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Making a success of local
government reorganisation

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An aerial photograph of a rural landscape, likely in Ireland, showing a patchwork of green fields separated by stone walls. A small village with several buildings and a church spire is visible in the middle ground. The background shows a hazy horizon under a clear blue sky.

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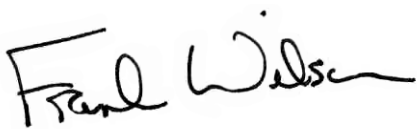
Foreword

All organisations need to adapt to changes in citizen expectations, financial pressures and technology – the pressure to reorganise affects the public sector as much as the private sector. However, achieving the benefits of reorganisation is notoriously difficult. For local authorities, reorganisation is even more complex because they must also address changing views on representation and democracy in their local communities.

As the UK government is currently considering changes in the structure and financing of local government we undertook this research to identify lessons for how to maximise the likelihood of success. We reviewed reorganisations in the United Kingdom as well as in several other countries. We also interviewed local authority chief executives and senior officials who have personal experience of the last major reorganisations in the United Kingdom in the 1990s.

The research identified clear lessons for both central and local government. Above all, both government and authorities need to recognise that achieving the benefits of reorganisation depends as much on successful implementation as on the reforms themselves. Central government needs to use a review process that is quick and independent while providing more support to new authorities. Local authorities need to focus on using reorganisation as an opportunity to transform working practices, not simply to ensure a seamless transition.

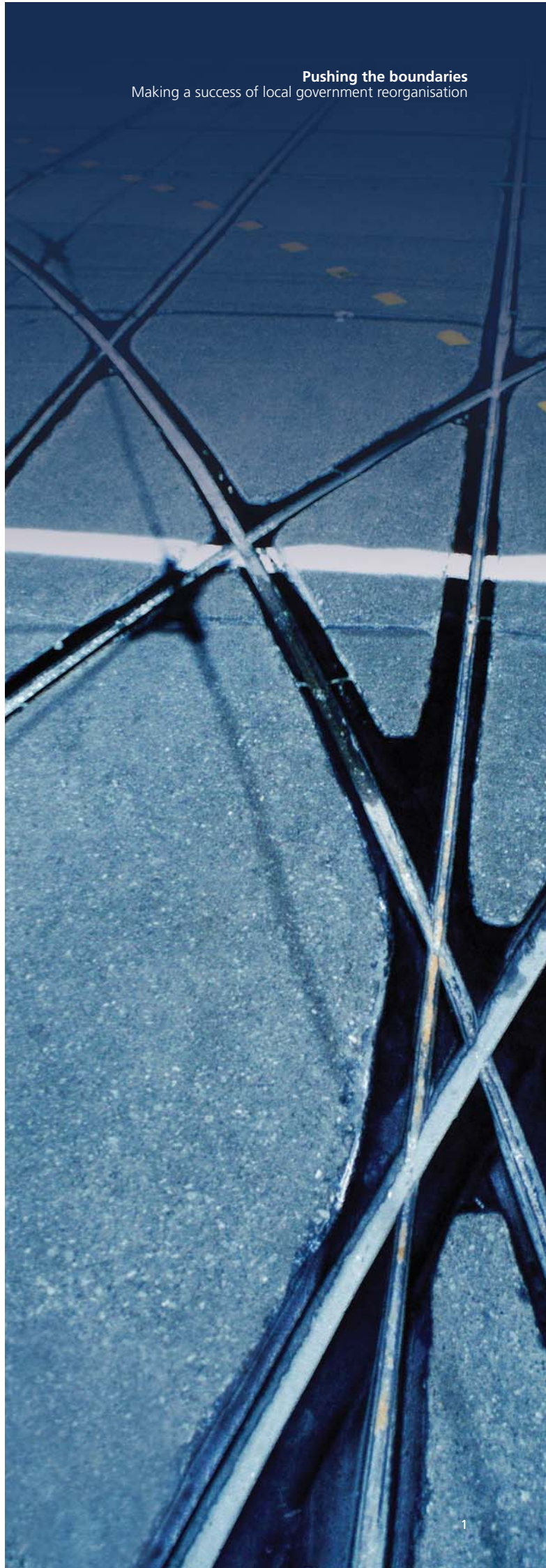
This report aims to contribute to the debate on reorganisation and identify lessons for government and local authorities on how to meet the challenge of reorganisation. We look forward to discussing it further with you.



Frank Wilson, Head of Local and Regional Government



Mike Turley, Head of Government and Public Sector



Executive summary

- **Government is currently considering a reorganisation of local government in England.** The UK government is developing proposals to reform local government as part of a White Paper expected later this year. While details are uncertain, it is possible that it will propose a new tier of governance at a 'city-region' level and some more unitary authorities in shire areas. This could have potentially major implications for the future structure of local government. The future of local government finance is also under consideration as part of the Lyons Inquiry, with a final report expected in December 2006.
- **Whether or not reform produces the intended benefits depends as much on how it is implemented as on the exact nature of the changes.** The purpose of reorganisation is to produce local authorities that are more efficient, effective and accountable to local communities. But whether these objectives are achieved depends on government and authorities ensuring that reform is used as an opportunity to introduce deeper changes to working practices. Evidence from the reorganisations in the 1990s suggests that reorganisation is a difficult process, which in some cases did not lead to the intended benefits. The process of reorganisation can be split into three main phases: the review process, the transition between organisations, and the creation of new, transformed authorities.
- **Government needs to provide a quick and independent review process and a robust framework for transfers to new authorities.** Government faces a strategic choice about the level of central direction and role of an independent commission in the review process. Evidence suggests that the process is most likely to be successful if managed by an independent commission. However if the Boundary Committee for England (BCE) is to play that role it needs to operate quicker and more independently than it has done previously. In addition, evidence suggests that government should provide more support and direction to foster agreements between outgoing and new authorities. Government should consider introducing a duty for authorities to set up joint transition committees, imposing more constraints on the commitments of outgoing authorities and using a property commission to resolve disagreements over assets.
- **Authorities should focus on using reorganisation as an opportunity to transform working practices.** Authorities going through a reorganisation face two potentially conflicting objectives: to enable a seamless transition and to transform the organisation for the better. Evidence suggests that in a future reorganisation authorities need to give more emphasis to transformation. This means taking action early to prepare for a tighter financial situation, forge a new corporate culture, rationalise and update systems and infrastructure, and harmonise and improve services. The example of East Riding of Yorkshire illustrates how reorganisation can be an opportunity to transform an authority and deliver better services for local citizens.

Introduction

The importance of policy execution

Government is currently considering the case for reorganising local government in England as part of a White Paper expected later this year. While precise details of government's intentions are not yet available, some new unitary authorities may be created in shire areas where proposals are supported by local stakeholders and meet the requirements of effective government. There is also the possibility of a new tier of government being created to realise government's aspirations for more control at a 'city-regional' level.¹ In addition local government finance is being reviewed by Sir Michael Lyons, who is expected to report in December.

The creation of city-regions could have major implications for existing metropolitan boroughs as well as a range of other organisations including Passenger Transport Authorities, joint fire, police and waste disposal authorities, Government Offices for the relevant regions, Regional Development Agencies, English Partnerships and Regional Housing Boards. It could also have an impact on existing shared back-office functions such as pensions administration.

Reorganisation is also happening, or being considered in other parts of the United Kingdom. Reorganisation is likely to form part of the reform process in Scottish local government, where the Minister is looking to authorities to help develop radical proposals.² In Northern Ireland the number of local authorities is currently being reduced from 26 to seven. In Wales formal reorganisation has just been rejected by the Beecham Review, but is recommended to be reconsidered in five years' time.³

Reorganisation defined

Local government in England has a complex structure, which is the product of a number of distinct reforms over the past 40 years. Broadly speaking there are areas which are administered by two-tiers of government (county councils and district councils), and those that are administered by a single tier (unitary authorities, and metropolitan boroughs). This picture is further complicated by joint fire and police authorities that cross unitary boundaries. In the context of this report, 'reorganisation' refers to three main types of change:

- **Changes in service responsibilities, for example:**
 - creating unitary authorities; and
 - reallocating responsibilities between different tiers.
- **Changes in geographical responsibilities:**
 - mergers;
 - de-mergers or partitions; and
 - boundary changes.
- **The abolition of organisations, or creation of new ones.**

Often elements of all these changes happen together. For instance, in the last reorganisation in England in the 1990s, Humberside county council was abolished, and North Lincolnshire was created. The new unitary authority (with its service responsibilities devolved from the abolished council), was based on new boundaries created from the (abolished) districts of Glanford, Scunthorpe and part of Boothferry.

The importance of policy execution

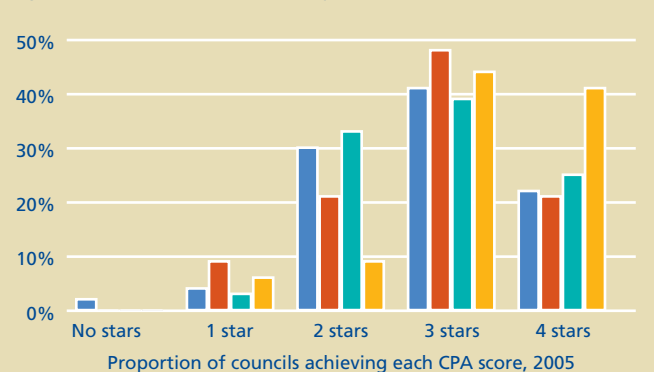
So far debates about reorganisation have been dominated by a number of important questions including: Are current district councils too small to provide economies of scale? Are counties able to be sufficiently responsive to local communities and if so how? Are unitary authorities more effective or efficient than the governance in 'two-tier' areas? Is there a need for a new tier of government at the 'city-regional' level and if so, what would it look like? Is there a need for more governance or control at a 'neighbourhood' level and what might that involve?

While these debates are vital, how reorganisation is implemented is at least as important as the exact structures that are selected. This is borne out by evidence from the last major reorganisations that occurred in the United Kingdom in the 1990s.

Local government was extensively reorganised in England, Scotland and Wales during the period 1994 to 1996. In England, the two-tier structure of government outside London and metropolitan areas was altered through the abolition of five counties, and creation of 46 new unitary authorities. In Scotland and Wales, two-tier areas were completely replaced with unitary authorities – 32 in the case of Scotland, and 22 in the case of Wales.⁴

But there are some indications that the potential benefits of reorganisation were not fully realised because of how it was implemented. The review in England in the 1990s was criticised for being too slow and lacking proper independence, while those in England, Scotland and Wales were accused of being influenced by inappropriate political considerations.⁵ Furthermore, authorities that went through reorganisation in England last time ('Unitaries' in the chart) do not clearly perform better than other types of authority (See Figure 1).

Figure 1: Performance of different types of local authorities⁴



Source: Audit Commission, 2006.

¹ A more detailed summary of the changes that took place can be found in Appendix 1.

⁴ More detailed discussion of these issues can be found on pp 5 to 9.

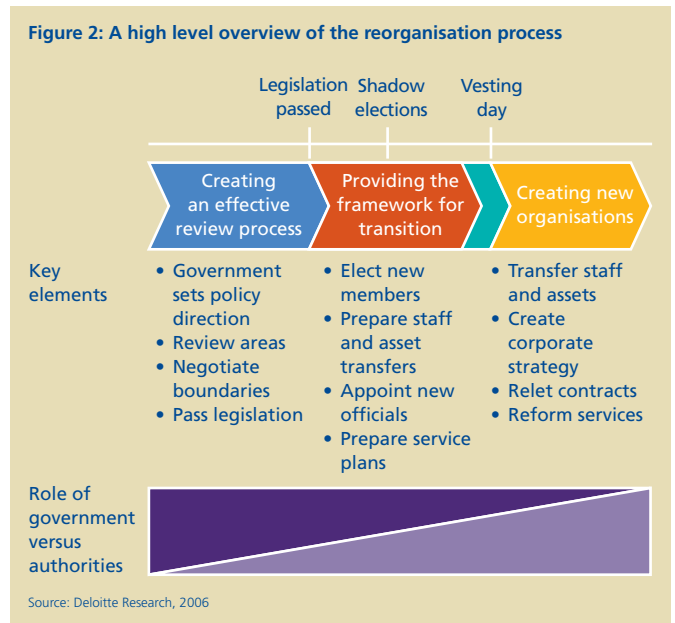
Clearly there are a number of explanations for these performance levels. However, they may indicate that whether the potential benefits of reorganisation are realised depends as much on **how** the changes are handled by government and authorities as it does on the exact form of the changes proposed. In other words, the difference between a successful and an unsuccessful reorganisation, at least partly, lies in the quality of the execution. This conclusion is reinforced by studies on mergers and restructurings in the private sector which suggest that achieving the benefits of reorganisation is difficult and depends on how it is implemented.⁵

There is a clear explanation for this. A reorganisation primarily involves changes in the boundaries or service responsibilities of authorities. This is achieved through corresponding changes in the allocation of staff, assets, and budgets. But these changes in themselves are largely internal to the organisation and have only an indirect relationship to the intended outcomes. As such whether a reorganisation produces the envisaged improvements depends on whether it leads to deeper changes to service provision, patterns of spending, or the relationship with the public.

Learning the lessons

Accordingly, this report aims to provide insights and guidance for central and local government about how to ensure that the process of reorganisation helps promote improvements in effectiveness, efficiency and accountability. It is based on a review of the reorganisations that occurred in England, Scotland and Wales in the 1990s, as well as in a number of other countries. These include: Canada (Toronto), New Zealand, Australia (Victoria), and Denmark.ⁱⁱⁱ

The process of reorganisation has three main phases (See Figure 2). Firstly, the review process – how government determines the exact proposals for reform, with input from local authorities. The second phase is the preparation for the transfer of responsibilities from existing or outgoing authorities to new ones, subject to regulation and support from government. The third, which overlaps with the second, is the creation of the new, transformed organisation.



The report’s structure reflects these three main phases of the process. The first section describes lessons for government on how to run an effective review process. The second describes some conclusions for government on how to improve the framework governing transition. The third section describes how local authorities need to approach reorganisation in order to make it a success.

ⁱⁱⁱ A summary of the changes that took place can be found in Appendix 2.

Creating an effective review process

The need for independence and speed

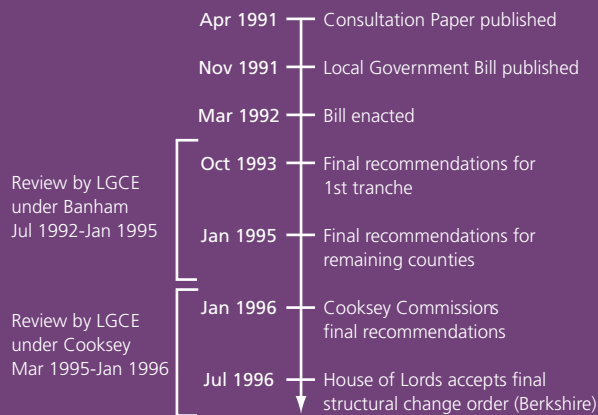
In any reorganisation, government needs a review process that converts high level policy aims (for example to create more unitary authorities or increase the scale of local government), into specific proposals for change in an area. It will have a number of objectives in managing this review process. It will want the process to be fair and quick, avoiding disruption to services, while also seeking to ensure that the proposals create effective change.

In the last reorganisation in the United Kingdom in the 1990s, different processes were used (See sidebar).

The decision-making processes in England, Scotland and Wales

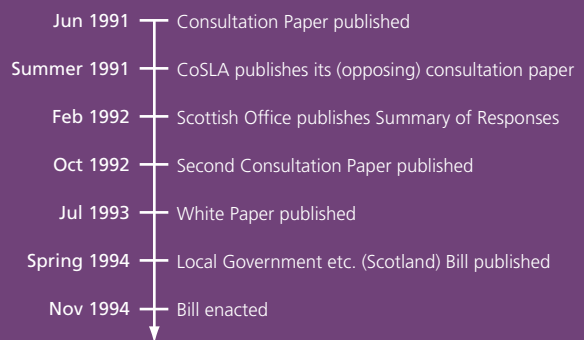
England

In England, government initiated the review process through a consultation paper, but then the review was carried out by the Local Government Commission for England (LGCE) under Banham and Cooksey. The commission engaged extensively with local authorities about proposals in their area and used public polling as a major determinant of final decisions. Structural changes were enacted through statutory instruments in three phases in 1994, 1995 and 1996.



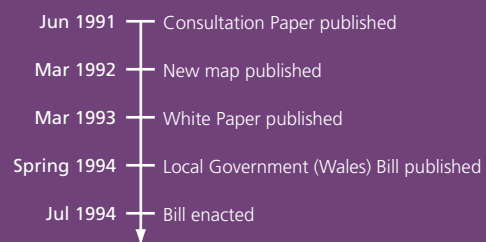
Scotland

Government published an initial consultation paper, outlining the case for unitary government, followed by a subsequent paper proposing different unitary options. The white paper outlined the government's final proposals, which, with minor changes, were enacted in 1994. The proposals were largely opposed by authorities.



Wales

Government outlined the case for unitary government and suggested three possible maps in the original consultation paper. A map was published in 1992, followed by a different map in 1993 in response to representations from stakeholders. Government's final proposal was published in the White Paper, and with minor changes, enacted in 1994.

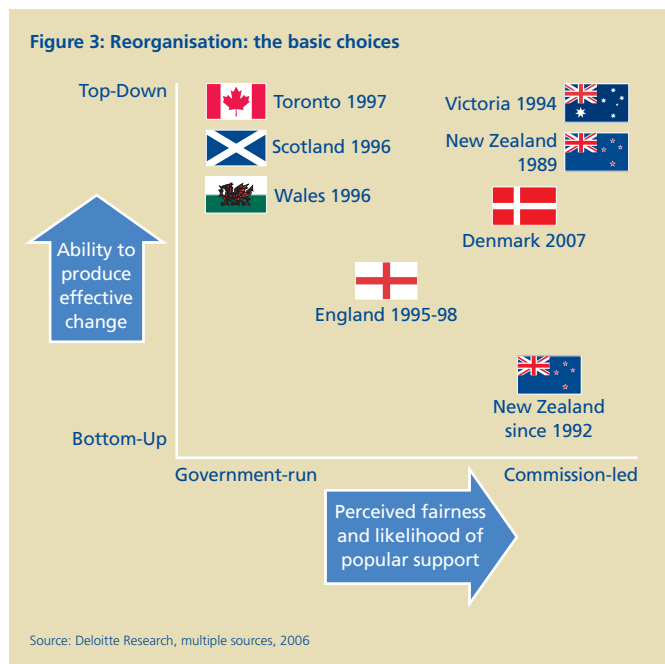


Sources: Leach and Stoker (1997), Boyne et al (1995).

In comparing the review processes used in the United Kingdom and other countries, we have identified two key choices that government should make, that determine how the review process should be conducted. These are:

- how 'top-down' or 'bottom up' is the process? This means: to what extent does government direct the reforms or rely on local authorities or the public to initiate and determine change?
- to what extent is the review process conducted by an independent commission rather than government itself?

We reviewed a number of reorganisations against these dimensions and present the results in Figure 3. Summaries of the changes that took place in each of these countries can be found in Appendices 1 and 2.



Having analysed the outcomes of these reorganisations, it seems that we can identify three main types of reorganisations – those which are top-down, with a government-run review process, the ones which are bottom-up, led by a commission, and those which are top-down but led by a commission.

Overall the evidence suggests that top-down reviews are more likely to lead to significant change than bottom-up processes, but the latter are more likely to create stakeholder support. This is a difficult choice and depends on government's broader objectives. Overall, regardless of the choice between top-down and bottom-up, there are strong arguments in favour of using an independent commission. These points are discussed further below.

Top-down/government-run: significant change, at a price

Reorganisations which have been heavily 'top down' with a review process run by central government include those that took place in Wales, Scotland and Toronto. Evidence suggests that while each of these reforms achieved significant results in some cases the changes were unpopular and seen as motivated by inappropriate political objectives. As a result, some of the reorganisations may have been poorly implemented.

In each of these reforms, government achieved its primary stated objectives. In the case of Wales and Scotland, this was to introduce unitary government throughout each country. In the case of Toronto, the Ontario Provincial Government wanted to create a single City of Toronto authority from six municipalities.

However in Wales and Scotland the reforms were unpopular and also accused of being inappropriately politically motivated. In Scotland, the consultation paper in 1991 was criticised for relying on assertion and not providing a research base for the conclusions,⁵ while claims made by the government were forcefully disputed by the Convention of Scottish Local Authorities (CoSLA).⁷ Officials interviewed as part of this research expressed the view that some of the proposals made were motivated by inappropriate political objectives rather than the goal of creating efficient and effective government. In Wales, there were similar criticisms that the consultation process was opaque, and that the justification for the final proposal of 22 councils was lacking. According to some academics, some of the proposals seemed to be motivated by party-political considerations, rather than what was best for the area.⁸

In Toronto, the reforms were very unpopular with both councils and the public. The changes were enacted with little or no consultation. (The six mayors affected by the reforms were given 30 days to come up with an alternative to amalgamation. Their alternative was then ignored.)⁹ Referenda demonstrated widespread opposition to the reforms – the number of voters opposed ranged from 69.5 per cent to 81.5 per cent.¹⁰ But in any case these views were ignored. The inadequate consultation period led to a legal challenge which was only ended at the Supreme Court of Canada.¹¹

Systematic evidence of the impact of these processes on the success of implementation is not available. However there are some indications that these difficult review processes led to less effective implementation of the reforms. Several interviewees suggested that the nature of the review process in Wales and Scotland tended to hamper adequate preparations for implementation. For example, several Scottish interviewees said that authorities spent time and energy opposing the reforms, which meant that preparations for reorganisation started at a later stage than might otherwise have been the case. This may suggest that the unpopularity and perceived unfairness of the process reduced the likelihood of successful implementation. In the Toronto reforms, there are some indications that implementation did not produce the envisaged benefits. The realised savings and benefits from the amalgamation were considerably less than those projected.¹²

So using top-down reorganisations that are the outcome of a government-run review process can be a way of creating widespread and effective change, but they tend to be seen as unfair and unpopular, leading to potentially poor implementation.

Bottom-up reorganisations: stakeholder support but little change

Governments that give a high priority to securing support for proposals from authorities and the public may wish to explore the use of a 'bottom up' process. This could involve putting the onus on councils or the public to initiate change, rather than government.

One example of this is the process that has existed in New Zealand since 1992 (see Sidebar). The English reforms of the 1990s also gave significant weight to the views of councils and the public in deciding whether reorganisation would go ahead in the area.

Evidence suggests that while bottom-up processes can be a good way of ensuring popular support they are unlikely to lead to significant change.

New Zealand: A bottom-up process of reorganisation

New Zealand undertook a major reorganisation of its sub-national government in 1989. Following that, it implemented a system that enabled reorganisation to occur on an ad hoc basis, through initiation by local authorities or voters.

Reorganisation proposals can be initiated by an affected local authority, the Minister of Local Government or a petition signed by at least ten per cent of the voters of the concerned area. Local authorities must consult with each other to decide whether the proposal should be dealt with by a joint committee, one of the affected local authorities, or by the Local Government Commission (LGC).

If they are undecided after 60 days, the LGC will automatically deal with the matter. A draft reorganisation scheme will then be prepared with invitations for submissions. Submissions must be heard extensively in a consultation process, with a right for all submitters to 'be heard' in public hearings. At this point the reorganisation scheme can be adopted, amended or dropped. If adopted the proposal will go to a poll of the public, where at least 50 per cent of valid votes must be in favour of the proposed scheme for reorganisation to go ahead.

Source: Local Government Commission, New Zealand, 2006.

The New Zealand process has not led to significant reform. Of the five proposals that have been generated since 1996, two were rejected by the LGC as unsuitable and two were rejected at the polls. The one proposal to get through the process was the merger of a relatively small authority with a larger one. This suggests that the process is not apt to produce effective change because neither councils nor the public tend to agree on effective proposals for change in their area.

This tends to be confirmed by evidence from the English reforms of the 1990s. In England in the 1990s, the Local Government Commission for England (LGCE) invited councils to submit joint plans for reorganisation. However few joint plans were submitted between counties and districts because they could not agree on a solution with which they were both happy.¹³ In 2003 to 2004, when government invited councils to submit plans for unitary government based on the assumption of new regional assemblies, no joint plans between counties and districts were submitted.¹⁴

Furthermore where the public have been polled about proposed structural changes, they tend to have been indifferent or hostile to proposals. In England in the 1990s, when members of the public were surveyed about their attitudes towards reorganisation in their area, the status quo was always the most popular option (with average support of 68 per cent).¹⁵ In New Zealand, public polls stopped reorganisation from going ahead in 41 out of 67 proposed reforms between 1947 and 1972.¹⁶

There are many possible explanations for this, including lack of understanding of local government structures and what the changes involved. In other cases, the public may have been influenced by their councils who have often opposed the changes. However, overall this suggests that a bottom-up process is suitable to produce minor, organic change that is supported by councils and the public, but not to produce significant or effective change.

The potential benefits of an independent commission: fairness and stakeholder support

Overall, evidence from reorganisations in New Zealand, Victoria (Australia) and Denmark suggest that a top-down, commission-run process is seen as fairer and can be more effective in generating a broad base of support for change. Commission-run reviews tend to avoid the issues of unpopularity and political influence that often beset government-run review processes. (The case of the English reforms of the 1990s is different and discussed below.)

In a major reorganisation carried out in New Zealand in the late 1980s an independent LGC was able to implement widespread reform because it had a legislative mandate to make changes. This meant that the decisions were formally insulated from political interference. The result was that the Commission was able to engage municipalities in a constructive discussion about reorganisation in their area without being seen as being politically motivated.¹⁷ The major reforms that occurred in the State of Victoria in Australia were also the outcome of a widespread review by the Local Government Board. The consultative approach of the board, and its independence from party politics encouraged councils to engage proactively in the review process.¹⁸ Lastly, in a recent review of government structures in Denmark, an independent commission played a central role in generating a consensus for widespread reform.¹⁹

Accordingly, if government wants to achieve significant change, which can command widespread support, there is a strong case for using an independent commission to manage major parts of the review process. Independent commissions can facilitate constructive debate about proposals and insulate decisions from inappropriate political interference.

Improving the role of the Boundary Committee For England (BCE) in the process

The review that led to reorganisation in England in the 1990s was carried out by an independent LGCE which considered areas on a phased basis between 1992 and 1996 under the leadership of Sir John Banham and then Sir David Cooksey. The BCE is the successor to the LGCE – a statutory committee of the Electoral Commission (see Sidebar).

The Boundary Committee for England (BCE)

The BCE is a statutory committee that has the power to conduct reviews of local government in England, having taken over the powers of the previous LGCE. It can be instructed by the Secretary of State to carry out local government reviews (boundary and structural changes) as required, under the terms of the 1992 and 2003 acts.

The Local Government Act of 1992 and the Regional Assemblies (Preparation) Act of 2003 give the Secretary of State the power to direct the BCE to consider, in two-tier areas whether new unitaries should be created and/or whether boundary changes are necessary. It can also be instructed to consider only unitary options, assuming the existence of a regional assembly.

The BCE must have regard to a) the need to reflect the identities and interest of local communities, b) the need to secure effective and convenient local government and c) Ministerial policy guidance. The Secretary of State retains the power to accept, modify or reject the BCE's recommendations.

In the past, its reviews have been conducted in four stages: consultation and research, formulation of draft recommendations, consultation on the draft recommendations, and then the submission of final recommendations to the Secretary of State. Its research involves gathering submissions from local authorities and other public bodies, analysing how services are provided, and polling the public about their travel patterns and perceptions of community identity.

Source: The Boundary Committee for England, 2006.

However, despite the general merits of using an independent commission, the LGCE was widely criticised at the time. It was accused of inconsistency, taking too long, and being subject to inappropriate political pressure.²⁰ Accordingly, if the BCE is to play an important role in a future reorganisation it should operate differently. In particular, it will need to be quicker and more independent in the way it works.

If the BCE is to carry out reviews for a potential reorganisation then it is important that these are carried out quickly. Once a review is initiated, local authorities will devote time and energy to trying to shape the outcome. Interviewees reported that the process in the 1990s produced considerable animosity between counties and districts, which in some cases persisted for years afterwards. In addition the uncertainty a review brings can have a significant impact on staff. Several interviewees reported that when a review is being carried out it creates a high level of uncertainty, which can lead to qualified and experienced staff leaving the organisation before the review has been completed.

The main reason the review in the 1990s was seen as taking too long was that it was carried out in phases and was arguably poorly resourced.²¹ So, if another reorganisation occurs there is a case for conducting it in a single sweep, rather than in distinct phases and providing it with sufficient resources to do this.

The operation of the BCE also needs to be, and be seen to be, thoroughly independent. This may mean reviewing or amending the current power of ministers to shape final proposals. One of the weaknesses of the commission's work in the 1990s was seen to be the power of ministers to modify, amend or reject the conclusions of the LGCE. In some cases this meant that the independence of the review process was undermined by informal political pressure. For instance, the LGCE's review of Somerset resulted in an all-unitary proposal. However, this was overturned by the Minister following a Cabinet colleague's threat to resign over the proposals.²² Interviewees also reported that despite the operations of the commission, the outcome was often influenced by informal lobbying of the relevant politicians. So for a future reorganisation it may be worth considering whether the power of ministers to amend, modify or reject proposals should be reduced.

Allowing authorities and the public to shape proposals

Once government has made a strategic choice about the degree of central direction and role of an independent commission in the process, it also needs to decide what role authorities and the public should play.

Evidence suggests that even in a relatively top-down process, authorities and the public should play a central role in shaping the reforms in the area, even if they are not responsible for triggering or sanctioning whether reorganisation proceeds.

Authorities have knowledge of the area and the practicalities of service delivery that need to inform any review process. Furthermore, authorities are invariably responsible for implementing the reforms, and so it is important that they feel a sense of ownership over them.

Experience suggests that local authorities should be involved in drawing up the options for reform in their area but within constraints. Evidence from the English reforms shows that if councils' proposals are unconstrained a) they may not agree on a single proposal and b) the proposals may favour the existing organisations. However, where constraints have been imposed on the choices, this has led to a much more constructive engagement with the review process. In the recent review process in Denmark final proposals were constrained to ones which met a minimum population threshold. This was an important tool in generating an effective consensus from municipalities on reform.²³

Furthermore the public should be consulted on any changes in boundaries or the identity of authorities. The purpose of reorganisation is to produce authorities that are more efficient, effective and accountable to local communities. Whereas the issues of efficiency and effectiveness are largely technical questions (and should be assessed through the evidence) the issue of accountability is intrinsically related to public attitudes. So in a reorganisation it is important to consult the public about such changes. This may mean surveying the public about their attitudes towards possible boundary changes, as well as changes in the name of the authority.

Providing the framework for transition

Support and direction to encourage agreements between authorities

The last section described the elements necessary for a successful decision-making process – that is, one which produces proposals for change which are effective and supported by local authorities and the public.

Once these proposals are agreed, the process of transition typically involves transferring staff, assets, and service responsibilities from one authority (abolished, or downscaled) to another (new, or expanded). However, the preparations for this transition must occur while the existing authority continues to provide services to the public and meet its statutory obligations. This can make the process highly contentious – with a high potential for disagreements between the outgoing (or relinquishing) authorities and the new ones.

Government has laid down in legislation and guidance how the process of transition to new local government structures should work (see Sidebar).

However experience from the last reorganisations suggests that the process of transition was undermined by poor planning and disagreements between the outgoing and new authorities.

There are some measures which government could use to avoid some of these problems in a future reorganisation. These are to consider:

- introducing a duty on authorities to set up a joint transition committee to prepare for change
- introducing rules giving new authorities more control over significant financial transactions made by relinquishing authorities
- utilising a property commission to resolve disagreements about the allocation of assets.

Requiring joint transition committees

In Wales authorities were put under a duty to set up a joint transition committee, made up of members of existing councils to consider and advise on transitional matters and planning. However there was no such duty on authorities in England. As a result, the Audit Commission found that pre-shadow planning was further advanced in Wales than in England.²⁴ Several interviewees reported that the creation of a joint working group to begin preparations was crucial to the success of reorganisation. For instance, one English authority attributed the success of the transition to the use of a tripartite working group with representatives from all affected authorities. So in a future reorganisation government may wish to impose a similar obligation on authorities to form a joint transition committee once the structural order or legislation has been passed.

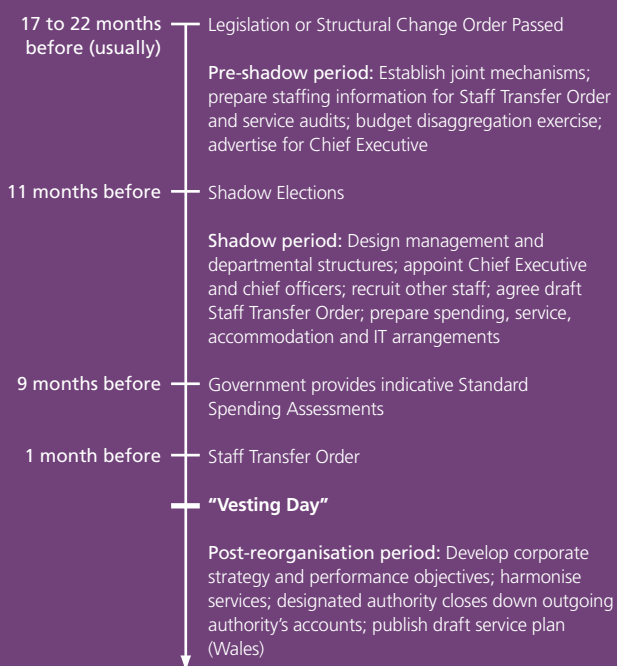
Imposing more constraints on outgoing authorities

Government also needs to examine and review the rules governing the decisions taken by continuing or outgoing authorities in the run up to Vesting Day (the first day when the new authority assumes statutory responsibilities). A major difficulty facing the preparations for the creation of a new authority is that continuing or outgoing authorities continue to have a mandate to take major decisions that can have a significant impact on the new authority. In the last reorganisation, there were several cases of continuing or outgoing authorities running down reserves, or entering into unsustainable increases in spending in the run up to Vesting Day.²⁵ Interviewees reported several examples of unhelpful decisions by outgoing councils including selling major assets to avoid losing them in the transfer, and entering into inappropriate Section 106 Agreements.

In the Scottish and Welsh reorganisations, rules were imposed that required continuing or outgoing authorities to seek agreement from successor authorities for large contracts or disposals.²⁶ While there is no systematic evidence for how these worked, interviewees from Wales and Scotland appeared to report that this issue was less severe than those people whose experience was from England. This may suggest the rules in Wales and Scotland would have been beneficial had they applied in England. Accordingly, in a future reorganisation government should consider whether similar rules should apply in England.

The process of reorganisation in the United Kingdom

The process of change followed a similar pattern in Wales, Scotland and England – summarised in the following diagram. Note that in England and Wales, the Structural Change Orders were passed typically 22 months before. Orders are simply a list of all the employees that are to move from one organisation to another.



Source: Audit Commission (1996) All Change: Managing Local Government Reorganisation and Beyond. Audit Commission, London.

Using a property commission

Finally, there may be an argument for using a Property Commission to resolve disputes over the allocation of assets. One of the most contentious aspects of a reorganisation can be the allocation of assets between the existing or outgoing authorities and the new ones. This is particularly the case if the assets cross boundaries or do not have a clear geographical location – for example shares in a company.

In England and Wales, authorities were simply required to come to an agreement about the division of properties and liabilities. But there were many disputes between authorities, some of which were not resolved until years later. For instance, the interviews identified a dispute between two authorities over the allocation of shares in an airport. This started during reorganisation in the mid 1990s, leading to a court case which was not resolved until 2001.

However in Scotland there was a Property Commission that advised the Secretary of State on principles of transfer and could resolve disagreements between authorities. It appears to have been helpful in resolving disputes. In one Scottish authority a disagreement over the ownership of shares in a local bus company was successfully adjudicated by the Commission. This may suggest a similar commission would be helpful for future reorganisations in England.

Creating the new organisation

Achieving transformation, not just transition

Once government has established the specific proposals for change, and the framework governing the transfer of assets and staff, it is the task of local authorities to implement the reforms.

But achieving the benefits of change is difficult. In the private sector, evidence suggests that a majority of mergers do not deliver the intended outcomes.²⁷ While some authorities managed to deliver substantial improvements following the last reorganisation, others did not. This is because while there are many potential pitfalls during a reorganisation – including systems failure, service interruption, and resistance from staff – achieving the benefits depends on avoiding these pitfalls and managing a highly complex process of change.

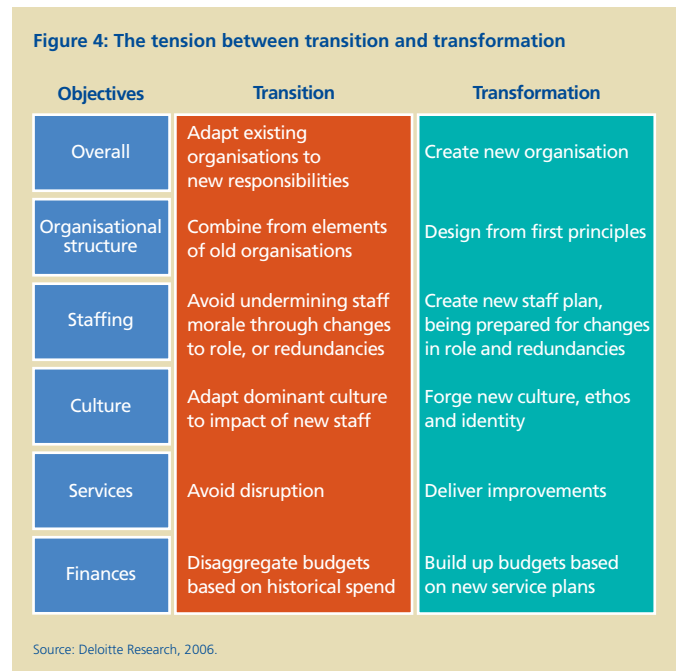
This section describes how local authorities can maximise the likelihood of reorganisation being a success. It draws substantially on interviews with senior officials who were personally involved in managing the reorganisation of an authority during the 1990s.

Overall, authorities going through reorganisation need to focus on transforming working practices not simply in ensuring a seamless transition. The four principal challenges they will face are: adapting to a tighter financial environment, forging a new corporate culture, rationalising and renewing IT and infrastructure, and harmonising and improving services. By taking early and concerted action across these four challenges they can maximise the likelihood of success.

The importance of transformation

Local authorities are invariably responsible for implementing any reorganisation. But in managing the implementation they will face two, potentially conflicting goals: to manage transition and to achieve transformation. These two objectives reflect the responsibility to meet legal and statutory obligations and ensure service provision is not interrupted on one hand, and on the other hand, the objective of creating a new organisation that can realise the benefits of reorganisation.

The difference between these two objectives and the tension between them is illustrated in Figure 4.



Broadly speaking an organisation that focuses too much on transition will fail to realise the long-term intended benefits of reorganisation. This is borne out by the Audit Commission, which found that it did not work for authorities simply to run the organisation as before but with extra or fewer functions.²⁸ But one that places too much emphasis on transformation in the short-term may risk disruption, poor staff morale, and confusion for the public by trying to change too much at once. A successful reorganisation must always manage and balance these two objectives.

However, evidence suggests that in a future reorganisation, authorities need to place more emphasis on the goal of **transformation** and potentially less on the goal of **transition** than they did during the last period of change. During the last reorganisation, despite widely reported concerns about the need to ensure a ‘seamless transition’, there were in fact few reported problems. In most cases evidence from inspectorate reports suggest that there was a smooth transition for service users.²⁹ This was also borne out by the interviews, which suggested that, with minor exceptions, transition to the new authority was effected without service interruption.

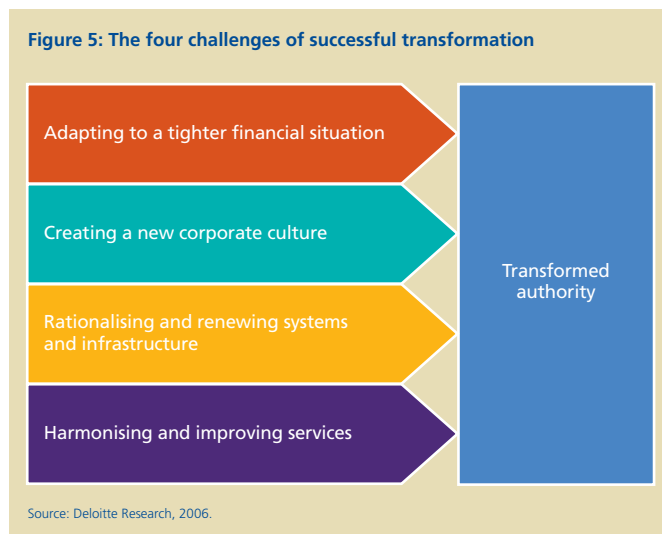
The explanation for this is that when a reorganisation occurs, by and large its impact is felt in the corporate centre of the organisation, rather than in the front-line services. In many cases services such as schooling, waste collection, or library services can simply continue, often without staff even having to relocate or experience a formal change in role. This is because new authorities formally ‘inherit’ the statutory obligations, staff and service responsibilities of predecessor councils and are not in a position to change them until after Vesting Day.

However, many of the interviewees reported that their authority needed to enter into at least one or more that one subsequent period of reform in order to achieve the benefits of reorganisation. For instance, one Scottish authority reduced the number of departments from an initial 22 to 12, two years after reorganisation. Authorities also frequently reported that many of the beneficial changes that took place, for example revamping Information Technology (IT) systems, reconfiguring services around the citizen, and introducing new efficiencies, only took place many years later.

Overall, this suggests that councils may have placed too much emphasis on simply enabling a smooth transition to the new authority, rather than in using reorganisation as an opportunity to introduce deeper reforms to ways of working. Accordingly, in a future reorganisation, authorities should aim to avoid service interruption on Vesting Day, but also to lay the foundations for a more substantial transformation of the organisation.

Achieving transformation

Evidence gathered from the interviews suggests that there are four principal challenges to achieving a successful transformation. These are set out in Figure 5.



Adapting to a tighter financial situation

New authorities should plan on the assumption that they will have less money than they might have expected. Last time round many authorities found that they had less money than had initially been indicated, even with the transitional support from government.

In Scotland, where reorganisation was accompanied by a tight grant settlement from government, funding was cut in areas such as the arts (reported cuts of 50 per cent), and in capital budgets (for example Strathclyde Transport Authority's budget cut from £25 million to £5 million).³⁰ In other cases, local authorities sought to increase revenues from charges.³¹

While transitional funding and adequate grant settlements from government can undoubtedly help, there are several reasons why authorities should expect the financial situation to be tight. Resource allocations from government, given how they are calculated, are unlikely to match historical spending in the area.³² In addition, authorities often face unexpected financial burdens or costs, which may stem from the decisions of the outgoing authority. Some interviewees felt that their area had suffered from a period of deliberate under-investment in the run up to reorganisation. Furthermore the costs of the actual process of organisational change are inevitably highly uncertain.

What this means is that when authorities are preparing budgets and service plans they will need to:

- prepare budgets with a margin of safety
- identify real budget cuts in some areas
- introduce efficiency improvements which can release cash savings.

Creating a new corporate culture

When a reorganisation occurs, often employees are brought together from organisations that have very different cultures, outlooks and values. These differences can be a potentially significant barrier to service integration and broader reform.

Interviewees universally reported that cultural change was the single biggest problem facing them in creating an effective new organisation. Specifically, perceptions of being a 'county' and 'district' member of staff were reported to be remarkably persistent after the transition to the unitary authority. In some cases authorities allowed the staff to remain physically and operationally distinct for some time after the actual formal change had occurred. In one Scottish authority, departments were even labelled 'region' and 'district' offices for at least two years after formal reorganisation. Most people felt that it took at least two to three years to forge an effective new corporate culture, but that if action was not taken early it could take much longer – up to ten years in some cases.

While there is no simple way of achieving this, authorities felt that it is helpful to take action early to:

- establish strong leadership and clear roles and responsibilities between parties (this includes establishing a mutual understanding between the new councillors and officers)
- emphasise the fact that it is a new organisation even if it is created from existing boundaries
- establish a new corporate mission and values, which can unite staff, and incorporate this into new job descriptions and pay structures
- use staff inductions and training sessions to communicate the new mission and values
- integrate previously separate teams (for example housing and social services), and/or locate staff from different backgrounds in the same office or room.

Rationalising and renewing systems and infrastructure

IT and infrastructure are crucial to achieving the benefits of reorganisation. Some sources suggest that in the private sector up to 40 per cent of merger benefits depend on IT.³³ With local authorities now far more reliant on IT than they were ten years ago, and with many customer-facing services now dependent on electronic delivery,³⁴ IT must be considered a key challenge in achieving the benefits of reorganisation. Alongside this, the asset and property base of an authority is also an important, often neglected means of releasing cash savings and improving service provision.

When a new authority is created, typically it will inherit a variety of legacy IT systems that do not reflect the needs of the new organisation. For instance, a payroll system that is adequate for a district authority may not be so for a unitary authority with four or five times as many staff. Many interviewees reported that updating their IT systems was one of the major challenges of reorganisation – a task that often took several years to implement fully.

Overall, authorities need to establish a phased strategy for revamping and transforming their IT capability. This is likely to consist, in the short-term of running some systems in parallel, but in the medium-term of enabling a migration of all services into a single framework and completely replacing some obsolete systems.

In the short-term authorities often run systems in parallel to avoid any risk of service interruption. For instance, one Scottish authority ended up running two mainframe computers simultaneously because it was too difficult to change it straight away. Another authority ran two payroll systems simultaneously for the same reason. However in the medium-term, most new authorities find that reletting major IT contracts is a means of both saving money and improving their service capability.

In addressing the IT challenge, authorities need to:

- carry out a full audit of their existing IT provision, and assess the opportunity for change
- develop the IT strategy as a means of furthering the broader corporate strategy
- establish a phased approach based on gradual migration or replacement of obsolete and ineffective systems, while avoiding the risk of service interruption.

The pattern of assets and properties inherited as a result of reorganisation is also likely to be far from ideal. Offices may be concentrated in the wrong areas, be in a poor condition due to under-investment, or reflect historic divides between different offices and services. Reforming an authority's property portfolio can be a means of releasing cash, reducing operating costs, improving quality and operational flexibility and supporting the redesign of service delivery (for instance through co-location).

Authorities should:

- assess the inherited asset portfolio against the broader objectives of the new organisation
- explore the scope for using changes to the property portfolio to support and catalyse organisational change
- target efficiency gains and capability improvement (using innovative financing arrangements where appropriate)
- reconsider the basis on which authorities occupy property, including the balance between owning and leasing properties.

Harmonising and improving services

The purpose of reorganisation is to produce local authorities that are better suited to meet the needs of citizens and taxpayers. Accordingly when it occurs, the expectation will be that in the short-term there will be no disruption to services and in the medium-term that tangible improvements will be delivered.

However, it is all too possible for a reorganisation to take place without delivering tangible improvements for citizens, or even to result in worse outcomes in some cases.

Interviewees suggest several elements to achieving a successful transformation of services:

- having a fresh look at the pattern of service provision (not being bound by historic patterns of service provision) and assessing it from first principles
- merging service directorates and teams (for example housing and adult care)
- requiring teams to prepare new service plans straight away
- using the opportunity of reorganisation to introduce reforms such as shared services or one-stop shops.

East Riding provides a good example of an organisation that used reorganisation as an opportunity to transform the organisation to the benefit of local citizens (See sidebar).

The East Riding of Yorkshire: Achieving transformation through reorganisation

The East Riding of Yorkshire council was created during the last period of reorganisation in England in 1996. The county of Humberside was abolished and East Riding was created from the district councils of Beverley, Holderness, East Yorkshire, part of Boothferry and half of the abolished county.

Being created with entirely new boundaries and having a relatively poor relationship with the outgoing county council meant that it was particularly challenging to create an effective new council. However, over the course of the past ten years, the council has become one of England's leading councils. According to the Comprehensive Performance Assessment, it is a three star authority that is improving strongly, with four stars for its use of resources.

The preparatory period in the run up to Vesting Day was very difficult. There was a difficult relationship with the outgoing county, which in some cases actively obstructed the process of transition. The senior management team had to occupy temporary offices above a shop because the county would not let them occupy council buildings until Vesting Day. Employees were joining from five different organisations.

Despite this it ensured continuous service provision on Vesting Day, and has subsequently delivered strong improvement in performance. This was achieved through a combination of effective planning for Vesting Day and action across all four of the challenges of transformation.

Strong and consistent leadership at both political and officer level

- Establishing a clear vision – “To become one of the leading councils, within five years”.
- A strong mutual understanding between councillors and officers about roles and responsibilities.

Source: Officers of East Riding, interviews and meetings June-July 2006.

Stringent planning and preparation for handover on Vesting Day

- Ensuring phones and systems were in place.
- Checking payroll was working.
- Meeting health and safety requirements.

Creating a new corporate culture

- Establishing simple but powerful new values: Quality in services, Pride in the area and Respect for people (QPR).
- Appointing external people to some of the senior posts.
- Providing clear guidance for staff set out in induction materials.
- Investing strongly in in-house leadership as well as management training and development.
- Co-locating staff from different teams.

Adapting to a tighter financial environment

- Keeping organisation lean, even at the cost of some redundancies.
- Making budget cuts of 20 per cent across the board to balance the books.
- Rationalising the property portfolio to generate savings for reinvestment.

Harmonising and improving services

- Using savings from elsewhere to create services built around the citizen to ensure the benefits of the new organisation were felt by the public.
- Pioneering the use of ‘one stop shops’ for local citizens.
- Establishing “Citizen Link” a scheme that enables people to access information through portals in the street.
- Creating “My East Riding” – an online facility for reporting and monitoring progress on problems.

East Riding illustrates that reorganisation can be a clear opportunity for service transformation, regardless of the difficulties involved in affecting transition.

Conclusion

An opportunity not just a task

Reorganisation is not an end in itself, but a potential means to achieve improved services, greater efficiency and better accountability. But whether or not these outcomes are achieved depends as much on how reorganisation is implemented, as on the exact structures that are chosen.

It is undoubtedly a difficult and potentially fraught process, with significant risks for both government and local authorities. However, experience in the United Kingdom and elsewhere suggests some clear lessons on how to maximise the likelihood of success.

Above all, reorganisation should be seen not just as a task to be carried out, but as an opportunity for government and authorities to enable the introduction of deeper reforms to working practices and services.

About this research

This report analyses the lessons from the reorganisations in England, Scotland and Wales in the 1990s. Evidence was also gathered from local government reorganisations that occurred in Canada (City of Toronto), New Zealand, Australia (State of Victoria), and Denmark.

Methodology:

- literature reviews of available evidence on the reorganisations in the above countries
- interviews with Deloitte practitioners who have advised authorities undergoing reorganisation
- interviews with 13 current Chief Executives, three former Chief Executives, and three other senior officials who have experience of implementing a reorganisation.

Research assistance was provided by Joseph Holden and Senthuran Bhuvanendra.

Appendix 1: Overview of the last reorganisations of local government in the United Kingdom

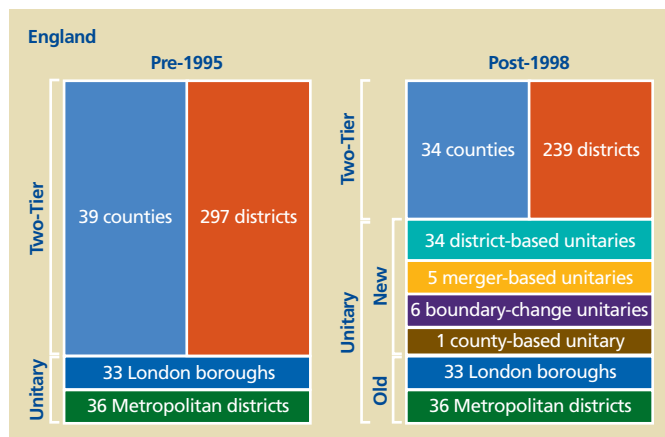
The structure of local government in England, Scotland and Wales was reorganised in the 1990s. Northern Ireland is currently going through a process of change. This appendix provides an overview of the changes. It does not aim to cover broader changes in political structure such as the creation of the Welsh Assembly or the Scottish Executive.

England

Before the 1990s, England had a two-tier structure (counties and districts) outside London and metropolitan areas and a unitary one within those areas (London and metropolitan boroughs).

The changes abolished five counties, and created 46 new unitary authorities. Of these 34 were based on district boundaries, one on county boundaries, and 11 on either mergers or new boundaries.

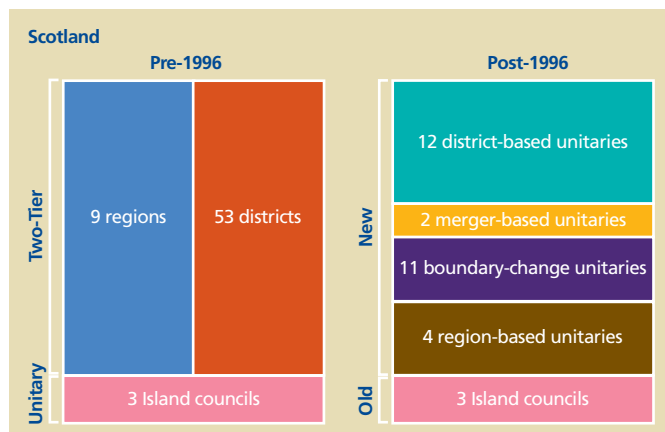
The changes are summarised in the diagram below.



Scotland

Prior to reorganisation in Scotland there existed a two-tier structure of nine Regions, divided into 53 districts, and three unitary Island councils. Reorganisation created 32 unitary authorities (including existing Island ones). Of these, 12 were based on district boundaries, four on regions, and 13 through either mergers or boundary changes.

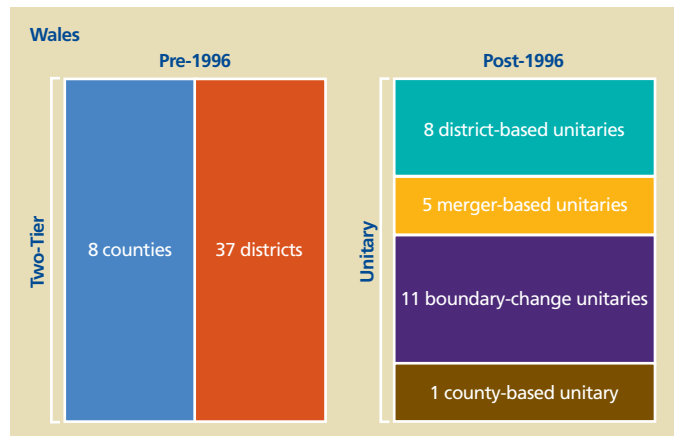
The changes are summarised below.



Wales

The structure of government in Wales before 1996 consisted of eight counties and 37 districts. After reorganisation in 1996, this was replaced with 22 unitary authorities. One of these was based on county boundaries, eight on districts and 16 on either mergers or boundary changes.

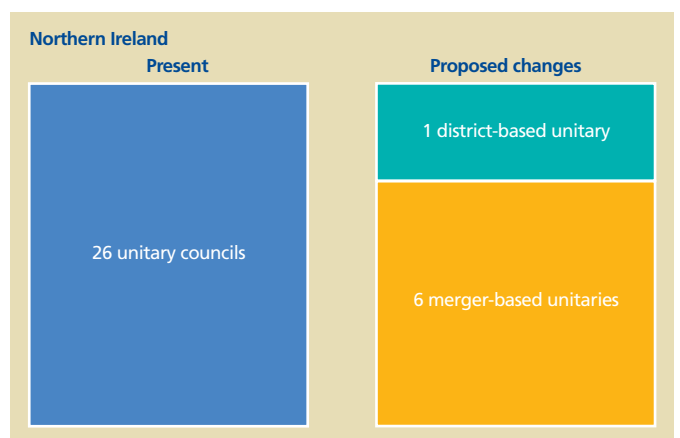
The changes are summarised below.



Northern Ireland

Currently there are 26 unitary councils. The proposed changes will create seven – one based on an existing unitary's boundaries, and six through mergers.

The changes are summarised below.



Appendix 2: Major reorganisations in other countries

This appendix summarises major reorganisations that have happened or are happening in Denmark, New Zealand, Canada (City of Toronto), and Australia (State of Victoria).

All the reorganisations illustrate a trend towards amalgamation (increased scale) of sub-national government.

Australia (State of Victoria)

In 1994, the Australian state of Victoria underwent a substantial reorganisation of local government, reducing 210 local authorities to just 78.

The reform in Victoria was motivated by the pursuit of economies of scale and improvements in the financial stability of the state. The reforms coincided with the introduction of a number of pro-market policies aimed at increasing private sector presence in public service delivery and reducing the cost of local government.



Canada (City of Toronto)

In January 1998, the City of Toronto was formed from six municipalities and the municipal government of Metropolitan Toronto. The reorganisation greatly simplified the local governance of the area by replacing the city's two-tier system of municipal government with a single-tier.

This reform was motivated by reducing waste and duplication among Toronto's municipalities and to promoting Toronto's competitiveness as a global city-region. It was a top-down reform by Ontario's Provincial Government, and part of a political commitment to 'less government'.



Denmark

On 1 January 2007, Denmark will undergo a radical change to the structure of its local government. The reorganisation will reduce its 14 counties to five regions and its 270 municipalities to 98. It will involve a large rearrangement of government functions with a substantial transfer of responsibilities from counties to the municipalities.

The reform was motivated by providing a better quality of local public services and by enhancing democracy by devolving decision-making to the lowest tier of government. Danish municipal governments were seen as too small to carry out service responsibilities and there were too many 'grey areas' in service provision between government tiers.



New Zealand

New Zealand undertook a major reorganisation of its sub-national government in 1989, substantially reducing the number of territorial authorities from 205 to 78.

The Central Government was committed to gaining greater efficiency in delivering public services and simplifying local governance by giving the responsibilities of over 400 ad hoc bodies to territorial authorities and a new tier of government, regional councils.



End notes

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- 21 Leach and Stoker *ibid.*, Stewart et al, *ibid.*, Chisholm, *ibid.*
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- 26 In Scotland permission had to be sought, to dispose of land for more than £250,000; to enter into a capital contract with expenses greater than £2.5 million; to enter into other contract extending beyond reorganisation with expenses greater than £250,000. In Wales, to dispose of land or other assets more than £100,000; capital contract greater than £1 million; other contract greater than £100,000.
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