



Hampshire Association of Local Councils

President: Professor Gerry Stoker
Chief Executive: Steven M Lugg

All Member Councils

2nd June 2016

Dear Council

Hampshire Devolution

Following a meeting with Leader HCC today I felt I should update all member councils.

You will all know of the County Combined Authority bid submitted last Autumn?

Recently some Hampshire local authorities have been discussing rival bids with the Treasury including the 'Solent' bid, and a 'Heart of Hampshire' potential bid.

Clearly any Combined Authority bid could be a pathway to a future Unitary Authority?

I append the Executive Summary of a recent research report commissioned by HCC on options for any future Unitary Authority.

The County Council has undertaken to brief the seven District Associations on current positions, before consultation is carried out. We will be letting you know the details of this in due course.

The Hampshire ALC's current policy is:

Combined Authority. The ALC is content to work with any Combined Authority that puts parishes and communities at the heart of its work. Democracy is key, and proper consultation must take place before decisions are made. From what detail has been seen so far, the ALC supports the County Combined Authority, and not the Solent bid.

Unitaries. Similarly, the ALC is unconvinced of the merits of any further Unitaries, given that positive outcomes for residents must be central. Estimated Savings of £40m against a revenue budget of £1bn plus are not great, and whilst any Unitary will be surely cheaper, it will not necessarily be better for residents qualitatively?



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At the LGA Conference yesterday, Cornwall confirmed that when their Unitary was set up, no council tax savings were passed to residents. This being the case, the ALC is ambivalent at best about the creation of Unitaries, or indeed any further structures that complicate and replicate existing structures in local government.

They have a taste and feel of 'rearranging the deckchairs....'.

Nonetheless if pressed, the ALC would support a County Unitary, rather than any rival bids on the basis of full county parishing, and greater empowerment and involvement of Hampshire parishes in Hampshire's future local governance.

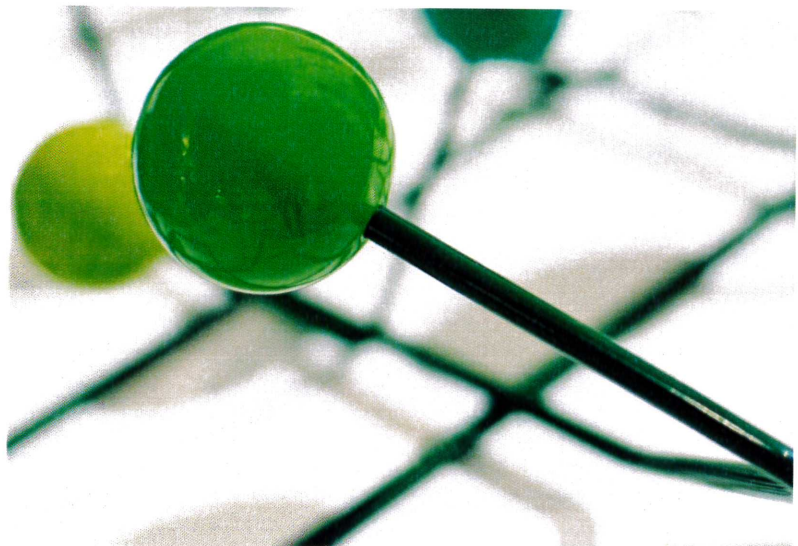
As at today, I feel that anyway, post 23rd June, the direction of travel could possibly change, and that procrastination might be useful for a few weeks?

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Steven M Lugg'.

Deloitte.

Hampshire County Council
Initial analysis of options for local
government in Hampshire and the
Isle of Wight
Executive Summary



This report and the work connected therewith are subject to the Terms and Conditions of the Works Order letter dated 7 April 2016 between Hampshire County Council and Deloitte LLP. The report is produced solely for the use of Hampshire County Council for the purpose of providing an initial analysis of the estimated financial costs and savings and non-financial benefits and risks of the options for local government at the Hampshire and Isle of Wight (HIOW) level. The aim is to provide a broad analysis of options which can inform Hampshire County Council and the wider organisations. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Deloitte LLP will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

Executive Summary

Introduction

This is the Executive Summary of the Deloitte report that provides an initial analysis of the estimated financial costs and savings and non-financial benefits and risks of options for local government at the Hampshire and Isle of Wight (HIOW) level. This Executive Summary:

- Provides the context of the work Hampshire County Council (the County Council) appointed Deloitte to undertake;
- Describes the options under assessment;
- Explains how the options were assessed from both a financial and non-financial perspective;
- Summarises the outcomes of the assessment; and
- Presents the report's conclusions.

Further detail can be found in the full report entitled, 'Hampshire County Council initial analysis of options for local government in Hampshire and the Isle of Wight'.

Context

In view of the ongoing discussions around options for establishing Combined Authorities (CAs), across HIOW, the County Council commissioned Deloitte to complete an independent analysis of options for alternative governance arrangements in the form of unitary local government. A wide range of options across the HIOW geography are set out in this report, not least in order to satisfy the need for a robust and comprehensive, if not exhaustive, comparative analysis. This is intended to help the County Council to form a view on which option(s) best serves the interests of Hampshire residents as well as to assist the Government in any decisions it may need to take.

It should be noted that there are essentially two 'communities of interest' served by this report. The wider community is the whole population of the HIOW area: Hampshire County; Portsmouth City, Southampton City; and the Isle of Wight. This wider community are potentially affected by some of the options. The slightly smaller community is that of Hampshire County alone. It is recognised that the primary responsibility of Hampshire County Council, as commissioners of this study, is to the residents of the county. At various stages this report makes reference to those respective communities.

This section provides the context for the work that has been undertaken. This includes the national and local context, and HIOW specific information.

Background – national context

This section provides contextual information regarding devolution and Unitary Authorities (UAs).

Devolution

Following the last general election the Chancellor George Osborne promised a "devolution revolution" with a shift in power from central government to local government.

This devolution is primarily expected to come through CAs. They are seen as a mechanism for greater delegation over local decision making, enhanced spending powers, and a step towards local authorities becoming self-sufficient. This is all part of the Government's ambition to 'rebalance the economy for the next generation'. Where CAs are seeking the devolution of major powers the requirement for an elected mayor is a central part of the government's policy.

In the last few years a number of CAs have been established across England, with the first devolution agreement made in 2014 with Greater Manchester. Subsequently a number of deals have been agreed with Government including Sheffield City region, West Yorkshire, Cornwall, Tees Valley, North East, Liverpool and West Midlands.

In January 2015 the Communities and Local Government Select Committee commissioned an investigation 'Devolution: the next five years and beyond' which focused in particular on whether the Manchester model of devolution is suitable for other

areas. The report highlighted caution regarding the applicability of the Manchester model to other areas, that it could “not be easily lifted and dropped on to other city regions, where the physical and economic geography may differ” and that the Government could not “simply roll out the same model everywhere”. It also highlighted the attitudes of authorities towards the idea of an elected mayor with many feeling that it was a trade off in return for more powers. However, the report suggests that there is a strong belief amongst local authorities that they should be free to determine whether an elected mayor was an applicable model for their area, and those areas that have opposed mayoralty authorities have been invited to propose alternative governance arrangements.

In the March 2016 budget George Osborne announced further devolution deals where agreements had been made to create CAs. In addition, the Chancellor confirmed that new powers over the criminal justice system would be transferred to Greater Manchester and that the Greater London Authority will move towards full retention of its business rates from next April, three years earlier than planned. East Anglia was announced as an agreed single East Anglia CA, headed up by an elected Mayor and attracting new investment. A new West of England mayoral authority was also announced. Since the budget, a number of the deals have been called into question by politicians and some of the organisations involved.

Unitary authorities

Authorities that do not want to create a mayoralty can propose alternative governance arrangements including the creation of UAs.

UAs remove the two tier system of local government that exists in England and have only one tier of government responsible for all services, and in some cases have additional responsibility for issues that would otherwise fall under the remit of national government. In addition to reducing costs, the removal of the two tier system can reduce duplication of services, make it easier to strategically plan services for an area removing, for example, any confusion over split responsibilities between the tiers for economic development, provide a stronger voice for communities, and provide clearer representation between local government and other public bodies.

Over the years numerous UAs have been created, most recently in 2009 when ten new UAs were created:

- Bedfordshire County Council was abolished and two UA’s were created and a similar reorganisation was implemented in Cheshire; and
- Five counties (Northumberland, Shropshire, Wiltshire, Cornwall and Durham) were abolished and five UAs were created in the five respective geographies.

There has been some debate regarding whether UAs can reduce costs and maintain effective service delivery. This was analysed by Deloitte in May 2011, in our report, “Sizing-Up: Local Government Mergers and Service Integration”. The report compared the reduction in service costs for the 2009 UAs (looking at pre-and post-merger points) with those remaining as two-tier areas. The analysis used published CLG data and asserted that the incremental value for money benefits of UAs can be clearly demonstrated. Using published data from DCLG and covering a 24 month period, there was an overall savings total of 13.4% on services (within the scope of the analysis) for the new UAs compared to an increase of 2.1% for those remaining as two-tier:

- Housing benefit administration costs reduced by £8.2m (27.4%) for the new UAs, but increased by £33.6m (6.2%) for the non-unitary;
- Corporate and Democratic costs reduced by £51m (30%) in UAs, while non-unitary authorities saw an increase of £92m (5.5%); and
- Waste Collection and Disposal costs reduced by £6.0m (2.4%) in UAs, but increased by £14.4m (0.5%) on average for the others.

Other reports, such as Lord Heseltine’s 2012 ‘No Stone Unturned – In pursuit of Growth’, have also made the case for UAs. In this report Lord Heseltine commented on the 353 principal authorities in England stating that ‘The number of different councils doing similar things remains costly and confusing’.

Background – local context

The case for a HIOW CA, with the County Council working alongside 18 local partners, has been in development since July 2015. This case focused on the benefits to be gained from devolved powers and funding being transferred from Central Government, and the direct translation of this into public service transformation in areas like skills, health and social care, and infrastructure planning, rather than the financial efficiencies of working together as a CA, which are considered to be a longer-term gain.

There is a longstanding understanding in principle that business rates would be pooled and redistributed at the HIOW level to provide a more sustainable funding model for local services across the whole geography, reflecting the variations in local financial resilience.

HIOW partners including the County Council, have always been against local government reorganisation and this was a founding principle of the partnership. Until very recently there has also been a clear consensus against having a directly-elected mayor. Up until January 2016 the Government's position was that it would not force HIOW down either route, but was prepared to discuss locally agreed alternatives.

Recently the Government has changed tack and made it clear that an elected mayor is essential for a devolution deal – and if that cannot be delivered, then reorganisation is an alternative. On 12th February the HIOW partners (including the County Council) voted against both these options and in support of maintaining local proposals.

Subsequent to this, local authorities in South Hampshire, including District Councils in the administrative county of Hampshire, have opened negotiations with HM Treasury for an alternative 'Solent' Combined Authority with an elected Mayor. Simultaneously, Districts not included in these discussions have joined together to explore options for an alternative Combined Authority covering the remainder of the county.

The County Council advises that the negotiation that developed the proposed Solent Combined Authority included consideration of unitary reorganisation, including a 'Greater Portsmouth' UA.

Background information about Hampshire

The HIOW area has a total population 1.94 million¹. The area covered by the County Council has a population of 1.35m making it the third largest shire county in England. The existing UAs in Southampton, Portsmouth and the Isle of Wight serve a combined population of 0.59m. HIOW has three UAs, 11 District Councils and 261 Parish and Town Councils. Residents are represented by 19 Members of Parliament, 78 County Councillors and 696 (before imminent reduction in Winchester) Unitary, District and Borough Councillors.

The following map shows the area covered by the County Council.



Some information about the authorities in the HIOW area is shown in the following table. This shows staff full time equivalents (FTEs) at each Council. Teachers have been excluded on the assumption they will be largely unaffected by any

¹ Office for National Statistics as at mid-2014

restructuring. The Revenue Outturn Service Expenditure figures have been taken from the 2014-15 Revenue Outturn (RO) statistics for the authorities. The Budget Requirement figures are for 2016-17 and have been taken from data provided to the County Council by the authorities. The population figures are taken from the Office for National Statistics as at mid-2014. These data sources are the latest publicly available.

	Staff FTEs excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population	Members
Hampshire County Council	9,865	1,839,745	733,799	¹	78
Isle of Wight Council	1,572	277,757	119,259	139,105	40
Portsmouth City Council	2,205	385,606	139,448	209,085	42
Southampton City Council	2,592	528,659	166,537	245,290	48
Basingstoke and Deane Borough Council	536	72,169	9,794	172,870	60
East Hampshire District Council	265	23,311	8,374	117,483	44
Eastleigh Borough Council	469	30,842	8,186	128,877	44
Fareham Borough Council	396	25,232	8,829	114,331	31
Hart District Council	137	23,550	7,899	93,325	33
New Forest District Council	823	37,694	17,191	178,907	60
Rushmoor Borough Council	259	24,044	9,307	95,296	39
Test Valley Borough Council	451	32,636	11,763	119,332	48
Winchester City Council	428	33,827	8,671	119,218	57
Gosport Borough Council	247	26,331	9,346	84,287	34
Havant Borough Council	359	36,046	12,843	122,210	38
Total for HIOW	20,604	3,397,449	1,271,246	1,939,616	696

¹ – The County Council covers the population of all of the Districts in the county a total of 1.35m

To give context to these authority sizes and the options that follow it is useful to consider the following authorities and CAs.

	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Population
Cornwall UA	8,465	852,637	547,600
Birmingham UA	13,000	2,271,104	1,100,000
West Midlands Combined Authority		-	2,808,400
Greater Manchester Combined Authority		-	2,733,000

The Local Government Association (LGA) publishes a future funding outlook report. The latest version of that report published in 2015 predicts that in 2016/17 there will be a £6bn gap between the funding available and the spending required to deliver local council services at 2014/15 levels. They project this gap to grow to £10.3bn by 2018/19. They predict that the rising spend on social care and waste management will result in a 35% reduction for funding of other services by the end of this decade.

In 2015 Grant Thornton published a report called 'Reforging Local Government' that looked at financial health and governance in local authorities. The report concluded based on a sample of councils 'there was a broad consistency across the English regions, particularly around the increase in strategic financial planning risk... District Councils as a whole, across all regions, were consistently showing a higher degree of risk around long term sustainability'.

In the local area:

- Southampton City Council in November 2015 announced a 2016/2017 funding gap of £39.1m, following a cut of £12.2m in government grant funding and significant in-year pressures, including adults and children’s social care of £9m;
- In November 2015 Portsmouth City Council announced a funding gap for 2016/17 of £11m and a need to make a further £20m in cuts over the following 2 years with significant cost pressures in essential care services;
- The Isle of Wight Council also identified a funding gap of £17.3m for 2016/17 and cited adult social care and children’s services as cost pressures; and
- The County Council had a funding gap of £44m for 2016/17 with adult social care being listed as a key pressure.

Performance of authorities

It is clear that all authorities in the area are facing significant financial pressures and the opportunities for saving presented by the unitary options considered in this report represent an opportunity to ease some of those pressures.

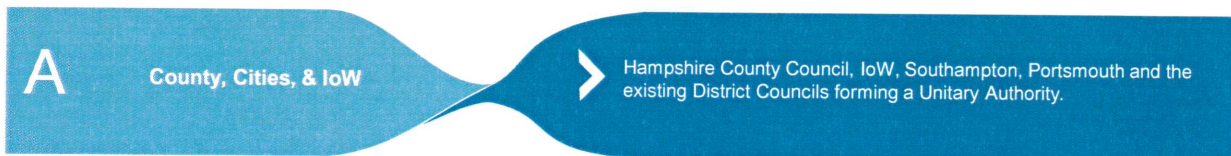
The relative performance of the authorities in the HIOW area is illustrated at Appendix C of the full report. The data presented shows significant variation across the authorities particularly in the person centred services such as social care and children’s services where the County Council is shown to be a consistently higher performer.

Options under assessment

Seven options (A-G) were developed to give a broad range of potential council combinations to be representative of the main types of aggregation (merging organisations and governance and merging services across a larger geography) and disaggregation (splitting up organisations and services). This is not an exhaustive list of options.

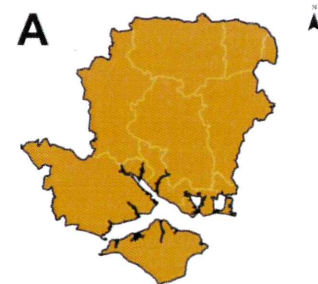
Options A-D would result in the aggregation of services based on the geographies of each option. Options E-G involve the disaggregation of services.

Option A: County, Cities, and IoW



This option creates one new Council covering all services for the whole county, two cities, and the IOW as illustrated in the following map.

This option would require aggregation of both District and county services as well as aggregation of the services currently provided by the three UAs. We are not aware of any precedent for merging UAs and the main legislation concerning the merger of authorities to create a single tier (the Local Government and Public Health Engagement Act 2007) only covers County and District mergers and mergers between Districts. It would create a single council larger than any existing single council in England but smaller than the West Midlands and Greater Manchester CAs.



The new Council created under this option would have the following characteristics:

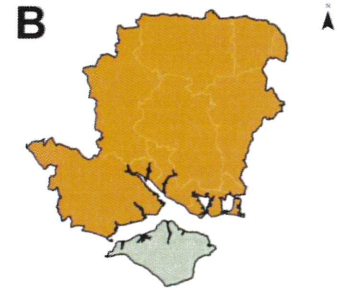
	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population
New unitary council	20,604	3,397,449	1,271,246	1,939,616

Option B: County and Cities

B County & Cities

Hampshire County Council, Southampton, Portsmouth and the existing District Councils forming a Unitary Authority (i.e. Option A minus IoW).

This is similar to option A except that IOW remains a separate UA, all other authorities are merged to form a unitary council covering the Hampshire area. This option is illustrated in the following map.



The new Council created under this option would have the following characteristics:

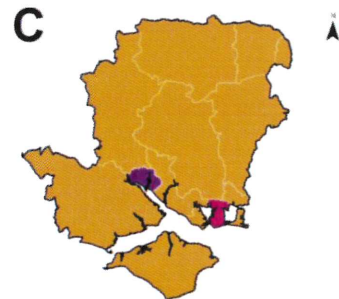
	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population
New unitary council	19,032	3,119,692	1,151,987	1,800,511

Option C: County and IoW

C County & IoW

Hampshire County Council, IoW and the existing District Councils forming a Unitary Authority (with the existing Unitary Authorities in Southampton and Portsmouth remaining in place).

This option is a merger of the County Council with the District Councils and the IOW. This option is illustrated in the following map.



The new Council created under this option would have the following characteristics:

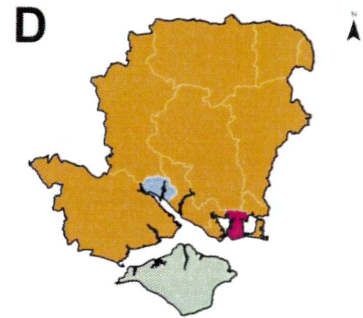
	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population
New unitary council	15,807	2,483,184	965,261	1,485,241

Option D: County Unitary

D
County Unitary

Hampshire County Council and the existing District Councils forming a Unitary Authority (with the existing Unitary Authorities in Southampton, Portsmouth and the Isle of Wight (IoW) remaining in place).

This option follows the main unitarisation route which has been followed by authorities to date which is a merger of a County Council with a number of District Councils. There are a number of precedents for this type of re-organisation. In this option there is no change to the existing UAs in Southampton, Portsmouth and IOW. There is no disaggregation of services but there is aggregation of District services currently provided by 11 District Councils. This option is illustrated in the following map.



The new Council created under this option would have the following characteristics:

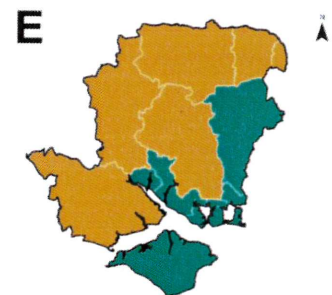
	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population
New unitary council	14,235	2,205,427	846,002	1,346,136

Option E: 2 Unitary Councils

E
2 Unitary Councils

Part Hampshire County Council, Portsmouth, Southampton, Gosport, Fareham, IoW, Eastleigh, Havant and East Hampshire Councils forming a 'Solent' Unitary Authority,
 Part Hampshire County Council, Basingstoke and Deane, Hart, New Forest, Rushmoor, Test Valley and Winchester forming a 'non-Solent' Unitary Authority

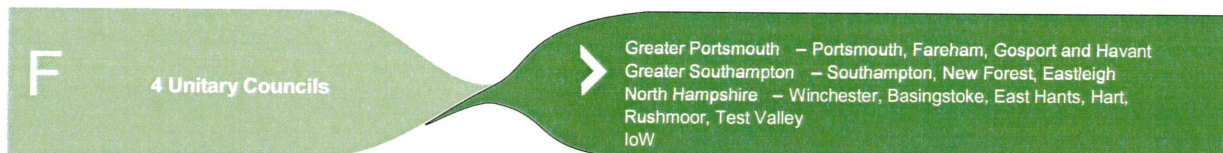
This would require full disaggregation of all County services and aggregation of unitary services, together with two separate aggregations of District services across two new unitaries. This option is illustrated in the following map.



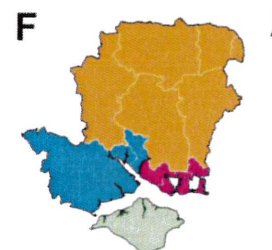
The new authorities created under this option would have the following characteristics:

	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population
New unitary council - Solent	12,262	2,108,952	782,005	1,160,668
New unitary council – "Non Solent"	8,343	1,288,497	489,241	778,948

Option F: 4 Unitary Councils



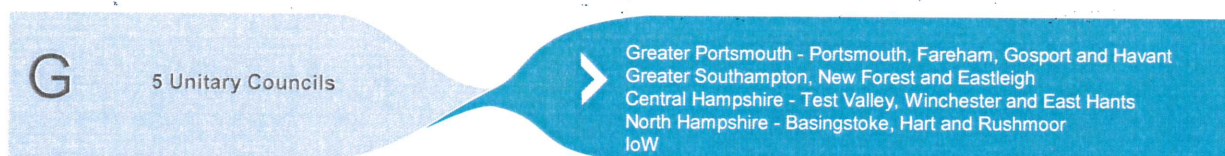
This option creates three new UAs with the only area unaffected being the IoW. There will be full disaggregation of all County services together with integration with upper tier services from the existing UAs in Southampton and Portsmouth, and aggregation of lower tier services from the District and Unitaries across three new authorities. This option is illustrated in the following map.



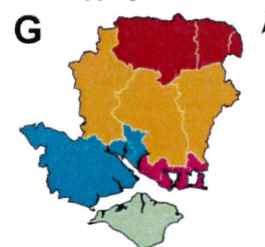
The new authorities created under this option would have the following characteristics:

	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population
New unitary council – Greater Portsmouth	5,558	911,686	345,354	529,913
New unitary council – Greater Southampton	6,140	1,017,839	359,692	553,074
New unitary council – North Hampshire	7,335	1,190,167	446,941	717,524

Option G: 5 Unitary Councils



This option creates four new UAs with the only area unaffected being the IoW. There will be full disaggregation of all County services together with integration with upper tier services from the existing UAs in Southampton and Portsmouth, and aggregation of lower tier services from the District and Unitaries across four new authorities. This option is illustrated in the following map.



The new authorities created under this option would have the following characteristics:

	Staff numbers excluding teachers	Revenue Outturn service expenditure (£k)	Budget requirement (£k)	Population
New unitary council - Greater Portsmouth	5,558	911,686	345,354	529,913
New unitary council – Greater Southampton	6,140	1,017,839	359,692	553,074
New unitary council – Central Hampshire	3,753	576,359	222,887	356,033
New unitary council – North Hampshire	3,581	613,808	224,054	361,491

Approach to assessing the options

This section describes the information and approach used to undertake the financial and non-financial analysis.

Approach to the financial analysis

The financial analysis underpinning this report has considered the costs, savings and income forgone (Council Tax) which are estimated to arise under each of the 7 options.

Analysis of costs

The analysis includes reorganisation costs which cover:

- Income foregone from harmonising Council Tax;
- Reductions in staffing headcount; and
- Change management and re-branding.

The approach to the analysis of each of the above follows.

- **Income foregone from harmonising Council Tax²**

Where UAs are formed by combining existing authorities there will need to be a process to harmonise Council Tax levels. By 2018/19 it is estimated that there will be a difference of £171 per annum between the lowest average band D Council Tax in Eastleigh (£1,278) and highest in Southampton (£1,449). The seven options create different Council Tax differentials to harmonise.

There are three options to harmonise Council Tax which have been considered. Firstly, it is possible to freeze Council Tax for some payers at the higher end and increase the Council Tax of others until everyone is on the same level then a universal Council Tax increase can be applied. Secondly, Council Tax can be harmonised to the lowest current level on day one of the new council and then all Council Tax payers have the same percentage increase applied thereafter. Thirdly, Council Tax can be harmonised to the weighted average level. Whichever way this is modelled for the HIOW area there is less Council Tax collected than if there was no change to the current structures. We have described the difference between status quo and the new structures as, "income foregone" Income foregone has been calculated by multiplying the tax base by the estimated band D Council Tax rate under the status quo to arrive at an estimated total Council Tax revenue collected figure. This figure has then been compared to the same calculation for each Council Tax harmonisation option i.e. multiplying the tax base by the estimated band D Council Tax rate for all three Council Tax harmonisation options. In all of the options modelled the income forgone is least when harmonisation occurs to the lowest level on day one of the new Council which is assumed to be 1 April 2018. This is because all Council Tax rates can be increased together whereas when you harmonise to the highest level a proportion of council tax income is frozen for a period of time whilst the lower council tax rates harmonize to the highest level.

- **Reductions in headcount**

Senior staff restructuring costs relate to redundancy payments and pension costs for those posts in tiers one (Chief Executive), two (Deputy Chief Executive and Directors), and three (senior management) no longer needed to run a reduced number of authorities.

- **Change and re-branding**

The change costs considered include rebranding and one-off costs to support the change process.

² The Council Tax levels quoted exclude parish, police and fire precepts

Analysis of savings

The savings from re-organisation cover:

- Reduction in senior officer posts
- Reduction in the number of Members
- Savings in corporate services
- Service optimisation savings
- Property rationalisation savings

The approach to the analysis of each of the above follows.

- **Reduction in senior officer posts**
The savings in respect of the senior staff structure are the salaries saved for the reduced numbers of senior staff posts required to manage the new authorities.
- **Reduction in the number of Members**
Member savings come from having fewer authorities and hence a requirement for fewer Members.
- **Savings in corporate services**
Corporate services savings are achieved through the consolidation of these functions and the economies of scale typically achievable.
- **Service optimisation savings**
The service optimisation savings are achieved through service consolidation and procurement savings e.g. a single waste collection contract.
- **Property rationalisation savings**
The savings from property rationalisation, consolidated purchasing of utilities and FM contracts.

Approach to the non-financial analysis

The non-financial criteria used to assess the various UA options are contained in the following table. There are three top level criteria used:

- Sustainability of public services;
- Impact on residents; and
- Degree of disruption.

Top-level criteria	Sub-criteria	Sub-criteria definition
Sustainability of public services	Sustainability and coterminosity with key agencies	<ul style="list-style-type: none"> • The ability to facilitate strategic planning (planning and delivering services across organisations); • The degree of “coterminosity” with other parts of the public sector; • The number of organisations that need to work together to deliver services; • The impacts on public sector skills and capacity; and • Ability to absorb financial shocks.
	Creating the conditions for economic growth	<ul style="list-style-type: none"> • Improving Gross Value Added (GVA); • Ability to improve economic planning with partners; and • Ability to influence key policy areas such as housing, transport, planning, rate reliefs etc.
Impact on residents	Potential impact on service continuity and performance	<ul style="list-style-type: none"> • The level of aggregation, disaggregation, and integration required, including the proportion of population affected; and • The potential for change in volume, range, frequency and characteristics of services delivered.
	Delivery of services that are responsive to local needs	<ul style="list-style-type: none"> • Flexibility to move resources to where they are needed most; and • Maintaining and / or creating natural communities.
	Democratic participation and accountability	<ul style="list-style-type: none"> • Whether individuals, families and communities have clarity about who is representing them and where to go for support and advice.
Degree of disruption		<ul style="list-style-type: none"> • The number of organisations affected; • The number of residents impacted; and • The degree of aggregation and disaggregation of services.

The non-financial assessment has not assessed the degree of involvement and engagement of residents in local democracy across each of the options. This is because there is little evidence to suggest that there should be a variation of the degree to which each option could fulfil this criterion. Other Councils that have changed to unitary status (merging a County Council with a number of Districts such as Wiltshire) have reduced the number of Members in their respective geographies and implemented a variety of mechanisms to support ongoing local involvement and engagement. Examples include:

- Area committees;
- Town councils;
- Partnership boards;
- Community forums; and
- Universal parishment across the unitary council area (building on current parishes).

Furthermore the size of the UAs created under each option has also not been assessed. There has been a great deal of longstanding debate on this issue and many arguments and counter arguments regarding how large a UA can be before it

becomes 'too large'. A report for the Department of Communities and Local Government (DCLG) in 2006 entitled 'Population Size and Local Authority Performance' illustrated this complexity, finding that:

- The balance of evidence suggests that performance tends to be better in large than small authorities; and
- The biggest spending services areas in local government show the weakest relationship between population size and impact on performance when compared to the lowest spending areas e.g. the relationship between population size and performance is weaker in areas such as social services and education.

The report also deemed that 'the relationship between population and performance is a complex mosaic', and that reorganisations in different local areas needed to be considered separately.

There is no definitive answer, and the arguments distract from the more pertinent point that a UA, large or small, can perform well and be effective or perform badly and be ineffective, depending on whether it has strong political and corporate leadership capacity and capabilities.

Outcomes from the assessment of options

This section provides a summary of the analysis that has been undertaken on the seven options for unitary authorities in HIOW. This project has not applied weightings to the financial and non-financial analysis and as a result the outcomes of each respective part of the analysis are articulated separately.

Financial analysis

The financial analysis resulted in the seven options being awarded a rank of 1 to 7 with 1 representing the option with the highest net saving over ten years and 7 the option with the lowest net savings over ten years.

The following table shows the results of this analysis. The options have been re-ordered in line with their financial ranking, therefore the option that is ranked 1 is at the top of the table and the option ranked 7 is at the bottom of the table.

Overall all options are estimated to deliver a net saving over 10 years which will help the restructured authorities meet the challenges of ongoing reductions to central government funding. However, in the options where there are no changes to the existing UAs there is no financial gain to them.

The least amount of Council Tax revenue is foregone when harmonising to the lowest current level of Council Tax for all options. This means that the majority of residents will benefit from a reduction in Council Tax if their Council is part of the restructuring. The costs and Council Tax revenue forgone (while harmonising to the lowest level of Council Tax) are potentially met from the savings within one year in all options with the exception of option E when it is in year two.

The three options which are estimated to deliver the greatest savings over 10 years are options B, A and D. The biggest saving is estimated to come from the merger of the County Council, the Districts and the existing UAs excluding the Isle of Wight (B), closely followed by the integration of all authorities (A). This is because these options merge more services and cover both 'tiers' of services and therefore present the largest opportunities for service efficiencies.

Option (D) comes next because the Council Tax revenue forgone is much lower than when the UAs are involved. Whilst there are significant savings to be made in aggregating the District services these savings are not as big as when all services are being aggregated. This option presents the largest saving per head of population opportunity at an estimated £289 per head.

The three options which are estimated to deliver the least savings are E, F and G. These three options involve disaggregating the County Council and creating more than one UA. Disaggregation is costly due to duplicate structures and lower potential for economies of scale. The least saving is estimated to be achieved from the two unitary model (E), mainly due to the impact of Council Tax harmonisation.

Options	Costs (£m)				Savings (£m)						Net saving (£m)	Rank	Net 10 year saving per head of population (£)
	CT harmonisation	Senior staff restructure	Change	Total costs	Senior staff restructure	Members	Corporate Services	Service optimisation	Property	Total savings			
B - County and Cities	-309.0	-15.9	-14.0	-338.9	144.6	49.7	324.7	219.5	53.0	791.5	452.6	1	251
A - County, Cities and IOW	-408.0	-16.5	-15.0	-439.5	151.6	52.2	358.6	242.4	58.5	863.3	423.8	2	218
D - County Unitary	-160.0	-12.4	-12.0	-184.4	103.8	40.1	233.8	158.1	38.2	574.0	389.6	3	289
C - County and IoW	-356.0	-13.0	-13.0	-382.0	110.9	43.7	267.7	180.9	43.7	646.9	264.9	4	178
F - 3 Unitary Councils	-228.0	-10.5	-16.0	-254.5	87.1	34.2	211.6	143.1	34.5	510.5	256.0	5	142
G - 4 Unitary Councils	-184.0	-6.9	-17.0	-207.9	35.3	33.9	211.6	143.1	34.5	458.4	250.5	6	139
E - 2 Unitary Councils	-402.0	-12.4	-16.0	-430.4	92.7	43.2	234.7	158.6	38.3	567.5	137.1	7	71

Net 10 year saving per head of population figures are based on the net saving divided by the aggregate ONS mid-2014 population statistics for each option.

Non-financial analysis

The following table provides a rating of each option against the non-financial criteria. The ratings have been applied as follows. The option which should:

- Facilitate sustainability and create coterminosity with key agencies is ranked 1;
- Create the best conditions for economic growth is ranked 1;
- Allow the greatest degree of service continuity and performance is ranked 1;
- Allow services with the greatest responsiveness to local needs is ranked 1;
- Permit the most opportunity for democratic participation and accountability is ranked 1;
- Result in the least disruption is ranked 1; and
- Result in the least complex change is ranked 1.

The options have been re-ordered in line with their non-financial ranking, therefore the option that is ranked 1 is at the top of the table and the option ranked 7 is at the bottom of the table.

It should be noted that, as with any ranking exercise, if there is minimal difference between any options against a criterion they are awarded the same rank and the next rank is removed. For example, if two options are ranked 2 then the next best option is ranked 4.

Following the table further explanation is provided regarding the rationale for any option being awarded a 1 against a specific criterion. This is followed by further explanation relating to the options themselves and their overall non-financial ranking.

	Non-Financial Criteria							Total non-financial	Non-financial rank
	Sustainability of Public Services		Impact on Residents			Degree of disruption Rank			
	Sustainability and coterminosity with key agencies Rank	Creating conditions for economic growth Rank	Potential impact on service continuity and performance Rank	Delivery of services that are responsive to local needs Rank	Democratic participation and accountability Rank				
Option D – County Unitary	5	3	2	2	2	1	15	1	
Option C – County and IoW	4	3	1	4	4	2	18	2	
Option A – County, Cities and IOW	1	1	3	7	7	4	23	3	
Option B – County and Cities	2	2	4	6	6	3	23	3	
Option E – 2 Unitary Councils	2	5	5	5	5	5	27	5	
Option F – 4 Unitary Councils	6	6	6	2	2	6	28	6	
Option G – 5 Unitary Councils	7	7	7	1	1	7	30	7	

Explanation of ranking against each non-financial criterion

This sub-section explains the rationale for rankings against each of the individual criterion. Therefore the table is considered by column as opposed to row.

Sustainability and coterminosity with key agencies

In terms of the 'Sustainability and coterminosity with key agencies' Option A was awarded the highest rank of 1. This is because this option creates one authority for the entire HIOW area and therefore has greater coterminosity with other public bodies. Under this option the UA would have coterminous boundaries with Police and Fire (acknowledging that there is a separate Fire Service in the IOW). This option would also be coterminous with the Health and Care System Sustainability and Transformation Plan (STP), showing how local services will evolve and become sustainable over the next five years across the HIOW footprint, significantly reducing the complexity associated with the number of organisations that need to work together. For example, with one adult social care department across the whole geography, a consistent policy framework could be implemented for hospital discharge and other critical areas of integration. It also reduces the number of public organisations because there is only one local government authority, and improves the potential for public services to strategically plan together. Also, given that this option creates one authority it will not require duplication of roles, which other options create, and therefore has been assessed strongly against the impact on skills and capacity. This option brings all local government financial resources together enabling these to be strategically managed in the event of any financial shocks (options with more authorities created were deemed to reduce the ability to absorb financial shocks relative to the number of authorities created).

Against this criterion, there was minimal difference between Option B and Option E. This is largely based on the number of organisations created by the options (each creates two authorities). Option B maintains a relatively strong coterminosity (compared to Option A) with other parts of the public sector. Whilst Option E creates similar simplicity by creating two organisations, these are on new boundaries that other agencies will need to adapt to working across. Option C results in three authorities and has the next highest ranking and this is followed by Option D, which results in four authorities. Although Option F would also create four organisations there is recognition, in its relative ranking to Option D, that it creates new boundaries for other agencies to work with whereas Option D includes three unchanged authorities.

Option G, has the lowest rating against this criterion due to number of authorities created, the potential difficulty this would pose for strategic planning in the HIOW area and the ability to resource options with appropriate skills and capacity given the significant duplication in roles that result.

Creating conditions for economic growth

Option A is ranked 1 on this criterion where the main consideration was the creation of a single planning policy framework and decision making process across the HIOW area. The aim of this is to have a co-ordinated approach to planning and development which takes account of current infrastructure and industrial groupings (e.g. Aerospace) and is able to encourage development that strengthens existing areas of economic strength and targets new growth to areas where GVA needs to be improved. Further consideration has also been given to how a single social housing framework can help with developments being built in areas that support key workers in affordable housing, which in turn supports key economic activity. Finally, there is the broader harmonisation of policy such as NNDR reliefs which can be used to help development and growth in areas which fit with the overall strategy for the HIOW area.

Consideration has also been given to how well the new authorities would align with the current LEPs. Whilst this is complex, as the LEP boundaries cut across a number of the districts which are split between the two LEPs, the assessment considers fewer authorities inputting to the LEPs as advantageous.

As Option B is a small variation on A, it gets a similar rank. Thereafter, it is largely down to the number of authorities as this moves away from the single planning framework and creates the opportunity for local decisions contrary to the wider benefits of the whole HIOW area. Option D ranks well because all districts are being brought together, which is a more advantageous position than at present.

Options E, F and G are ranked lower due the risk of a lack of consistent planning and poor alignment with the LEPs.

Degree of service continuity and performance

Option C received the highest ranking against this criterion. This is because it is the option that causes the least amount of changes to services. This option requires the aggregation of lower tier services across the 11 Districts into the new organisation, affecting 1.3m of the population. It also requires aggregation of IOW's services, affecting a further 0.2m. However, Children's Services on the IOW are already being delivered in partnership with Hampshire County Council, with Hampshire providing the statutory DCS role and providing senior leadership capacity, thus reducing the risk for service users. This should improve the likelihood of service continuity and improvement given that existing services are largely unaffected by the reorganisation and will be delivered over a similar footprint. This is advantageous given the complexity that resulted from other unitaries' experiences where disaggregation was required. It is anticipated that this option will result in changes to District services as they are harmonised. This could result in, for example, changes to bin collection frequency for some residents, recycling policies, and bin collection ("black bag" replaced by a "wheelie bin"). From a performance perspective, this option presents the opportunity to assess the variation in performance and cost of delivery of District and IOW services, and under a single management structure, to deliver greater performance consistency coupled with economies of scale. Improvements to Children's Services' performance have already been realised over this geography and this provides confidence that similar performance enhancements could be achieved for other upper tier services. This option has been assessed above Option D (the next highest rating for this criterion) because it should maintain better continuity for IOW.

The remaining options received lower relative ratings based on the number of people affected by service change and the degree to which services need to be disaggregated, due to the additional risks presented by this. Therefore, Options D, A and B follow in the relative ratings against this criterion because they do not disaggregate services.

Options E, F, and G pose greater risk due to disaggregation of upper tier services, which will affect all or the majority of people in HIOW. The greater the degree of disaggregation (i.e. splitting services of a greater number of authorities), the lower the ranking that has been awarded. This has also taken into account the increased risk that service performance could suffer through disaggregation.

Delivery of services that are responsive to local needs

Assessment against this criterion is broadly based on the principle that there is increased risk that larger authorities covering a greater geographic basis run the risk that services become more homogeneous and don't reflect the significant differences between urban and rural areas and don't resonate with natural communities.

Therefore Option G scores most highly because it creates authorities covering smaller areas and containing fewer residents. By contrast Option A is awarded the lowest rank because it creates one authority to cover the entire HIOW geography. The other options sit between the highest and the lowest on a relative basis (the greater the number of authorities across the HIOW area created the higher the ranking).

Democratic participation and accountability

The result against this criterion mirrors the results of the previous 'delivery of services that are responsive to local needs' criterion. This is largely because integration will result in fewer Members serving the population. All options benefit from residents having a single elected representative for all of the services they receive from the Council.

Degree of disruption

Under this criterion the options that affected fewer organisations in terms of the change, affected fewer residents, and resulted in the least amount of disaggregation of services were given a higher relative ranking than others.

As a result, Option D has the highest assessment because it requires aggregation of lower tier services only and does not involve any disaggregation of services. Under this option upper tier services are largely unaffected as they continue to be delivered over the same footprint and aggregation of them is not required. The services to be aggregated are largely universal services such as refuse and revenue collection services and the person centred services like social care are unaffected, reducing risk by not changing services for the most vulnerable groups of residents. This option directly impacts on 12 of the 15 authorities affecting a population of 1.3m out of the total population of 1.9m. 14,235 staff out of the total of 20,604 would be affected by the change.

All of the other options affect more of the population and change to a greater range of services. Therefore, Options C, B, and A are the next options to receive higher relative rankings. None of these options require disaggregation of services, which poses greater complexity and also greater risk of impacting performance.

Options E to G receive lower rankings (with Option G being given the lowest) due to the increased complexity of service disruption and disaggregation involved, with more of the population being affected by the changes to a broader range of services.

Overarching outcomes from non-financial analysis for options

This sub-section provides a summary of the non-financial assessment for the different options. Therefore this assessment considers the rows in the non-financial assessment table.

Option D achieved the highest ranking overall compared to all other options. It was assessed very highly against the majority of the criteria. This option improves the conditions for creating economic growth by improving the potential for strategic planning and it does not pose any risks in terms of skills and capacity due to the aggregation of only lower tier services, with upper tier services largely unaffected and continuing to be delivered on a similar footprint as they are currently providing greater continuity and less disruption. This option did not rank as strongly against sustainability and coterminosity with key agencies largely because it would result in four authorities across the HIOW area, which could increase complexity of public sector working compared to other options that resulted in fewer authorities being created, although this would still be less complex than at present.

Option C was the second highest ranked option. This is to be expected as it is the option that is most similar to Option D with the only difference being the addition of IOW, for which the upper tier service of Children's Social Care is already delivered in partnership with Hampshire County Council, with Hampshire providing the Statutory DCS role and senior leadership capacity.

Overall there was very little difference between Options A and B and they received an equal overall ranking. All of these options were assessed less strongly on 'impact on residents', particularly in relation to the ability to deliver services that are responsive to local needs and the degree of democratic participation and accountability.

Options E, F, and G had lower rankings with Option G achieving the lowest ranking overall. Option E ranked well against ability to support sustainability and coterminosity with key agencies because it results in two authorities and removes significant duplication of resources compared to the current position. However it did not receive high rankings against any of the other criteria. Options F and G were assessed highly in terms of their ability to deliver services that are responsive to local needs and the degree of democratic participation and accountability. However, they were not assessed strongly over all other criteria. They do not lend themselves to the longer term sustainability and coterminosity with key agencies, and they will result in duplication of skills and resources, which the sector could find hard to fulfil. They disaggregate upper tier services, introducing increased risk of service continuity and performance, and all residents and staff will be affected due to the complexity and broad nature of the change.

Conclusion

Our conclusion summarises the outcome of this report and indicates which option is most advantageous in terms of financial savings, service quality and avoidance of disruption.

Across all options, those that aggregate services up to a larger scale achieve **significantly higher savings** than those that disaggregate services down to a smaller scale. The options that score highest overall on both financial and non-financial assessments are Option B (County and Cities) and Option D (County Unitary).

The options that score lowest on both financial and non-financial assessments are the options that dis-aggregate services and create sub-county unitaries. Options E, F and G generate lower levels of savings and create significant risks and costs in disaggregating upper-tier services. The option that generates the least savings is Option E, mainly due to the impact of Council Tax harmonisation.

In all options Council Tax revenue is best protected by harmonising to the lowest current level of Council Tax³, meaning that the majority of households will benefit from an **immediate reduction in Council Tax** if their council is part of the restructuring.

Key conclusions in respect of the two highest scoring options are detailed below:

Option B:

- Generates estimated net savings over 10 years of up to £450m (£251 per head across the wider area covered by this option);
- Creates a large authority that has very good coterminosity with other public service agencies and strong potential for strategic economic planning;
- Requires the merger of existing unitary authorities, which may require primary legislation;
- Is potentially the least locally responsive of all options;
- Creates significant disruption as all services in the area are affected; and
- Requires aggregation of all services including person-centred services such as social care, which could pose additional risks.

Option D:

- Generates an estimate of just under £400m in net savings (to the County only), which at £289 per head of population makes it the most financially advantageous option for the population it covers (the County of Hampshire);
- Is also the least disruptive as it poses few risks in terms of skills and capacity due to the aggregation of only lower-tier services, with upper-tier services continuing to be delivered on the same footprint and scale as they are currently, providing greater continuity and potential for improvement;
- Is ranked second-highest for local responsiveness;
- Improves coterminosity and the potential for strategic economic planning;

³ Excluding parish, police and fire precepts

- Retains more councils across the wider area than option B and therefore an element of greater complexity for some public service agencies; and
- Protects the sovereignty of existing unitary authorities, but does not directly address their financial challenges.

Comparing the two options, Option D has a higher saving per head of population and scores higher on the non-financial criteria. Therefore, the analysis presented in this report shows that the option that best serves the **residents of the county of Hampshire** is a new authority based on **Option D: a unitary county**.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that may exist or all improvements that might be made. Any recommendations made for improvements should be assessed by you for their full impact before they are implemented.

Other than as stated below, this document is confidential and prepared solely for your information and that of other beneficiaries of our advice listed in our engagement letter. Therefore you should not, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities). In any event, no other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

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