



APSE Briefing: Evaluating the importance of scale in proposals for local government reorganisation. A PWC report prepared for the County Councils Network

To all APSE Contacts in England, and for information to Northern Ireland, Scotland & Wales

1. Introduction

As announced previously by the Government it is now widely anticipated that a White Paper on devolution will be published in the Autumn. This has led to much speculation about what future reorganisation and reform of local government structures may look like. It has also raised issues around further Combined Authorities and the role of devolving more powers to a local level alongside how this could help to achieve the Government's commitment to its 'levelling up' agenda.

These proposals concern England specifically but follow on from discussions in Wales about the prospect of further reorganisation (public service reorganisation first mooted in 2018 but subsequently placed in abeyance) and follow on from Northern Ireland's local reorganisation in 2014 which reduced council numbers from 26 to just 11. Within Scotland the Local Government (Scotland) Act 1994 created 29 new unitary local government areas, which completely replaced the regions and districts on 1 April 1996. The islands council areas continued in use and, therefore, Scotland now has 32 council areas. Wales was similarly reorganised in 1994 with 8 counties and 37 districts replaced by 22 unitary councils.

Within England there is broad agreement that if there was blank piece of paper the current design of local government would not be as it is now. That being said over recent years there have been seismic changes already in terms of devolution and structures with the growth of Mayoral Combined Authorities, local Elected Mayors and strong differences in comparison to the London Mayor model and again differences in powers. Recent reorganisations have not been driven by a national strategy but have tended to arise from local preferences that have gained political support or through the management of situations such as the dire finances which occurred in respect of Northamptonshire.

Therefore, a new report written by PWC on behalf of the County Councils Network is a valuable contribution to the ongoing debate on the future of reorganisation in England. This briefing outlines that report and supports analysis with further commentary and observations from APSE.

2. About the report

The report references the current devolution issues which are now inextricably linked to the issues of economic recovery, post the pandemic, as well as the 'levelling up' agenda for so called 'left behind' areas.

Furthermore, it is recognised that after a decade of austerity there are substantial challenges to local government finances, heightened again by the costs of the health pandemic. It is suggested that these issues, coupled with the recognised issues of a two-tier model of local government in many places, means that the current structures have reached the "limits of what can be achieved in different areas".

The report was therefore written to explore what different reorganisation models mean in practice and in particular issues of scale; merging counties and districts does not necessarily produce uniform outcomes and therefore the report sets out to consider issues of scale, including what this would mean for areas where more than one Unitary emerges from proposals, as well as the costs of disaggregation of existing County Councils and a scenario which also includes a Children's Trust.

3. Issues of Scale

The PWC report recognises that for many years both County and District Councils have worked together to deliver effective local government services. However, it is acknowledged that to improve the resilience of local services, particularly in light of the health pandemic, then support for the most vulnerable must be seen as a priority and it questions if this is achievable under current structures.

In this regard the report then raises the issues of scale. What are the implications of scale in terms of the numerous proposals that are currently taking shape and what would be the benefits of establishing new Unitary Authorities? One key question is the population size with the report citing the most recent official Ministerial statement on Unitary population size which suggested that Unitary Councils are expected to be 'substantially in excess of 300,000 or 400 000'. Clearly in many areas this would lead to a range of different proposals, including ones which would include an existing County Council being broken down into two or more Unitary Authorities. Clearly this also raises issue of geography, identity of place as well as issues of health boundaries – or in many cases a lack of coterminous boundaries between health and local authorities.

In addition, the report considers the potential costs, risks and implications associated with the process of disaggregating services currently delivered by County Councils, in scenarios where more than one new Unitary could be established within existing County geographies.

Finally, the report considers new quantitative financial modelling as well as a range of qualitative evidence, including financial and non-financial benefits; this includes the place agenda, how performance could be managed and improved and what the implications would be for service

resilience and transformation. It sets out the financial implications of four unitary scenarios which are: -

- 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

4. Report findings

The report findings concentrate on the quantitative costs and benefits of scale and disaggregation, based on analysis of all 25 two-tier areas in England. The analysis suggests that the single Unitary scenario offers the greatest financial savings of near to £3 billion. This is suggested to be through financial benefits generated from reducing duplication across front and back office functions, reductions in senior management, property costs and more effective management of supply chains alongside suggestions of operational efficiency in area such as waste and planning.

The breakdown of savings is as follows: -

- Establishing County Unitary authorities in all remaining two-tier areas in England would produce a benefit of £2.9bn, with the average cumulative five-year benefit for a mid-sized authority area totalling £126m. This scenario is based on maximum savings and where disaggregation of the County would then be unnecessary.
- PWC suggest that 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.
- Where there is disaggregate of County services, in a scenario of two Unitary authorities in each two-tier area across England the realisable benefits are reduced to £1 bn with the average cumulative five-year impact for a mid-sized authority area totalling £51 m.
- A three unitary scenario would result in a net deficit position of nearly £340 m, with the five-year impact for a mid-sized authority area totalling - £1.6 m.

The above scenarios would change should a Children's Trust be established to avoid some of the costs of duplication in the situation where disaggregation of County services would lead to the need to recruit senior managers and staff to new Children's services over two or more authorities. Included within this analysis the report makes reference to the existing difficulties of recruiting appropriate senior staff into children's services. This option, of a separate Children's Trust, is largely dismissed for a number of reasons but primarily because Children's Trusts are relatively unproven in terms of delivering efficiencies and effectiveness in service delivery; in

addition, they add in a complexity to the management and commissioning arrangements that would need to be in place across different Unitary boundaries in order to make savings.

Hence the report concludes that the biggest savings would be achieved by a single Unitary proposal avoiding the costs of disaggregating existing County Council services.

5. APSE comment

The report provides a useful assessment on its stated purpose to explore the issues of scale and the impact of disaggregation should existing County Councils be split. The prospect of changes to existing County structures is already very real, most recently with the existing Northamptonshire County Council splitting across two new Unitary councils of West Northamptonshire which covers Daventry District, Northampton Borough and South Northamptonshire and the North Northamptonshire unitary which will cover Corby, East Northants, Kettering and Wellingborough with the vesting day for the new Unitary authorities being the 1 April 2021. Similar scenarios have been mooted elsewhere.

With any reorganisation proposals the case for economies of scale, assumed to be that bigger councils will provide more efficient services is generally cited as a positive outcome. However, as the report highlights, where an existing organisation is split the impact on services can actually lead to a need to establish the same service under newly formed councils increasing staff costs, back office costs and day to day operational costs. This can increase costs overall or at least limit the potential savings. APSE would however extend this argument further. Bigger is not necessarily always better in certain services. Indeed, APSE would argue that there is an optimal efficiency range for some services where scaling up can actually lead to diseconomies. For example, in refuse collection the likely achievement of route optimisation is dictated by the area size and distance to waste sites. In a reorganised boundary this can work against service efficiencies if the collection area is too large, meaning operationally it would need to be broken down into manageable service units. There are also implications for local knowledge and loss of organisational intelligence and memory.

APSE would also suggest that reorganisation alone will not necessarily improve local outcomes. Local authorities have a role to play in acting as stewards of local places; this means coordinating between the different actors and partners in local places. Such relationships will not necessarily align to new unitary structures and in any event without accompanying new powers and duties it is hard to envisage how this stewardship role would be enhanced, for example holding to account bodies which may impact on local health or educational outcomes.

Consideration should also be given to the relationship between electoral democracy and the accountability of larger institutions. If the range suggested by Government is between 300,000 and 400,000 the suggestion that an approach which does not include disaggregation of existing Counties could see the overall size of new Unitary councils significantly increase. Compared to most of Europe England already has relatively larger municipal councils. It is also worth looking at Parliamentary constituency sizes where in 2017 the median total Parliamentary electorate across constituencies for was around 56,000 in Wales, 68,300 in Northern Ireland, 67,200 in

Scotland and 72,200 in England. Whilst clearly councillors will remain more plentiful than MPs it does raise questions as to what councillor constituency numbers should look like. A matter so far not considered in any detail. In any event the issues of reorganisation should not be divorced from the role of councillors; not only are they often the bedrock of local political organisation councillors are also the closest democratic link with their local constituents, with functions and responsibilities in terms of both how local services operate, and accountability for those service successes and failures. Moreover, as the recent health pandemic has highlighted the fluidity and reactivity of local services, and the ability of councils to quickly change direction to meet local needs and emerging issues, is not a matter that can be understated. A core question would be could a much bigger local institution make those same responsive decisions as a smaller body or indeed would a bigger institution have more capacity to take more immediate responsive actions?

In addition to these issues the identification of place in terms of the nuances of locality, whether a market town or a coastal area, remain important parts of local identity and character. Place-names often have an historical context. If these matters are not to be disregarded in terms of local identity then it begs the question as to how they can be best addressed. Does this for example give rise to a need to increase levels of governance and / or oversight at a subsidiary level to a larger Unitary authority and, if so, what would this look like? How would this impact on budget decisions and spend on areas? If such models of subsidiarity were adopted would this reinvent parishes, towns or districts and, if so, would this embed inefficiency? These are all matters that would of course need to be understood in advance of any model being adopted and such matters go beyond purely a cost equation and spread into the debate as to governance, accountability and local identity.

There is also a huge question over workforce matters in any structural changes to local government. Whilst cost assumptions can be made based on new structures, numbers of employees and against assumed service costs for many local councils having completed job evaluation schemes, these assumptions are made against their existing workforce costs. Whilst it may be justifiable to transition staff to new structures, and maintain the 'rate for the job' upon transfer, there will be a longer term need to potentially re-run evaluations to equal pay proof new structures and organisations. This of itself will create added costs, and complexities, potentially raising issues of pay protection and testing the tolerance of pay and grading structures in a new organisation, particularly once faced with issues of full workforce harmonisation.

The PWC report suggests ongoing service transformation and the hindrances to this through commissioning processes (such as with Children's Trusts or the alternatives of duplication of services under new structures). However, APSE would also urge consideration of so-called alternative models of delivery which has in effect led to cost inflation and inefficient use of public funds regardless of structures. For example, in adult care the exposure of the service to market forces in areas like residential care homes, has led to concerns, following the health pandemic, about the viability of private markets delivering care services. Reorganisation may present opportunities to look again at the viability of genuine public sector models that could be

delivered on a sub-regional basis, enabling more efficient models between public authorities to be developed. In other words, whilst the structure of the organisation is important so too is the delivery model of public services. Simply changing structures alone will not necessarily address some of the inherently difficult issues in people focused services, which have, over the last few decades, been delivered through outsourcing models that look increasingly precarious and most especially following exposure of these services to the impact of the health pandemic.

Whilst reorganisation will be difficult and complex, wherever one's own interests or favoured model sits, there are some really fundamental issues that need to be considered. What is clear across the board is that reorganisation of itself is costly initially, even if assumed savings are realised in the longer term. Approaching reorganisation therefore in advance of stabilising the current situation for local council finances should not be tolerated. A first step to enable a proper discussion to take place in a fair and transparent manner, which will not prejudice those councils facing the most serious financial hardship, would be for Government to ensure that councils can approach any reorganisation discussions from a position of financial stability. This would not exclude financial considerations on future models of organisation but it would certainly help to ensure that the debate, on the future structure of local government in England, is informed by more considered discussions rather than being seen, rightly or wrongly, to being driven by a reaction to the existing financial pressures placed on councils. It is clear that many councils still consider that they will be financially worse off having dealt with the health pandemic, even with the additional funding pots provided by Government, than they otherwise would have been had the pandemic not occurred. It is therefore perfectly appropriate that the issue of finance is resolved to a point of greater stability prior to further reorganisation proposals being discussed.

Finally, given the existing plethora of proposals on Combined Authorities, with differences between regions and sub-regions and between the Mayoral model in London and Elected Mayor powers elsewhere, any future reorganisation should avoid powers being pulled up away from local councils. APSE would argue that this further risk alienation of the core role which local councils play in the delivery of local services and local growth. 'Levelling up' should not equate to pulling away from the vital role that local councils, of all shapes and sizes, have in the delivery of highly effective and well regarded local services. Trust in council services remains extremely high compared to trust in central government and this should not be forgotten in the debate on future structures.

APSE continues to support its member councils explore the issues of reorganisation, including a recent online seminar, and we will be holding further events in the near future as further issues emerge. Please feel free to send in any comments or suggestions to Mo Baines on mbaines@apse.org.uk

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