, doubling to £203m in a three unitary scenario. (Full financial analysis breakdown in appendix).

6. Corporate memory: Policy implications

- The process of **disaggregation could favour one newly created authority over the other** in terms of how the experiences and knowledge of individuals is distributed. This would need to be considered when examining potential options in any geography.

6. Corporate memory

Key findings from the analysis:
Corporate memory relates to the experience, knowledge, data and culture that is held within an authority that is gained over time.

The impact of disaggregation in this area is that through the process of splitting services and functions, knowledge and experiences will not be evenly split between them, creating a disparity/deficit.

During stakeholder engagement, one example provided was children's services, and in particular the corporate parenting role that both officers and Members hold as a statutory responsibility. Ensuring that there is a consistent level of understanding of roles and responsibilities in this critical area would be challenging in the event that areas are disaggregated and more than one unitary organisation were to be considered.

As well as the potential for disparities in skills and capabilities, the loss of knowledge and experiences can also create the possibility of repeated initiatives and schemes that may have underperformed or failed in the past. It can also have a detrimental impact on the cultures and behaviours of teams. This is a particular risk in improving/high-performing teams or services, that may find that through the process of disaggregation - both in terms of losing the coherence of high functioning teams and having to deal with the practicalities of disaggregation - performance is negatively impacted.

The process of disaggregation also poses the risk to maintaining data and information, this can be lost or corrupted due to changing IT systems or loss of physical documents.

Risk and resilience

Risk/resilience

7. Role of the market: Policy implications

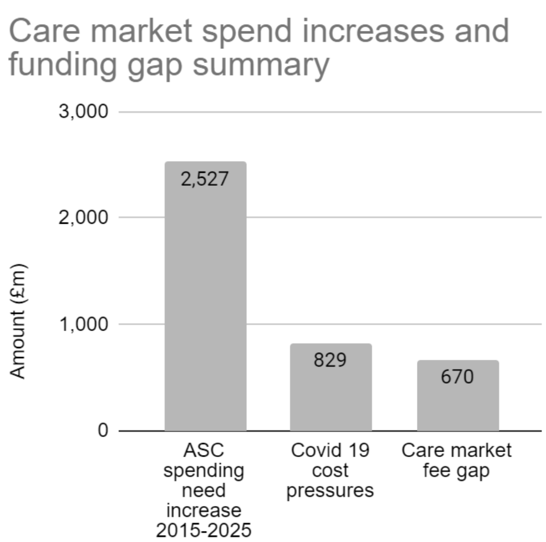
- Increased scale offers the potential for a **system-wide** approach to market management.
- Disaggregation introduces additional parties into the system which could create a competitive environment for providers, potentially **creating instability in care markets** and impacting on the capacity and quality of commissioning.

7. Role of the market

Key findings from the analysis:
An ageing population is creating and will continue to create increasing demand on social care and health services. This is particularly the case in county areas. Between 2009-2019, CCN member councils witnessed a 23.7% increase in their local populations of residents who are aged 65 and over, compared to the national average of 15.6% and a relatively low percentage of 10.2% in the Core Cities.[7]

These demographic changes and increasing demand has been impacting on adult social care services and the wider care market for some time but has come into some focus during the Covid-19 pandemic.

Ahead of the crisis, counties were anticipating a rise in service costs between 2015/16 and 2024/25 of £2.5bn.[1] Previous research by LaingBuisson has also estimated that CCN member councils face a ‘care market fee gap’ – the estimated funding required to stabilise the provider market and reduce the reliance of cost-subsidisation between council and self-funder placement rates – of £670m.[8]



Covid-19 has also led to significant additional unplanned expenditure to help maintain and support local markets and care providers. Of the total £829m[9] of estimated Covid-19 related costs in adult care, county councils expect to need to provide £332m to support local care markets and providers through the pandemic.

In light of these existing pressures, the social care marketplace across all counties requires careful management in order to maintain service quality.

In many county areas, the care market can also be uneven in both supply and demand, disaggregation could cause some geographies to have challenges matching supply and demand across a smaller area.

The potential negative impact of disaggregating responsibility and oversight of care markets through reorganisation were outlined in a study by LaingBuisson.[8]

Based on analysing the flow of residential care residents in shire counties at district level, they found that;

- Several districts within large counties generate a relatively limited level of demand, which may make it uneconomic for smaller authorities to employ the full range of commissioning and market management skills. Alternative structures are likely to be needed in order to exercise these functions at the necessary scale to make them economical and ensure they are able to sustainably fulfil market management duties.

- Inter-district resident flows would make it more difficult to pursue ‘place-based’ market management policies. Smaller unitary structures created from disaggregation could limit the ability of commissioning authorities to pursue sustainable place-based market management policies.

- Inter-district resident flows would make it more difficult to balance supply and demand, potentially concentrating market weakness. An organisation operating at a smaller scale could concentrate areas of high and low capacity.

LaingBuisson concluded that a detailed understanding of, and associated costs from, these diseconomies of scale and the disruption in arrangements between commissioning authorities and care home providers would need to be central to any structural reform proposals.

Risk and resilience

Risk/resilience

7. Role of the market cont.

During the engagement with stakeholders it was outlined that in order to best maintain a sustainable care market, councils need to be able to manage the market at a large enough scale to properly understand the full supplier landscape and demand forecasts. Any disaggregation into smaller authorities could limit the capacity and potential to do this.

In their guidance on maintaining market sustainability in social care the LGA discuss the need to adopt a system wide approach to market management.[11] They go on to explain that this should also be carried out with a wider review of pathways and processes as well as aggregating and using all available information, reporting on provider availability, quality, sustainability and risks.

Stakeholders also stated that disaggregation could create a scenario where multiple authorities in the same area could result in a competitive environment for providers, potentially creating issues in both capacity and quality. One council felt that if disaggregation were to occur in their county this would not only limit the ability for local government to ensure the delivery of a sustainable social care market, but also limit opportunities to invest and work with providers in a way to help it grow.

Stakeholders also highlighted the importance of scale in maintaining a sustainable social care market. They revealed that commissioning the right level of services in terms of quality and specialism is a continuing challenge in social care and that there is greater buying power across a larger place which would be a risk if it were to be disaggregated across several smaller economies.

This view is supported by EY's (2016) analysis of public service reform, which explored the potential impact of disaggregation on the local care market. That report argues that in a time of significant instability, an increase in social care authorities across a county footprint could lead to further disruptions through care providers seeking to renegotiate existing contacts.[12]

The renegotiation of contract and agreements can offer an opportunity for more strategic relationships with providers, for example in leveraging technology and innovation. A crucial consideration is how authorities take more responsibility in the market and consider technology in a broader strategic sense, as an enabler of high-quality care. The CQC (2019) concluded that they have not yet found enough examples of joined-up thinking between commissioners and providers where new technology is central to improving the quality of care for people.[10]

8. Fragmentation: Policy implications

- More fragmentation within the system can increase the likelihood of delays or errors which can **pose significant safeguarding challenges and risks.**
- Disaggregation can cause **fragmentation of strategic oversight** limiting the scale of information available and increasing complexity within the system.
- Disaggregation of **smaller functions will require further investment** to ensure they can remain operational.

8. Fragmentation

Key findings from the analysis:
In their County Care Markets Update, LaingBuisson (2017), revealed that the creation of additional unitary authorities "would make it more complex to pursue health and social care integration initiatives involving collaboration between a multiplicity of health and local authorities" and would "increase both the complexity in commissioning arrangements but also the wider integration landscape."

The impact of this fragmentation of wider health and care arrangements and the increase in complexity in commissioning arrangements it creates can have an impact on the safeguarding of vulnerable children and adults. More handoffs within the process can increase the likelihood of delays or errors which can pose significant safeguarding challenges. Ofsted (2020) believe there are a set of conditions that need to be created in order for good social work to thrive. They describe the 'system needing to work as a whole' in order to tackle the various challenges they have identified.[14]

Ofsted also point to the risks of further fragmentation of an already complex system. JTAI (joint targeted area inspections) for example, have identified that there are certain areas of work or conditions that are still weak e.g. partnership working (agencies work in silos) and information sharing (relevant data and intelligence/analysis is not commonly shared) which results in poor decision-making.

The impacts of fragmentation are not just limited to health and social care. An organisation operating at scale can typically have more potential to provide a clarity of focus for an area, to help drive the development of infrastructure to enable homes, transport and connectivity as well as attracting (continued overleaf)

Risk and resilience

Risk/resilience

8. Fragmentation cont.

inward investment and working with other counties through the LEP (Local Enterprise Partnership). A report published by Shared Intelligence (2016) supports this view, arguing that the scale and geography of a council determines the extent to which it can actually exploit the advantages a unitary council, with responsibility for all services, might deliver.[13]

Disaggregation potentially creates issues for smaller organisations in that the scale at which they operate at means it is not economically advantageous to split the functions further. The options then become to either duplicate these services across the new authorities, creating additional cost, or implementing a shared service. Some of the stakeholders engaged during the development of this report have experienced that implementing a shared service can introduce further complexities in itself both from an operational and budgetary perspective.

There are a range of small services currently delivered at county council level - such as registration services - that are only able to operate across a place as a result of the economies of scale and wider support that a larger organisation affords. Stakeholders stated that in their view, the fragmentation of such services could mean duplication and an increase in costs.

The complexity of the current situation also applies to the financial positions of current authorities. For example, in the scenario with a large authority with high levels of debt splitting into two, what would be the starting financial position for the smaller authority? The debt would have a larger impact on the smaller organisation due to the proportion of debt it is managing.

Some of the stakeholders engaged in the study also highlighted that in many cases the debt will have already undergone multiple rounds of refinancing, further complicating the process to unpick this.

9. Splitting care services: Policy implications

- Potentially creates an **additional layer of complexity and governance arrangements** creating more interaction points.
- Creates a **short-term distraction** in terms of the process of disaggregating services but potentially longer-term disruption in terms of diluting high-performing teams, attracting, and retaining talent into essential roles including leadership positions.

9. Splitting care services

Key findings from the analysis:
There is a potential for disaggregation to result in an uneven distribution of knowledge, skills and experiences across the new authorities. This could have a detrimental impact on the cultures and behaviours of teams (*As explored in line of enquiry 6: Corporate Memory*). This is a particular risk in teams/services, who may find that through losing key individuals, performance is negatively impacted.

The process of splitting adult and children's social care functions could add a layer of complexity and increase the risk of service disruption, and increase risks around safeguarding. When you add in the fact that currently social care services are already under financial pressure and facing rising demand, there is a chance of a drop in performance, particularly in improving or high performing areas. As well as this stakeholders felt that there would be complexity in splitting any in-house provision, migrating service users and renegotiating provider contracts across this significant area of spend.

Stakeholders elaborated on this revealing that the splitting of country functions wouldn't only have an internal impact, service disaggregation could lead to a 'postcode lottery' in terms of the quality and level of service provision as a result of policy decisions taken by newly established authorities.

One of the councils interviewed during the development of this report currently has a multi-agency arrangement in place for the front door operations in the county. This would have to be duplicated in the event that there is disaggregation and those arrangements - and vulnerable individuals - may be put at risk.

Risk and resilience

Risk/resilience

9. Splitting care services cont.

As is typically the case with front door operations, the success of services often relies, at least in part, to being able to operate at scale. Smaller more tactical social care services often rely on being able to leverage the resources available in the wider system. Fragmenting these services further could put them at risk and it may be challenging to continue to deliver the same quality and consistency.

10. Alternative models of delivery: Policy implications

- The implementation of alternative models of delivery can avoid some of the risks of disaggregating services, however **the financial costs and risks posed to service delivery through additional handoffs and loss of political influence could be significant and must be considered.**
- There is **no evidence the implementation of these types of models can lead to an immediate improvement in service outcomes.**

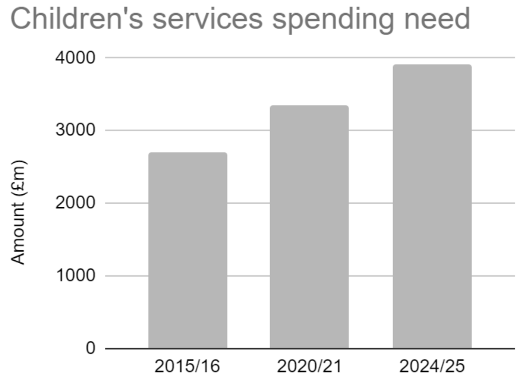
10. Alternative models of delivery

Key findings from the analysis:
In considering the risk and resilience challenges posed by disaggregation, a key area identified for further investigation is the role of alternative delivery models (ADMs). ADMs are considered as an option for maintaining a strategic approach to services when disaggregating. An example of this is in transferring the delivery of children's services to a trust model. In Northamptonshire, where the county and districts are being reformed into two unitary authorities, a county-wide children's trust is to be established to provide services across the two new authorities.

Similar to adult care, the primary motivation for seeking to maintain scale is to respond to the financial and demand-led challenges in children's social care.

Analysis of estimated spending need for children's services has shown that financial demand for these services will increase by 48% between 2015/16 and 2024/25, which is higher than any other county service.[1]

At the same time, children's has also witnessed funding reductions. Analysis has shown that between 2015/16 and 2019/20 children's services in county areas had been reduced 35.8%.[16] In light of these financial pressures, it is firstly important to consider the costs of both establishing and maintaining a trust.



Using examples from the implementation and running of ADMs the financial analysis assumes a first year cost £6.5m, including a one off £3m implementation of transitioning to a children's trust, with an annual recurring cost of £3.5m.[17] For a mid-size authority area this would equate to a five year cost of £20.5m and across all twenty-five two-tier areas the cost would be £512.5m.

Furthermore, in comparing two scenarios, creating two unitaries, and the creation of two unitaries plus a children's trust, the analysis has shown that by adding a trust the payback period increases by 83% and the annual benefit post implementation decreases by 39% compared to the two unitary authority scenario.

One of the reasons for the differences in costs and benefits is that a trust still requires a leadership structure which adds to the recurring annual costs, as well as this the creation of an additional organisation decreases the extent to which benefits can be made across staffing, property and third party spend. Alongside added costs, those participating in this study suggested that the establishment of a trust was still a relatively unproven approach and that such a model would add a sense of removed democratic governance.

This is supported by the fact that early examples of independent children's trusts moving to outside of the council's control had less than positive results, with the first example receiving an inadequate rating by Ofsted after it's first year and so there is little evidence that this model of delivery can improve services and deliver better outcomes for children.[17]

Stakeholders engaged during the development of this report highlighted that, in reality, the full scope of children's social care services could not be delivered by a trust, with the council having to maintain responsibility for some. This creates additional handoffs and potential for fragmentation and delays in key services.

Performance

11. Impact of scale on performance: Policy implications

- Increased scale can help facilitate improvements in performance through **service integration, coterminous boundaries and uncomplicated governance arrangements** as well as increasing resilience to maintain **consistent performance in times of external disruption.**

11. Impact of scale on performance

Key findings from the analysis:
There is a range of literature that investigates the links between scale and performance in local authorities.

An EY report published in 2016 concluded that performance increased positively with fewer, larger authorities as the conditions of scale created the basis for service integration, coterminous boundaries and uncomplicated governance arrangements. The same applies to the delivery of partnership outcomes, data sharing and any activity at scale intended to pursue place-based growth.[12]

As mentioned in line of enquiry 2 - *Economies of scale*, there are benefits to operating at scale when engaging in contract negotiation, this not only has an impact on the financial value of agreements but it can also drive increased service quality through the renegotiation of contracts on improved terms.

Andrews, Boyne, Chen and Martin (2006) carried out a detailed statistical study into the relationship between the size of authority and its performance across several different metrics. These were Comprehensive Performance Assessment (CPA) results, service inspection, consumer satisfaction, Best Value Indicators and value for money.

They found that, in particular, inspection judgements tend to be above average in larger authorities and that the majority of consumer satisfaction measures were significantly influenced by size.

They concluded with a working assumption that large authorities are likely to perform better than small authorities, with over twice as many linear positive as linear negative size effects.[18]

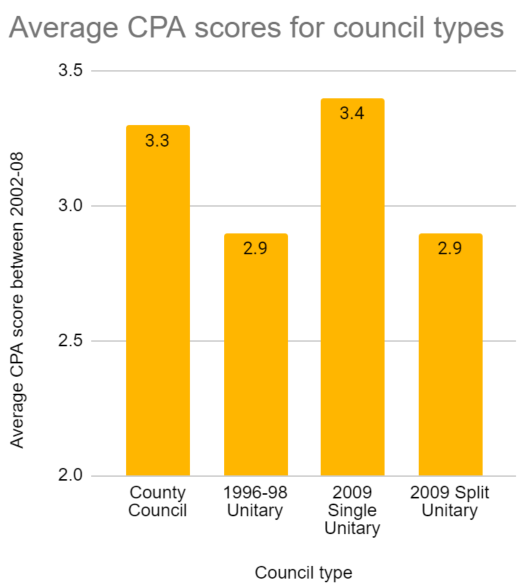
CCN analysis of average CPA scores support this conclusion, identifying that larger authorities typically received higher average CPA scores with the larger county council and 2009 single unitaries achieving higher than the smaller 1996-98 unitaries and 2009 split unitaries.[27]

Shared Intelligence support this view. In 2016 they revealed that the difference in the capacity of different sized authorities is linked to performance in responding to financial and service pressures, with even the better performing small unitaries struggling to create the resilience and capacity necessary to participate in devolution opportunities, engage in partnership working or drive effective and sustainable savings opportunities.[13]

The stakeholders engaged during the development of this study stated that they felt that increasing the size of an organisation could increase resilience, highlighting that this can help enable system change, particularly in light of unexpected costs or issues. To future-proof services, drive change and deliver savings there needs to be the ability to invest and drive innovation. There is greater capacity and resilience in scale to be able to achieve this aim.

Smaller, disaggregated authorities can be more exposed to external changes in demand, funding or suppliers. Volatility in these areas can have a more substantial impact on the performance of a smaller authority as it may not have the same levels of resilience as a larger authority.

There are arguments that organisations can become too big and that in doing so they become inefficient and unable respond to resident needs and demands effectively. However, there is relatively little evidence to suggest that large authorities cannot be agile and efficient in their operations or that arrangements cannot be put in place to address these challenges.



12. Integration and Partnership working: Policy implications

- Integration and partnership working can be much more effective when it takes place along coterminous boundaries and at scale, enabling **greater simplicity** in both **governance and decision-making.**
- In addition, disaggregation has the potential to **cause disruption and distraction**, setting back efforts towards wider integration.

12. Integration and Partnership working

Key findings from the analysis:
Integration and partnership working is about a people-centred approach to supporting residents that is coordinated across all actors in a place. Scale plays an important role in the effectiveness of this way of working, both from the perspective of aligning with the boundaries of partner organisations, as well as the impacts on having to dismantle and unpick current arrangements when disaggregating authorities.

The logic behind this is that if all key actors such as fire, police and the NHS are coterminous, the required interactions and governance structures are more simple, there is clarity on roles and responsibilities and all parties do not need to face off with multiple authorities about the same subject.

Having multiple, smaller unitaries would make health and social care integration more complex with multiple points of contact being created and the potential duplication of structures and process (e.g. Health and Wellbeing Boards).

In their report, Shared Intelligence (2016) concluded that partnership working and collaboration between public bodies is considerably easier with coterminous boundaries.

They go on to explain that since the last two rounds of local government reorganisation collaboration and partnership working has become increasingly important and that collaboration is easier where boundaries are the same. Previous analysis has shown about 86% of county boundaries are coterminous with CCGs and other health arrangements.[13]

The challenge for authorities is to change the way services work together so that the right services are being commissioned to deliver what people need in their local area. The CQC (2019) found that around the country there are a number of shared commissioning budgets between health and social care but with mixed success in joint commissioning approaches. When local health and social care providers work well together, people's experience of care can be improved. They go on to say that although progressing unevenly in different parts of the country, there is beginning to be evidence of more integration and/or joint working emerging.[19]

A number of the stakeholders engaged during the development of this report stated that already, in the health landscape alone, efforts have been made to consolidate organisations to match boundaries with the councils and losing that coterminosity would be a backward step.

The processes of breaking up these partnerships where coterminous boundaries exist, for example unpicking existing health Integrated Care System (ICS) arrangements, would be a very complex and resource intensive exercise which would cause a "substantial distraction" to service delivery.

In this scenario of disaggregation the impact would not only be felt through the transition process, there is also a risk that the efforts of many authorities over the past few years to develop a local prevention and intervention offer could be undone with a risk that it becomes a health only offer rather than something more holistic. Stakeholders also highlighted that amongst them there would also be substantial disruption in unpicking joint commissioning and integrated management structures which have been the result of careful redesign and effective in achieving outcomes.

The risks to partnership working and integration are not only limited to health and social care though. Participants also mentioned that integration with both fire and police will be threatened as well as shared services arrangements that are currently in place.

The point of shared services that go beyond county boundaries adds a further layer of complexity when considering disaggregation. The shared services arrangement would either need to be terminated putting both parties under pressure, one for loss of service the other through loss of income, the other scenario would be that one of the smaller authorities would continue the services but it would take up a much higher proportion of its capacity than before putting the organisation under increased strain.

Moreover, many of the largest counties provide improvement services to other local authorities. These arrangements would have to be unpicked and could potentially have a detrimental impact on the councils receiving the support.

Performance

13. Clarity of interactions: Policy implications

- In any reorganisation decision-making exercise, there must be considerations regarding the interactions both locally and nationally. Disaggregation introduces **additional organisations and complexity to the system** which increases the number of interactions required.
- Increased scale allows for **coterminosity** with strategic partners as well as **increased likelihood of a single point of contract for interacting with central government.**

13. Clarity of interactions

Key findings from the analysis:
Across a place there is an intricate network of partners and stakeholders to ensure the sustainable delivery of key services and outcomes. In recent years a substantial amount of thought and effort has gone into developing this network to ensure effective and efficient collaboration.

While stakeholders recognised that progress has been made in this area they also highlighted that there is still a way to go, for example across health, police and fire there are still lots of different parties that need navigating around that adds complexity to the system and often can confuse people. Stakeholders agreed that there is a need to continue to simplify service delivery and partnership working, including with police and fire, and that effective partners are needed for service delivery.

Many of these points have been explored in enquiry 12 - *Integration and Partnership working,* however, another key issue relating to the clarity of interaction is that of a 'drag effect'.

Drag effect is the additional effort required to navigate and engage with stakeholders and partners in a system that is complex and fragmented. This fragmentation could be caused by disaggregation for example which introduces additional parties to the system. By increasing the number of organisations working within a place not only is there the disruption of the transition itself but there is also increased transaction cost through more parties operating, less consistency in boundaries and duplicated governance and engagement with each stakeholder.

One potential impact of the drag effect is a drop in the quality of interactions. The reason this occurs is because instead of focussing on innovation, co-development and creativity in an efficient and agile way, interactions are delayed by individuals trying to navigate through the system itself. This drag effect is a result of a build up of transactional cost and effort.

Stakeholders revealed that they felt the solution to this issue is, where possible, having coterminosity across partners allowing for a 'single voice' across a place. This is where scale is a key lever in developing effective and efficient interactions in a place. In order to have this partners want consistency in interactions conducted at a scale that enables this. This can be a wide range of partners such as clinical commissioning groups, neighbouring councils, police and enterprise partnerships. Effective collaboration between these parties is essential to drive outcomes for growth, communities and a joined-up approach to keeping people safe for example.

Scale doesn’t only support in the simplification of interactions with partners, stakeholders also felt that it can strengthen and simplify the relationship with central government, which will enable better quality and greater quality of interactions.

Place implications

14. Place shaping: Policy implications

- When implemented correctly, **planning at a larger scale can enable effective place-shaping as key strategic decisions can be implemented** more efficiently, for example housing and infrastructure development.
- Disaggregation has the potential to **restrict areas of high housing growth** at a time when new delivery expectations are being placed on councils.
- The interaction between proposed reforms to **planning policy and housing delivery, and its relationship with scale and reorganisatio**n, need detailed consideration.

14. Place shaping

Key findings from the analysis:
Place shaping describes the capacity within the sector for the council to lead and facilitate place shaping initiatives and support the development of cross-boundary opportunities.

The idea of scale and place shaping go hand in hand - the rationale behind this is that in order to achieve real benefits in strategic growth this can only be achieved at scale across a wider area. Examples of this can include environmental issues and economic regeneration, a consideration shared by the stakeholders, who outlined throughout the engagement that the ability to communicate at scale is important when trying to reshape a whole system.

Stakeholders cited several examples where they felt that through operating at a larger scale they were able to influence more long-term strategic initiatives, including economic growth, which is explored in the next section. However, here, the most prominent example cited in relation to place-shaping was the delivery of planning, infrastructure and housing.

The need to facilitate the building of a large number of new homes each year creates a major pressure on all local authorities to navigate the links between housing need and demand, planning, and wider infrastructure planning, financing and delivery, while the availability of land does not respect local authority boundaries.

In two-tier areas, it is complicated by the split of responsibilities for planning and infrastructure between district and county councils. Ensuring the right homes are built in the right places with high quality supporting infrastructure are made more difficult by the lack of coordination and strategic view of across a housing market area, which may cover several districts.

Alongside this, there are significant challenges about funding for infrastructure where county councils report that inconsistent implementation of the Community Infrastructure Levy (CIL) by district councils is inhibiting a strategic approach to maximising developer contributions.

These inherent challenges within the two-tier system lend themselves to arguments in favour of exploring structural reform, particularly at scale. Disaggregated, planning authorities are inevitability constrained in their ability to plan across a wider geography and, as shown in the financial analysis, have less disposable land and assets created by reorganisation to repurpose for development.

The complexities that can be created through disaggregation and the creation of small unitary authorities was a clear conclusion of analysis of previous reorganisations. Shared Intelligence found that many of the councils that were created in the 1990s were “under-bounded”, with tight geographies seriously constraining in their ability to take strategic decisions in key areas such as housing.[11]

An organisation operating at scale typically can have more potential to provide a clarity of focus for an area to help drive the development of infrastructure to enable homes, transport and connectivity as well as attracting inward investment and working with other counties through the LEP.

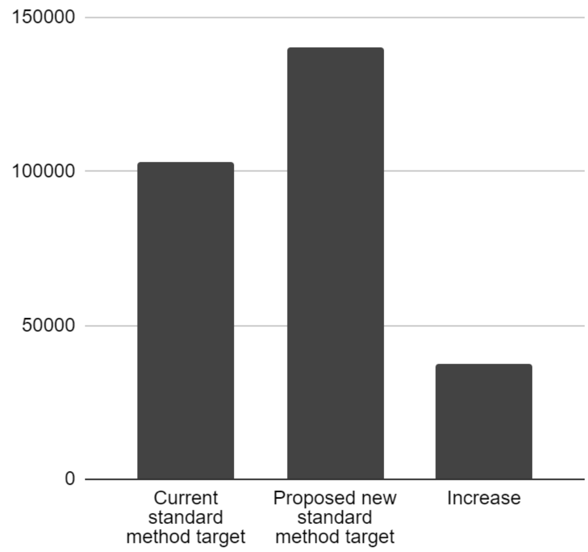
Looking ahead, recent proposals for reforms to the planning system and increased expectations over housing delivery numbers provide important reference points when considering the potential impact of scale and disaggregation on local government reorganisation.

In recent weeks, the government has published a consultation on major reforms to the planning system in England through its Planning for the Future White Paper.[25] Within this, the government policy is clear on the need for a significant acceleration in the number of new homes and how overhauling the planning system could make the system more responsive and strategic. The challenge this poses is particularly acute in two-tier areas, where early indicative estimates by Lichfield’s show a potential 36% increase in total housing targets across county areas.[26]

Place implications

Place

14. Place shaping cont.



Proposals include introducing a new ‘zonal’ approach to planning permissions, reducing the local discretion of councils in approving individual planning applications, alongside plans to scrap the current duty to cooperate. Moreover, current infrastructure funding streams, such as CIL, are to be replaced with new infrastructure levy which councils can borrow against to fund infrastructure provision.

These proposed changes, if enacted, point towards a system that will place much greater emphasis on the role of planning authorities in strategic place-shaping and housing enablement, rather than focusing on scrutinising individual planning applications. Zonal allocations by local authorities will require strategic planning at scale across a much wider geographical footprint, covering multiple housing market areas, avoiding the disadvantages that potential disaggregation could create in restricting cross-border collaboration.

Moreover, opportunities of new flexibilities to raise infrastructure via borrowing against income will be maximised when organisations stretch across areas of both low and high housing growth to generate income and have budgetary capacity and economies of scale to invest funding in a strategic and efficient way.

15. Economic growth and inward investment: Policy Implications

- **Disaggregation can create and concentrate economic disparities** between new administrative boundaries, the implications of which need to be considered in any options appraisal exercise.
- Benefits of **strategic growth can be maximised when delivered at scale across a wider geographical footprint** covering areas of low and high growth, with a stronger single voice creating a more attractive proposition for investors.
- The creation of **combined authorities** does not necessarily guarantee that the challenges of disaggregation on economic growth functions can be easily mitigated.

15. Economic growth and inward investment

Key findings from the analysis:
In recent weeks, the government have made clear their desire to link structural change to the devolution and economic recovery agendas through the forthcoming White Paper. Consideration of scale and the impact of disaggregation on economic growth and inward investment, therefore, needs careful thought in proposals for structural change.

In considering reorganisation, government guidance has been clear that any proposal must put forward a ‘credible geography’, linked to both public service and economic geographies. While functional economic geographies, which in many areas cut across both district and county boundaries, are cited as important factors to consider, it is equally important to consider the impact new administrative boundaries could have in creating and concentrating economic challenges post Covid-19.

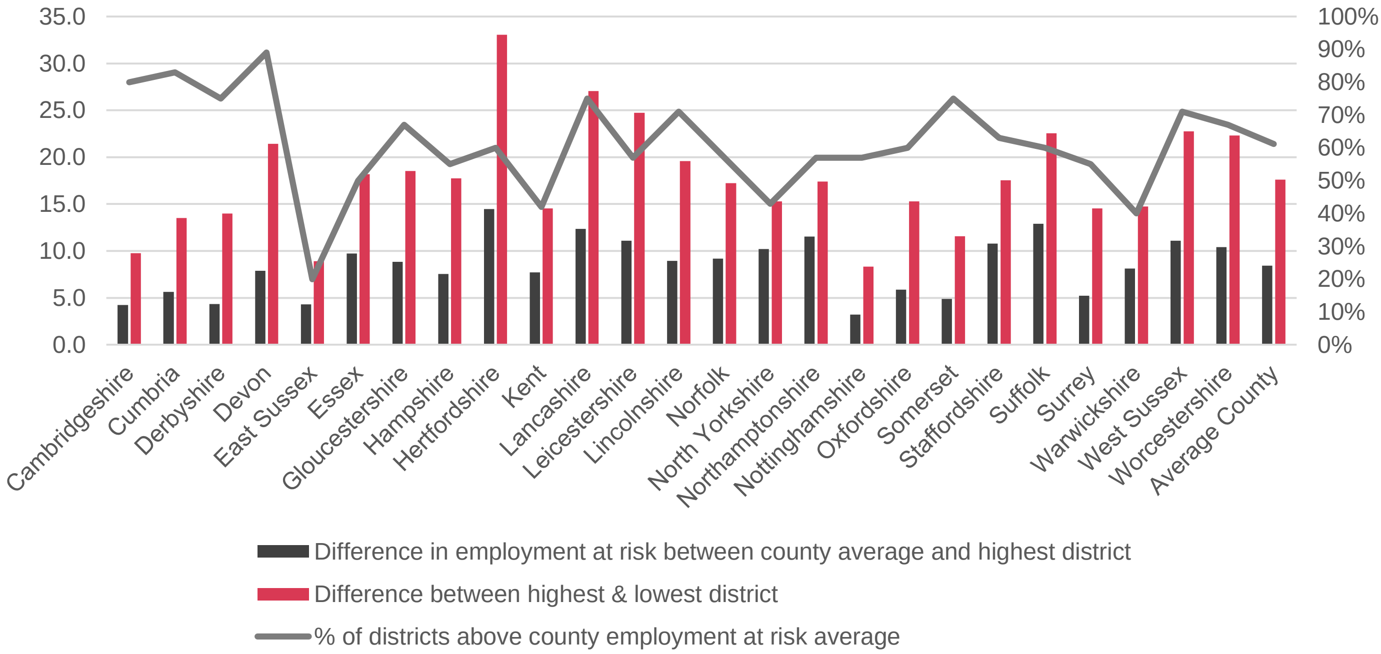
Place implications

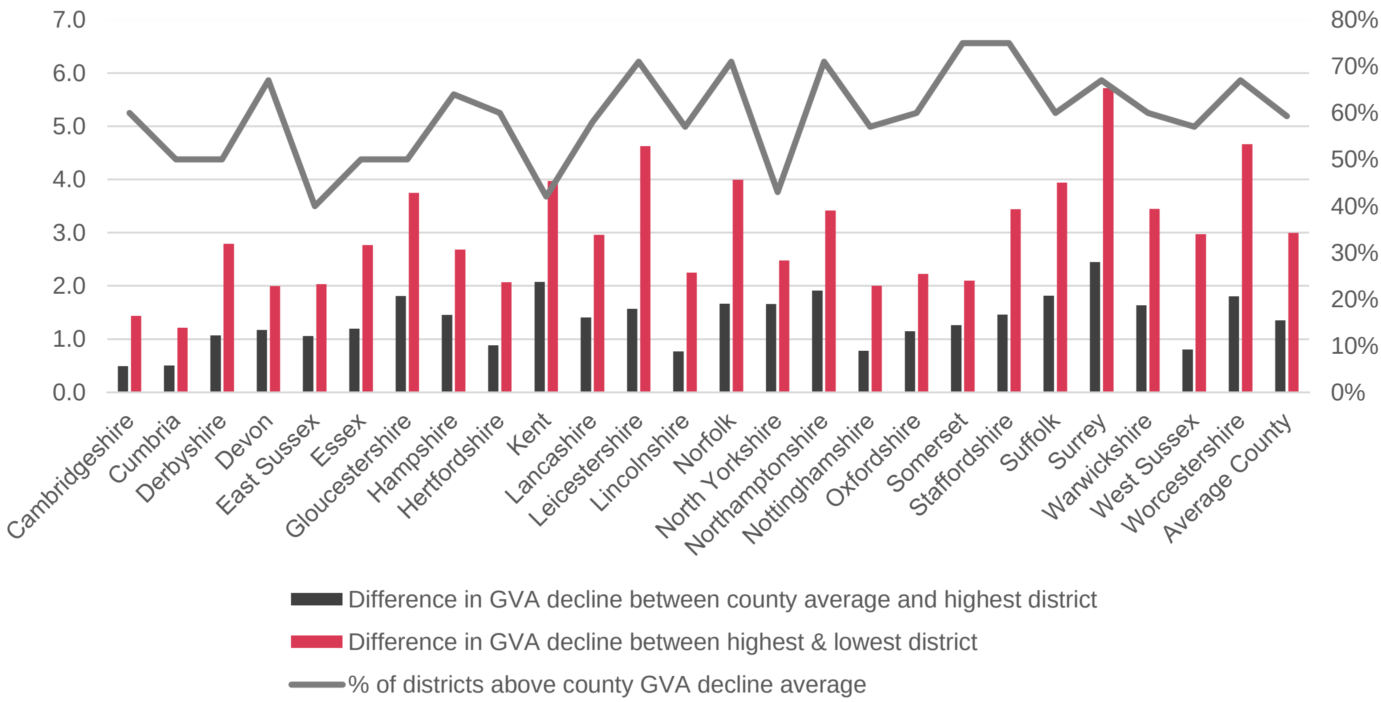
Place

15. Economic growth and inward investment cont.

In their recent report, Grant Thornton highlighted the potential economic challenges created by Covid-19 on county areas. While their analysis showed that 34 of the 36 county and unitary authorities contained in the study had ‘employment at risk’ and projected GVA decreases higher than the national average, they concluded that the challenges are further compounded by the fact that the level of risk can vary significantly within county council areas.[3]

Close examination of the data produced in this report at district level within each county council shows the distinct variation. The graphs below compare the percentage difference between the county average and highest district for employment at risk and GVA decreases, alongside and lowest and highest district within each area. They also show the percentage of district authorities within each area above the county average.





Place implications

Place

15. Economic growth and inward investment cont.

The significant differences between the county average and highest district, alongside the difference between the lowest and highest district authorities, demonstrate the challenge posed in disaggregating into smaller structures that avoid unevenly distributing economic challenges and opportunities. As Grant Thornton concluded in their report, there is the potential for new administrative boundaries to introduce additional complexity and concentrate economic challenges, widening place-based inequalities and slowing the recovery.[3]

While areas considering reform would have to consider a broad range of economic indicators, alongside its relationship to functional economic geographies, operating at scale is likely to result in a more even distribution of high and low growth areas, reducing the risk that disaggregation concentrates economic challenges within new administrative boundaries. Moreover, with local authorities heavily reliant on local taxation, including business rates, the concentration of economic disparities could negatively impact the financial resilience on any new authorities. Careful consideration of these factors is needed when appraising the credibility of the geography of individual reorganisation proposals.

Alongside scale, having the potential to provide a more sustainable and attractive economic geography, it also has the potential to maximise the strategic coordination of growth across a wider area. In order to invite inward investment a place not only needs to be an attractive proposition, but it also needs to be coordinated in its approach to attracting the investment in the first place.

Under the current two-tier system, economic development responsibilities are divided, with the county council having strategic responsibility for growth on a county-wide basis, and districts focusing on creating conditions to encourage investment and employment for their localities. Improving the connections between these two levels are well-established motivations for exploring structural reform and essential for creating an approach that is coherent for the functional economic areas and skills catchments that often cut across district boundaries.

Good economic development relies on coherent links between policy and delivery in areas such as housing, transport, road infrastructure and schools. These cut across different council responsibilities and boundaries, and shortcomings in one area will affect others and the collective. Establishing the right links is also important for presenting a strong local government voice when working at sub-regional level or with employment sector representatives.

Improved coordination can help an authority get into the position of being seen as an equal player with large investors/organisations. The stakeholders engaged with as part of this study stated that operating at scale enabled them to attract larger multinational corporations to invest, as they have “more to offer” in their proposals. The impact of this investment has a substantial knock-on impact on the sustainability of a place from employment, skills, education and attracting further organisations to the area.

By operating across a wider geography, a council not only has a better potential to attract investment but it is better equipped to use this investment to increase productivity and achieve outcomes.

The relationship between scale and investment also is impacted through the complexity of the interaction, as explored in key line of enquiry number 13 - *Clarity of interactions*. The stakeholder group noted that in their experience it is easier for businesses to deal with larger units of local government. If counties were fragmented into smaller areas this could cause confusion and complexity for businesses, developers and residents in who to engage with, especially across a broader geography. With the introduction of more councils through disaggregation, potential points of failure over strategic growth decisions crossing local authority boundaries are increased.

Place identity and brand is also a key lever to encourage and attract investment. One of the stakeholders engaged during this work noted that as a county they already have a strong brand and identity that is used to attract investment, disaggregating the county could hamper efforts to effectively position the county with a single voice to exploit opportunities for growth and sell itself nationally and internationally. Disaggregation could reduce the ‘brand identity’ that comes with being a county.

One local authority has already identified that it has a better chance of success in bids for funding, attraction of inward investment and joint working with government agencies through operating at a countywide scale, disaggregating into smaller authorities will complicate the landscape and offer a less attractive proposition for funding and investment.

Place implications

Place

15. Economic growth and inward investment cont.

While there are numerous examples of local government organisations at lower geographic levels working successfully with economic development bodies at higher geographic levels, the process of disaggregation inevitability leads to duplication in economic development functions, implications for place identity, and risk that businesses could suffer from parochial decision-making on important strategic issues.

The establishment of combined authorities covering new unitary councils is a potential opportunity to mitigate these challenges, with the government recently outlining reorganisation as a vital step in their plans to see the establishment of more mayoral combined authorities. Moreover, it has been suggested that through the process of reorganisation, the disaggregation into smaller unitary authorities in a county area could delegate strategic growth functions, such as transport, to a new combined authority to maintain strategic scale in delivery.

With current legislation dictating that the establishment of combined authorities requires full consensus amongst constituent authorities, alongside bespoke voting arrangements, the creation of combined authorities does not necessarily guarantee that the challenges of disaggregation described here can be easily mitigated, particularly in the short term. Through disaggregation, points of failure in the negotiation process are increased, while there is currently no precedent for the simultaneous creation of unitary councils and a strategic delivery body for economic functions.

Scale offers the opportunity to reduce the points of failure in negotiations over future devolution arrangements, while in many cases offering the geographical area to either join existing combined authority arrangements or establish new governance arrangements that provide the single point of accountability desired by government for devolved powers and funding, for instance, through a directly elected local authority mayor.

The forthcoming White Paper will provide important implications on the model favoured by government, and issues outlined in this section should be considered as part of the policy development process.

16. Governance and decision-making: Policy implications

- A single authority in a county area can offer **simplified governance structures.**
- When implemented disaggregation will need to **consider where boundary lines are most appropriate and where possible align them to natural communities.**

16. Governance and decision-making

Key findings from the analysis:
Governance and decision-making relates to the acceptable models for authorities representing large numbers of people.

The key argument raised by stakeholders was that scale is needed to ensure consistency in governance and the experiences of residents. For example, one of the participating councils highlighted that in their county, individuals receiving domestic abuse support services have to navigate through different systems depending on which area they live in - this adds complexity to the service.

The group also revealed that service boundaries that are currently in place don't necessarily follow the community lines meaning that there is no civic identity to how services are delivered. Disaggregating these services could only fragment the system more.

Another benefit achieved from delivering at scale is the resilience it brings to leadership. For one of the stakeholders this allowed their authority to mobilise a digital response to Covid-19 and operate 24 hours a day, 7 days a week. In relation to more recent challenges such as Covid-19, if local authorities are going to lead the post-Covid recovery they need to be able to bring partners and all the component parts together. Stakeholders highlighted that councils now more than ever need to be able to play a convener/enabler role and have the mandate to lead and take decisions, this is explored further under key line of enquiry number 19 - *Delivering in crisis*.

Another consideration regarding the relationship between scale and decision-making is in county areas that have a large rural footprint. Any disaggregation could create a situation where one new authority does not have a sufficient core of urban population which will mean it is less resilient and has increased service pressures for a dispersed population. The participating councils identified this as a key risk and highlight the need to balance the urban with rurality in order to get the right level of resilience.

Covid-19

Covid-19

17. Sustainability of service: Policy implications

- Scale affords authorities to be more **resilient to financial shocks** ensuring they are more likely to be able to **maintain service delivery** in times of crisis.
- Disaggregation significantly **reduces the potential for reorganisation to meet pre-existing funding shortfalls** and contribute towards service sustainability over the next five years.

17. Sustainability of service

Key findings from the analysis:
Sustainability of service relates to the relationship between scale and the resilience of an authority to absorb financial shocks and maintain service delivery. The importance of this comes into sharp focus when you consider the short-term expenditure challenges that have arisen as a result of Covid-19.

Engagement with stakeholders highlighted that, in their experience, a larger organisation is more likely to have the financial resilience to absorb unexpected financial shocks and pressures than a smaller authority operating with a lower budget. The logic behind this would be that a smaller authority facing these costs would be paying out a sum that is a much larger proportion of its budget compared to a larger organisation.

Examples provided by stakeholders spanned across services such as expensive social care placements above £300k and emergency road repairs totalling £5m. These were unexpected costs that arose at short notice and required immediate expenditure. The councils engaged noted that due to their size they were able to manage these unforeseen costs in a sustainable way and without fearing that the expenditure would have a knock-on impact elsewhere such as service delivery.

Recent events and the short-term expenditure required of councils to support care services has re-emphasised the point on the importance of scale in managing short term risks and financial shocks.

The pandemic has given rise to an unprecedented increase in short-term costs. Latest analysis of Ministry of Housing, Communities and Local Government Delta returns for county councils shows estimated additional costs in 2020/21 of £1.4bn.[21] Although government has provided emergency funding to meet these additional costs, estimated to cover 79% of estimated costs, the scale of county councils has at least in the short term enabled them to be able cope with these additional pressures.

But while scale has helped enable a response to short term expenditure requirements, the combination of additional expenditure, lost non-tax-based income, and potential council tax and business rates income falls will further increase the sustainability challenge.

In a recent report, Grant Thornton concluded that due to the short expenditure and potential lost income, on the current projected trajectory, without further intervention or action taken by councils to reduce costs, the total aggregated unallocated general fund reserves for county authorities would be fully depleted by 2021/22. Grant Thornton concluded that there is a risk that a number of county authorities could be forced to embark on large scale reductions to service and provider costs.

The way authorities are structured will be key to ensure sustainability and service delivery through such a testing time. All decisions in relation to funding need to take into account the relative spending need of councils, recognising variations in demand for services, the cost of their delivery and the ability of councils to provide a more consistent level and quality of service. Therefore, an authority operating at scale could potentially offer more resilience and feel the benefits of economies of scale when it comes to meeting funding shortfalls.

The extent to which Covid-19 will increase the funding gap facing county areas is not yet known, but pre-crisis it was expected that over the next five years county areas faced a funding shortfall of £9.97bn, an average shortfall of £369m per county area.[2] By comparing the net five year saving for a mid-sized authority across the four scenarios to this average shortfall, it can demonstrate the potential impact on service sustainability.

Covid-19

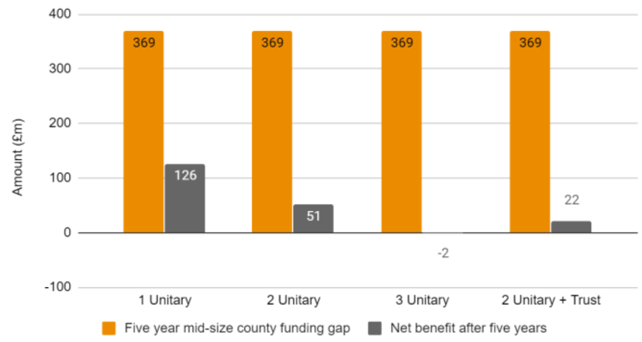
Covid-19

17. Sustainability of service cont.

Key findings from the analysis:
A single unitary could reduce the average mid-sized county funding gap by 34% compared to just 14% under a two unitary scenario, and just 6% under the a two unitary and trust model. The scale of disaggregation progressively reduces the potential of reorganisation to contribute towards service sustainability over the coming period due to the increased costs associated with transition, and the payback period benefits would be realised over.

With the Spending Review taking place over the autumn, the potential contribution of reorganisation to the overall sustainability of services is an important consideration at a time when it is expected that tight fiscal restraint could be imposed due to the impact of Covid-19 on the public finances.

Potential five year benefits for each scenario for a mid-sized council compared to estimated funding gap



18. Funding and income streams: Policy implications

- Disaggregation could create an environment where **one new authority benefits disproportionality** from increased funding and income streams compared to the other(s).
- Covid-19 impact on council income streams **could create further sustainability challenges** when disaggregating income streams into multiple authorities.
- The implications of **council tax harmonisation** need to be considered in all scenarios.

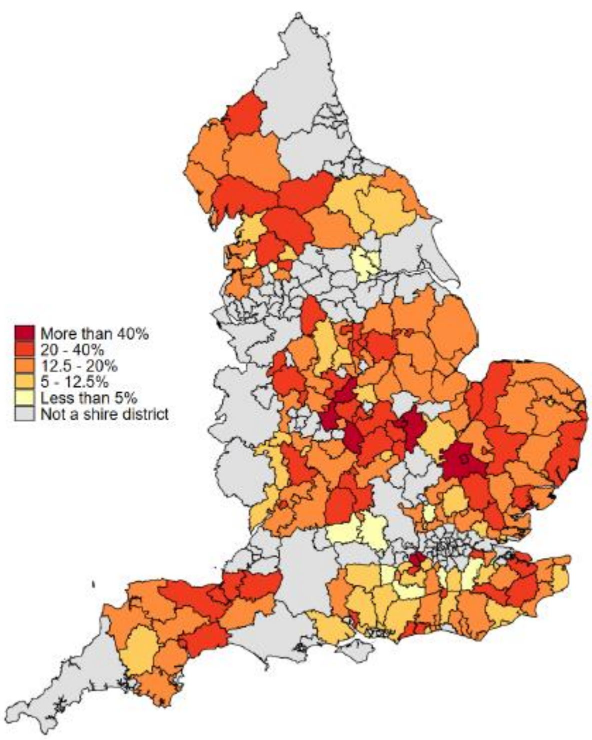
18. Funding and income streams

Key findings from the analysis:
The future sustainability of any future council structures will be impacted by funding and incomes streams. Different reorganisation scenarios, and its relationship with scale and disaggregation, have important implications that need to be considered before embarking on a reform path.

The process of disaggregation and the split of one authority into multiple could give local income streams and funding preference to one council over the other. Across shire counties there are inconsistencies in opportunities for income between individual or clusters of districts. Some are much stronger - and have benefited from a high business rate bases or income from fees, charges and commercial income due to large shopping developments or transport hubs.

Recent analysis by the Institute for Fiscal Studies (IFS) shows that while one in ten shire districts income from the selected sales, fees and charges accounts for less than 9% of non-schools revenue expenditure, in another tenth it is equivalent to more than 55%. Similarly, while forecast above-safety-net business rates revenues are equivalent to less than 8% of revenue expenditure in one in ten shire districts, in another tenth they are equivalent to more than 30%. The maps below and on the next page, taken from the IFS report, shows these large variations are not just across counties, but within individual county areas.[22]

Income from above-safety-net business rates revenues for shire districts (% of non-schools revenue expenditure)

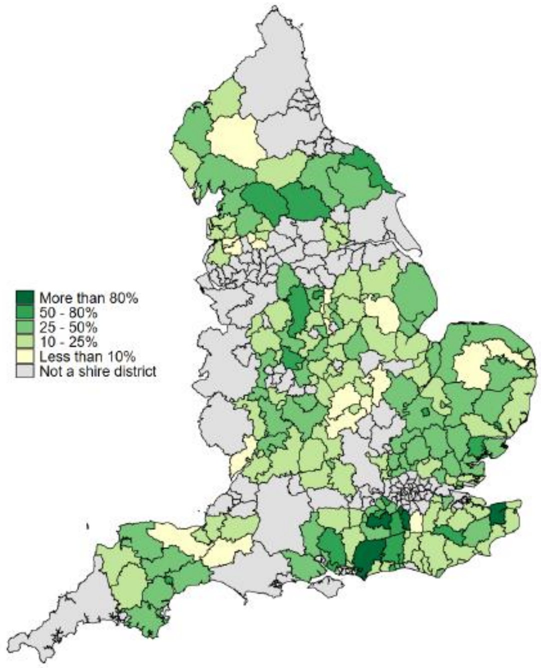


Covid-19

18. Funding and income streams cont.

Key findings from the analysis:

Income from selected sales, fees and charges (SFCs) for shire districts (% of non-schools revenue expenditure)



In contrast to the variation at district level, independent analysis by Pixel Financial Management of business rates profiles showed that this variation and risk was significantly reduced when analysed at an individual county scale, with only one county council area below its business rates baseline. When considering business rates retention reform, they concluded that when taking an area-based approach across a county, individual geographies carried less risk, the reason for this being that these are large areas and they therefore have sufficient scale for large one-off closures to be offset by organic growth elsewhere in the county. [23]

When approaching reorganisation, it will be important to consider how scale can ensure an area benefits from a sustainable income base, stretching across areas of both low and high-income generation. Splitting up larger country areas could mean that the newly formed authorities concentrate income opportunities, creating an environment of unfairness and disparity in income potential and losing the greater resilience that could be brought about by scale.

The impact of Covid-19 will increase the potential risks associated with funding streams. As a result of the pandemic, LGA analysis of June's Delta returns show a potential combined lost of £432m in retained business rates for county areas and potential district losses of £865m this year from fees, charges and other sources of commercial income.[21]

With it still unclear the extent to which government compensation schemes for income loses will reimburse or mitigate these loses over time, detailed consideration will need to be given to whether these factors would create further challenges in creating unsustainable disparities in income between newly formed unitary authorities.

Another key consideration to be made during the reorganisation process is that of council tax harmonisation. Through reorganisation, council tax harmonisation can create incidences of great disparity in the income between the disaggregated authorities. This particularly important at the current time, with LGA analysis of Delta returns showing council tax collection fund deficits could reach £744m as a result of the pandemic.[21]

As with business rates and other council income, these loses will vary between district councils within individual counties, and as Grant Thornton analysis has shown, collection fund deficits will have significant compounding impact on the council tax base in future years; resulting in permanent losses as future rises in council tax are applied to a lower base.[24]

Nationally in two-tier areas there is a range of council tax income. When undertaking structural change there are a range of options to manage council tax harmonisation. Each of these scenarios poses a different issue for the scenario of moving to a single unitary authority. If the council chooses to move to the lowest level of tax paid it will need to invest to fill the deficit created. On the other hand, moving to highest level will, in theory, cause increases in payments of over 10% for some residents. The average option in these cases may seem more palatable but creates its own complications around a tax rise in certain areas and a decrease in others.

This scenario complicates further where disaggregation is being undertaken, this can make the process easier in some areas and more difficult in others but needs to be considered at a local level.

Covid-19

19. Delivering in crisis: Policy implications

- In response to crisis, increased scale can support a **clear, coherent voice in mobilising a response.**
- Disaggregating authorities could place **disproportionate pressure on the newly created unitaries** depending on the geography and size of the new organisation.

19. Delivering in crisis

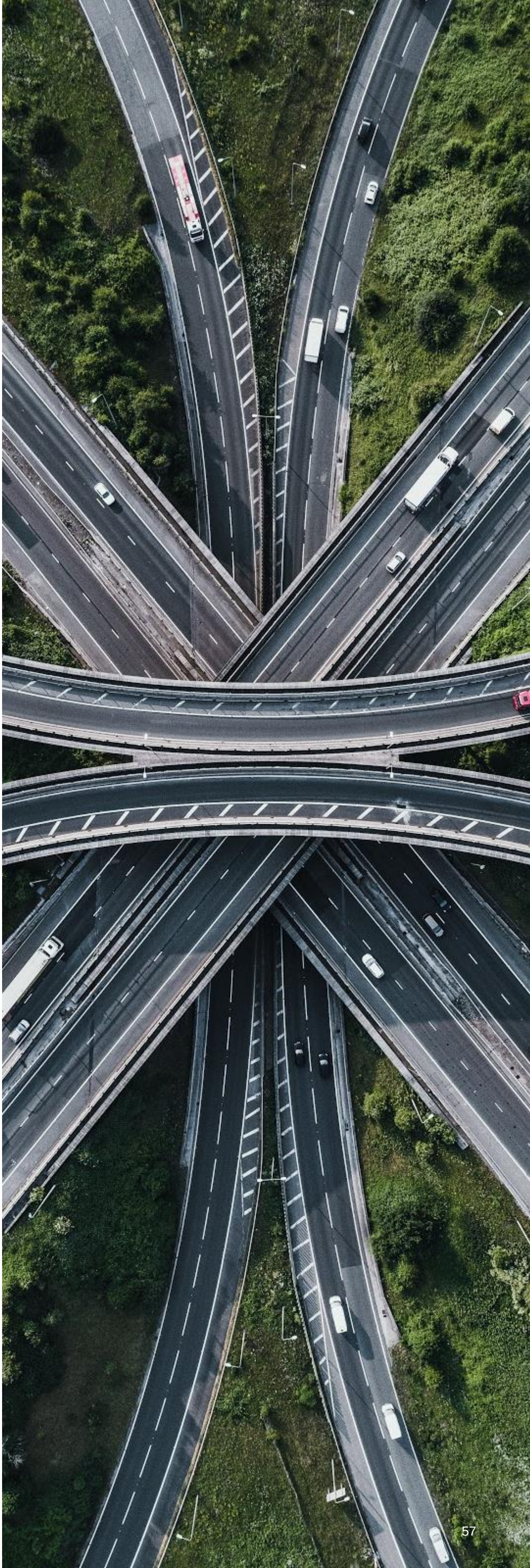
Key findings from the analysis:
The response to Covid-19 coordinated through the resilience forums and other arrangements has reinforced the leadership role of many county council authorities. It is recognised that despite many councils coming together to tackle Covid-19 and doing great work with communities there was still examples of initial confusion and delay in mobilising.

Stakeholders felt the situation exposed the potential financial weaknesses of being a smaller, disaggregated authority due to the limited size and resilience to financial shocks.

There are many good examples from the stakeholders in community leadership amplified through them coordinating with other local authorities, health and the Voluntary / Community Sector in particular, to stand up emergency arrangements such as support to shielded households during Covid-19 and mobilising resources to other emergencies. One of the stakeholders noted that in response to Covid-19 they were required to mobilise the response coordinating nearly two dozen community organisations to deliver key services.

The response to environmental crises are also impacted by scale and fragmentation. Incidents of severe flooding in recent years in some geographies benefitted from the simplicity in governance with a response which was mobilised quickly and in a coordinated manner. Again, larger organisations have demonstrated they have the capacity and resilience to respond for the benefit of the communities affected.

There will be further challenging events in future that will require a county response that includes issues such as managing the EU Exit process on borders and major transportation hubs.



20. Community: Policy implications

- **Increased scale does not necessarily mean a disconnection from communities,** although to ensure that the community voice is heard, local governance structures need to give appropriate consideration to the options appraisal and design phases of reorganisation.

20. Community

Key findings from the analysis:
A key argument against larger authorities is the risk that they can become disconnected from the community both politically and from a service delivery standpoint.

Services such as adult social care and domiciliary care are still able to be close to the community. They are hyper-local and closest to people but still managed strategically. This approach would also be required across more services to ensure that there is the right level of engagement with the community. A one-size fits all approach would not be sufficient.

Politically, structural changes in a system can offer opportunities for a different approach to local governance and renewed roles for town and parish councils. The Secretary of State for Housing, Communities and Local Government has expressed that town and parish councils should be empowered through the reorganisation process.

Wiltshire, Cornwall and Buckinghamshire are examples where community engagement schemes have been developed as part of creating a new unitary councils, the impact on these is outlined below:

- **Wiltshire:** Wiltshire Area Boards (18 in total) exist as a way of working with communities to make sure that decisions are made that support local people. Meetings take place regularly, with residents, council staff and councillors with local community engagement managers facilitating the discussion. Local issues are discussed and solutions are found which suit and benefit that population. They are able to provide small grants and funding to local community groups to support local issues.

- **Cornwall:** 19 community networks were set up to serve as main communication channels between communities and address any local issues; their purpose was to: support the wellbeing and place strategy for the local area, prioritise services and the best way to deliver those to the residents, and build relationships between the people and the organisations working within the community.

- **Buckinghamshire:** The new council is setting up 16 community boards who will work by consensus. The aim of the boards is to influence local councillors, partners and community members to come together and collaborate to solve important issues within their area. The committee will meet five times a year, with councillors sitting on their local board and citizens having an active role in decision-making. The council plan to allocate £3.9m to community boards to support local projects.

The stakeholder group stated that community is not just about service delivery, but it is also about engagement and understanding the needs of residents. They felt that the use of new and existing technologies has, especially in recent months, provided some of the answer to how best to engage locally. It is essential that councils utilise technology to connect and engage with residents. This should be carried out at scale to ensure it is done well and cost-effectively.

Aggregating services into a single authority also enables the aggregation of insight and data across the county, which can help support new community engagement approaches as part of a reorganisation proposal. This could allow for a multi-disciplinary business intelligence function to provide an evidence base to support decision-making across all local government services, developing new ways for residents to engage and shape service provision more effectively and enhance local democratic participation.

6

Summary and reflections

Summary and reflections

Why this is a critical time

As set out in earlier sections of this report, the anticipated White Paper on devolution and local recovery in England has accelerated the debate about local government reorganisation and how all regions can ‘level up’ or become more prosperous. Combined with a broad consensus that transforming places and resetting the economy is a national and local imperative, this has increased the appetite for change at both a national and local level.

It is also without question that local government has faced significant financial challenges over the last ten years; with further pressures brought about through responding to the Covid-19 pandemic. Many have suggested that current ways of working in two-tier areas are reaching the limits of what can be achieved. Re-thinking the way in which services are delivered will be essential if the country is to secure a fair recovery, focussed on improved outcomes for everyone.

Key considerations should include how to: drive recovery in a way that empowers communities and encourages social mobility; deliver savings to underpin financial sustainability; establish strong, high performing services to unlock access to opportunities; and foster effective and meaningful collaboration with partners.

All of the scenarios examined by this report represent potential options for reform, as does retaining the existing two-tier system of local government.

Of the four scenarios analysed, it is clear that in financial terms the implementation of single unitaries in each of England's two-tier areas would deliver significantly greater benefit.

It is also clear that should an alternative approach be pursued the process of disaggregating current county services does present a number of material costs, but also non-financial risks and complexities.

Where reorganisation is being considered, the evidence set out in the report should be used to inform the development of local proposals.

The evidence should be considered alongside the government’s “tests” for new unitaries, which are designed to assess whether the establishment of new councils would deliver improved outcomes, stronger leadership, provide opportunities for service transformation, reflect a credible geography, have broad support from stakeholders, deliver efficiency savings and be sustainable over the longer term.

60

Summary
Scenario 1: Single unitary authority

Based on the quantitative and qualitative analysis, the following policy implications of a single unitary authority model of local government reorganisation should be considered:

Cost
Costs associated with establishing sub-county unitary authorities.

Increasing the scale at which a local authority operates will realise financial benefits through economies of scale. Were government to pursue this scenario across the country, there is potential to realise £2.9bn benefits over five years, with the saving for a mid-sized authority over the same period totalling £126m. These benefits are driven from the consolidation of areas such as customer management and enabling services, senior management costs, reductions in third party spend and rationalised governance arrangements.

Risk/ Resilience
Risks to organisation and service resilience.

The majority of critical care services are currently the responsibility of county councils. The scale of the councils engaged in the management of services such as children's and adult social care, has enabled them to develop the capacity and safeguards required to support and protect some of the most vulnerable people in society. Furthermore, it has provided these organisations with the ability to manage their supply chains more effectively than might otherwise be the case.

Performance
The impact on organisation and service performance.

One of the attractions of the single unitary model is the inherent simplicity associated with operating an organisation responsible for all local government services in an area. While the evidence base associated with scale and local authority performance is relatively inconclusive, in areas where performance in county council services is improving or high, it is likely the process of disaggregation would have a detrimental impact.

Place Implications
The impact of scale on governance.

The establishment of larger authorities (as would be the case in scenario 1), with responsibility for strategic and operational functions covering an entire geography offers a number of advantages. The benefits of strategic growth can be maximised when delivered at scale across a wider area and potentially attract more inward investment as well as the ability to communicate as a single or coherent voice for the place.

Covid-19
Lessons learnt from Covid-19 crisis and ongoing recovery.

Operating at scale can enable more effective responses in times of crisis - as has been demonstrated during the response to Covid-19. Though local government has responded well to the virus in both single and two-tier areas, the experience has highlighted the potential of larger organisations to maximise the power of their more substantial data analytics and reporting, and their more straightforward governance arrangements.

Summary
Scenario 2: Two unitary authorities

Based on the quantitative and qualitative analysis, the following policy implications of a two unitary authority model of local government reorganisation should be considered.

Cost
Costs associated with establishing sub-county unitary authorities.

The creation of two unitary authorities introduces the process of disaggregation which will duplicate effort in key areas such as senior leadership, service delivery and in democratic structures. Were government to pursue this scenario across the country, there is potential to realise £1.0bn benefits over five years, with the average saving for a mid-sized authority area over the same period totalling £51m. This is a 60% decrease on the potential benefits compared to scenario 1.

Risk/ Resilience
Risks to organisation and service resilience.

The process of disaggregating county services would pose a risk to some of the more critical areas of local government provision. For example: competition when recruiting to senior leadership roles, the risk of disruption to critical services and safeguarding arrangements as well as introducing additional parties into the system which could create a competitive environment.

Performance
The impact on organisation and service performance.

The process of disaggregation has the potential to disrupt performance across a range of service areas, and the implications of this are particularly relevant to people services, for example substantial disruption in unpicking joint commissioning and integrated management structures, breaking up partnership agreements - for example, unpicking existing health Integrated Care System (ICS) arrangements as well as increasing the number or parties operating within the system.

Place Implications
The impact of scale on governance.

Disaggregating into two authorities could create and concentrate economic disparities, while the addition of more stakeholders and parties to a place adds complexity and points of interaction in delivering strategic growth and housing. In a scenario of disaggregation this complexity potentially leads to less efficient decision-making and relationships less impactful. More effort could be expended in looking for the right person to speak to rather than building trusted partnerships aiming towards a unified purpose and delivering tangible outcomes.

Covid-19
Lessons learnt from Covid-19 crisis and ongoing recovery.

Disaggregation into two authorities significantly reduces the potential for reorganisation to meet pre-existing funding shortfalls and contribute towards service sustainability over the next five years, as well as potentially causing uneven distribution of local income streams. In addition, disaggregation has the potential to disrupt the delivery of key strategic functions (e.g. adults and children's social care, fire and rescue services) that are not only critical to the ongoing response to Covid-19 but also to the future recovery from the pandemic.

Summary
Scenario 3: Three unitary authorities

Based on the quantitative and qualitative analysis, the following policy implications of a three unitary authority model of local government reorganisation should be considered:

Cost
Costs associated with establishing sub-county unitary authorities.

Were government to pursue this scenario across the country, there would still be a net deficit position of nearly -£340m after five years, with the net position for a mid-sized authority area over the same period equalling -£1.6m. This suggests that from a financial benefits perspective, not only are the costs of transition and disaggregation higher, but the benefits that can be realised from reorganisation are significantly lower, and over a five year period, negative.

Risk/ Resilience
Risks to organisation and service resilience.

The process of disaggregating county services into three organisations would only increase the risks to service delivery as outlined in the summary for scenario 2 on the previous page. The reason for this is that the process of disaggregation is not only splitting services into three smaller functions but also triples the number of hand off points between the three new organisations.

Performance
The impact on organisation and service performance.

The impact of disaggregating into three unitary authorities would not only have an impact on people services as outlined on the previous page, but also on other more enabling functions. For example, breaking up existing enabling and support functions (e.g. HR, finance, customer management) could introduce further complexities and inefficiencies into the system through disruptive changes to established ways of working and other key enablers (e.g. technology).

Place Implications
The impact of scale on governance.

In addition to the points raised in scenario 2, the creation of three new unitary authorities in a place can limit the potential of clear place leadership as the ‘single voice’ . Place identity and brand are key levers to encourage and attract investment disaggregating the county areas could hamper efforts to effectively position the county to exploit opportunities for growth and sell itself nationally and internationally.

Covid-19
Lessons learnt from Covid-19 crisis and ongoing recovery.

Again, the process of disaggregation here risks fragmenting clarity of decision-making and service delivery, particularly in key areas that are facilitating the response and recovery from Covid-19 such as adults and children’s social care, fire and rescue services. This scenario further impacts this as it is splitting these functions into even smaller entities compared to scenario 2 which will impact on their resilience.

Summary

Scenario 4: Two unitary authorities plus a children's trust

Based on the quantitative and qualitative analysis conducted at a high-level, the following policy implications of a two unitary authority and trust model of local government reorganisation should be considered:

Cost
Costs associated with establishing sub-county unitary authorities.

If strategic operations such as children's and adults services were to be disaggregated across multiple organisations there may be a desire to set up alternative models of delivery in order to attempt to mitigate fragmentation. One option could be to establish a children's trust. This approach has the potential to add complexity to the system and reduces the potential financial benefit of reorganisation.

Risk/ Resilience
Risks to organisation and service resilience.

While the ambition and design principles of an alternative delivery model would undoubtedly be to deliver better outcomes, the creation of such a vehicle would - amongst other aspects - require additional leadership posts and governance arrangements. This would lead to additional costs and further complexity to an already crowded system, creating further points of interaction and potential points of failure. In addition, there is limited evidence the implementation of these types of models can lead to an immediate improvement in service outcomes.

Performance
The impact on organisation and service performance.

There is relatively little evidence the implementation of alternative delivery models of the type examined in this report lead to improved performance. The creation of additional processes and the need for an intelligent client function introduces new steps to the system, building in additional complexity. There is the potential for existing arrangements to manage and safeguard data to be undermined, further impacting on the ability of any new organisations created to perform.

Place Implications
The impact of scale on governance.

As with scenario 3, the move to two unitary councils and children's trust means introducing three new organisations to the system. In addition to the complications outlined in the two unitary scenario, the implementation of another model of service delivery will not only require the design of additional internal governance structures but also external partnerships and commissioning arrangements. There is a question to be addressed as to the level of capacity any one place would need in order to successfully manage this level of change and the associated additional risks.

Covid-19
Lessons learnt from Covid-19 crisis and ongoing recovery.

Introducing many new models of delivery at any given moment may impact on the ability of those involved to deliver the necessary level of coordination for response and recovery to Covid-19, this is a similar case to scenario 3 where three new organisations are being added to the system, the additional complexity with this scenario is that one of the new organisations has very different roles and responsibilities to the other two.

7

References

References

1. PwC (2019) Independent review of local government spending need and funding
2. CCN & Pixel (2020), Local Government Funding Forecast Update
3. Grant Thornton (2020) Place Based Recovery - How counties can drive growth post Covid-19
4. Size, Structure and Administrative Overheads: An Empirical Analysis of English Local Authorities, Rhys Andrews and George Boyne, (2009)
5. Non-structural reform in English two-tier local government, CCN & PwC (2019)
6. Fighting for talent in local government, LocalGov (November 2018)
7. Office for National Statistics (ONS) Mid-Year population estimates
8. LaingBuisson (2017) County Care Markets Update
9. CCN analysis of MHCLG Covid-19 Delta returns
10. The State of Health Care and Adult Social Care in England 2018/19, Care Quality Commission (October 2019)
11. 6 Top Tips for Resilience Planning in Adult Social Care and Health Commissioning, LGA (2018)
12. Independent Analysis of Governance Scenarios and Public Service Reform in County Areas, EY, (2016)
13. Learning the Lessons from Local Government Reorganisation, Independent Study, Shared Intelligence. (2016)
14. Ofsted Annual Report 2018/19 (January 2020)
15. Monitoring poverty and social exclusion, Joseph Rowntree Foundation (1999)
16. LG Futures calculations contained in CCN (2020) Children's Services Funding & Early Intervention
17. The potential for developing the capacity and diversity of children's social care services in England, LaingBuisson – COBIC & CICADA, (December 2016)
18. Population Size and Local Authority Performance, Rhys Andrews, George Boyne, Alex Chen and Steve Martin (2006)
19. The State of Health Care and Adult Social Care in England 2018/19, Care Quality Commission (October 2019)
20. Cities Outlook 2019, Centre for Cities (2019)
21. Analysis of July Delta Returns by the Society of County Treasurers (CCN)
22. IFS. The financial risk and resilience of English local authorities in the coronavirus crisis, p. 16 https://www.ifs.org.uk/uploads/BN296-The-financial-risk-and-resilience-of-English-local-authorities-in-the-coronavirus-crisis.pdf
23. Pixel Financial Management: 100% Business Rate Retention: Further Technical Work, p. 12 http://www.countycouncilsnetwork.org.uk/download/1132/
24. Grant Thornton: Analysing The Impact of Covid-19 on County Authority Finances, p.44 http://www.countycouncilsnetwork.org.uk/download/3052/
25. MHCLG (2020) White Paper: Planning for the Future Consultation
26. Lichfields (2020) Setting a higher standard – a new method for assessing housing needs. *(Analysis used the new formula to provide an indication of what it might mean for housing targets across the country. Districts within county areas have been aggregated across each individual county area, comparing estimates for the new standard methodology for assessing local housing need with previous targets in 2018.)*
27. CCN Analysis of CPA scores between 2002 and 2008

8

Appendix

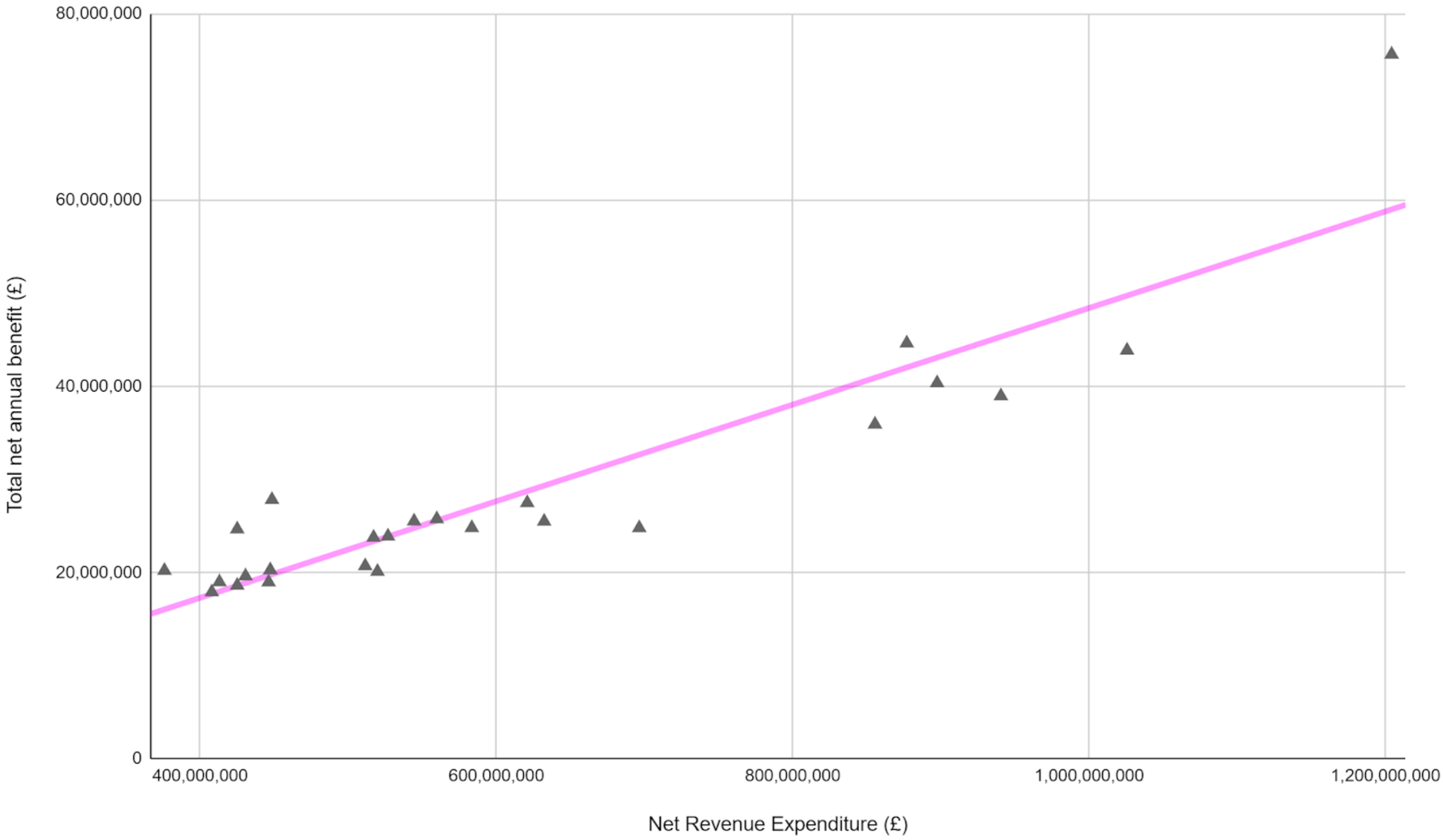
Scenario 1: Single unitary authority

The table below shows a breakdown of the costs and benefits of each area of the organisation. A key driver of the benefits is from the reduction in senior management capacity totalling £247m for all 25 two-tier areas. On the other hand the highest transition costs relate to contingency costs at £5m per council and redundancy costs which total £119m across all 25 county authorities.

Cost/benefit	Mid-sized example council	All 25 two-tier areas
Annual Front Office FTE Savings (£)	2,506,974	68,836,679
Annual Service Delivery FTE Savings (£)	134,089	4,179,647
Annual Back Office FTE Savings (£)	1,425,017	39,128,217
Annual Senior Management FTE Savings (£)	11,934,000	247,474,999
Annual Third Party Spend Savings (£)	8,583,750	207,611,616
Annual Property Savings (£)	1,962,000	64,934,135
Annual Democratic Savings (£)	3,590,374	76,000,706
Rebranding & implementation (£)	300,000	7,500,000
External support costs (£)	3,500,000	87,500,000
Internal programme management (£)	1,560,000	39,000,000
Creating the new council (£)	500,000	12,500,000
Contingency (£)	3,753,000	93,825,000
Organisation closedown (£)	250,000	6,250,000
Public consultation (£)	225,000	5,625,000
ICT costs (£)	1,750,000	43,750,000
Shadow Chief Exec / member costs (£)	255,000	6,375,000
Redundancy Costs (£)	4,800,024	-118,574,437

Scenario 1: Single unitary authority

The national, macro figures use input data from all 25 two-tier areas to model each county area individually, the graph below shows how this breaks down across all 25 for this scenario.



Scenario 2: Two unitary authorities

The table below shows a breakdown of the costs and benefits of each area of the organisation:

Cost/benefit	Mid-sized example council	All 25 two-tier areas
Annual Front Office FTE Savings (£)	2,005,579	55,158,034
Annual Service Delivery FTE Savings (£)	57,467	1,769,772
Annual Back Office FTE Savings (£)	1,068,763	29,393,426
Annual Senior Management FTE Savings (£)	11,934,000	250,126,999
Annual Third Party Spend Savings (£)	5,150,250	124,870,763
Annual Property Savings (£)	1,635,000	54,208,221
Annual Democratic Savings (£)	3,590,374	76,700,706
Rebranding & implementation (£)	450,000	11,250,000
External support costs (£)	5,250,000	131,250,000
Internal programme management (£)	2,340,000	58,500,000
Creating the new council (£)	1,000,000	25,000,000
Contingency (£)	5,574,375	139,359,375
Organisation closedown (£)	500,000	12,500,000
Public consultation (£)	337,500	8,437,500
ICT costs (£)	2,000,000	50,000,000
Shadow Chief Exec / member costs (£)	510,000	12,750,000
Redundancy Costs (£)	4,519,742	110,578,614
Annual Duplicated leadership cost (£)	4,134,000	101,264,997
Annual Duplicated service delivery cost (£)	4,908,372	133,999,052
Annual Duplicated democratic structure cost (£)	365,000	9,125,000

Scenario 3: Three unitary authorities

The table below shows a breakdown of the costs and benefits of each area of the organisation:

Cost/benefit	Mid-sized example council	All 25 two-tier areas
Annual Front Office FTE Savings (£)	1,504,184	41,302,007
Annual Service Delivery FTE Savings (£)	38,311	1,194,185
Annual Back Office FTE Savings (£)	712,508	19,564,109
Annual Senior Management FTE Savings (£)	11,934,000	247,474,999
Annual Third Party Spend Savings (£)	3,433,500	83,044,646
Annual Property Savings (£)	1,308,000	43,289,423
Annual Democratic Savings (£)	3,590,374	76,000,706
Rebranding & implementation (£)	600,000	15,000,000
External support costs (£)	7,000,000	175,000,000
Internal programme management (£)	3,120,000	78,000,000
Creating the new council (£)	1,500,000	37,500,000
Contingency (£)	7,395,750	184,893,750
Organisation closedown (£)	750,000	18,750,000
Public consultation (£)	450,000	11,250,000
ICT costs (£)	2,250,000	56,250,000
Shadow Chief Exec / member costs (£)	765,000	19,125,000
Redundancy Costs (£)	4,256,701	101,553,654
Annual Duplicated leadership cost (£)	8,268,000	202,529,995
Annual Duplicated service delivery cost (£)	7,102,116	193,993,216
Annual Duplicated democratic structure cost (£)	730,000	18,250,000

Scenario 4: Two unitary authorities plus a children's trust

The table below shows a breakdown of the costs and benefits of each area of the organisation:

Cost/benefit	Mid-sized example council	All 25 two-tier areas
Annual Front Office FTE Savings (£)	1,600,955	44,164,617
Annual Service Delivery FTE Savings (£)	57,467	-128,115,663
Annual Back Office FTE Savings (£)	853,141	23,535,092
Annual Senior Management FTE Savings (£)	11,934,000	146,210,002
Annual Third Party Spend Savings (£)	4,291,875	103,805,808
Annual Property Savings (£)	1,308,000	43,289,423
Annual Democratic Savings (£)	3,590,374	67,724,709
Cost to implement a trust (£)	3,000,000	75,000,000
Rebranding & implementation (£)	450,000	-11,250,000
External support costs (£)	5,250,000	-131,250,000
Internal programme management (£)	2,340,000	-58,500,000
Creating the new council (£)	1,000,000	-25,000,000
Contingency (£)	6,924,375	-173,109,375
Organisation closedown (£)	500,000	-12,500,000
Public consultation (£)	337,500	-8,437,500
ICT costs (£)	2,000,000	-50,000,000
Shadow Chief Exec / member costs (£)	510,000	-12,750,000
Redundancy Costs (£)	4,333,669	-104,040,988
Annual Duplicated leadership cost (£)	4,134,000	-101,264,997
Annual Duplicated service delivery cost (£)	4,761,372	-129,906,940
Annual Duplicated democratic structure cost (£)	365,000	-9,125,000
Ongoing cost of running a trust (£)	3,500,000	-87,500,000