
Solent Authorities

Devolution and the future of local government

Confidential

November 2016

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Executive summary

Devolution and future of local government in the Solent

Across Hampshire and the Isle of Wight local government is at risk of turning inward as a result of fallout from failed discussions on a devolution settlement for the Hampshire & the Isle of Wight area, which sought to devolve power from Whitehall. This has brought to the surface tensions which are symptomatic of concerns about the longer term sustainability of existing arrangements for local government. Since then the parties involved in the previous Hampshire and the Isle of Wight devolution prospectus have been considering their next steps as follows:

- Hampshire County Council has developed and consulted on its own options for unitary solutions;
- Solent authorities are focussed on securing a combined authority to bring new funding and new powers to support the economy of the area as the first step on their devolution journey; and
- Heart of Hampshire authorities want to ensure their residents and businesses have the same opportunity to benefit from devolution as the rest of Hampshire.

Purpose of this document

This document was commissioned by the Solent authorities, who have sought advice on options for the most effective and efficient form of local government in the context of opportunities for devolution, combined authorities and the prospect of further unitarisation. The authorities intend to establish a strong case for improved governance and devolution which will support the delivery of sustainable services and improved outcomes for local residents.

In this report we have provided an independent assessment of various options for unitary solutions across the Solent. The report does not make specific recommendations but it offers views on the suitability of arrangements for the Solent authorities.

The provision of local government in the Solent needs to be addressed as part of a 'whole system' of local government in the area which extends across the existing geography covered by Hampshire County Council and the 11 district councils. This report is part of a suite of reports using common methodology that analyses the impact of potential unitary authority options across the geography.

The analysis within this report supports the following conclusions:

- Business as usual does not look sustainable from a financial viewpoint for the majority of councils. This exacerbates the case for change.
- When you add the benefits from reorganisation and transformation the budgets are hugely improved, however some configurations still display deficits.
- Status quo without a recalibration of district and Hampshire County Council relationships is undesirable.
- An enhanced status quo utilising a combined authority for Solent would be an attractive outcome and would provide a strong foundation for joint working and accountability to improve the design and delivery of services for residents
- If any future unitary configuration is desired, the 3 unitary authority options appears to have the most strengths and least weaknesses.

On devolution, the Heart of Hampshire authorities support the ambition of the Solent combined authority. It is clear that all of the councils would be stronger working together on a local consensus to secure devolved powers, control and resources from national to local bodies, while respecting the differences within Hampshire and the Isle of Wight. Any solution will require local consensus and it is clear relationships need to be strengthened to enable a focus on better serving residents and businesses. All parties agree the status quo needs to change.

The case for change

The Solent area currently has three unitary authorities within its geography; Isle of Wight Council, Southampton City Council and Portsmouth City Council. The remainder of the districts in the geography operate in a two tier¹ structure with the districts responsible for a number of services, and Hampshire County Council responsible for a select few services across the county.

The district and county system of local government across the UK has inherent tensions that have been exacerbated by increasing financial challenges in recent years. Whilst neither tier of council has any jurisdiction over the other, conflicting priorities regarding the funding of services and the needs of local people have created dis-alignment and inefficiencies between service design, decision making and delivery. As a result of this disconnect, nationally nearly half of the original two tier areas have been replaced in successive rounds of reorganisation during the 1990s and in 2009. Locally, there are several additional drivers for change to the status quo in Hampshire, including:

- Recognition that future funding of local government will be increasingly dependent on economic performance, with a greater emphasis on enabling economic growth.
- Underlying pressure for local government to continue to find efficiency savings including through creating greater economies of scale and an expectation to redesign and prioritise services to address local need.
- Differential priorities requiring ways of working that achieve benefits of scale but respect local requirements around individuals, communities and districts within Hampshire and the Isle of Wight.
- The need to enhance democratic accountability in order to take up the opportunity to secure a devolution deal for the residents and businesses within the Solent.

It is recognised by the Solent authorities that there are several options on the spectrum between the status quo and complete local government reorganisation into unitary authorities. These options can be designed to optimise the drivers as far as possible, but they vary on the complexity, time and cost continuum.

Preferred route is a combined authority with an ‘enhanced’ or recalibrated relationship between county and districts

For many of the Solent authorities, reorganisation is considered a distraction from the immediate goal of starting to secure devolved powers and resources. There is agreement that the current unitary, district and county status in Hampshire is legitimate but equally that there is a desire to ‘recalibrate’ the relationship between the districts and Hampshire County Council.

The exact nature of this recalibration needs to be defined in due course, with all parties around the table, but there is general consensus that it could involve further investigation of the following principles. The first two principles are particularly relevant to the county/district relationship, whereas the latter points are relevant to both two tier and unitary.

- Readdress how some services are allocated between county and district where synergies and rationale for coordination exists, e.g. pot holes, highways and street cleaning
- Enable greater influence over decisions made by the County Council so that decisions better reflect the needs of communities
- Allow different levels of service depending on need and where residents wish to pay more
- Build services to become more citizen-centric, and restructure services to fit around the person
- Practice and encourage mutual trust, respect, understanding and open communication across different delivery partners to best enhance outcomes for the customer

Solent authorities believe strongly that any recalibration of working between districts and the county should not only focus on service delivery but also on cultural change, behavioural change and ultimately on relationships. It is also important to consider that several Solent districts contain a third tier of local government in the form

¹ It should be noted that in some cases, there are three tiers of Government with parishes and town councils being the third tier. However, for the purposes of this report, we have assumed two tier incorporates these.

of parish and town councils so the relationship (and these principles) have the potential to go beyond two tier, to three tiers.

The future relationships should be built around an ability to enable decision making to be as close to local communities as possible and to recognise that different areas need different solutions. It should also be flexible enough to provide for more effective outcomes as a result of designing services around citizens and planning and managing delivery at the appropriate scale as part of an integrated approach.

However, the Solent authorities recognise that such options for an enhanced status quo arrangement would only work with the establishment of a combined authority where parties co-operate fully on the basis of trust and respect, and can hold each other to account. Crucially, it would also provide an impetus for change.

Combined authorities

Combined authorities are being established as the vehicle from which to develop and implement a whole systems strategic approach collaboratively, to take on devolved powers and funding, and be the mechanism for effective strategic decision making, streamlined accountability and joined up services.

As noted above and explored as part of a separate report, the neighbouring Heart of Hampshire authorities are also pursuing the notion of an enhanced status quo as a precursor to a combined authority and devolution deal for their geography.

Local government re-organisation – alternative options

Despite the recognition of the strengths of the District and County structure in Hampshire, it is acknowledged that underlying tensions between the authorities are likely to remain, especially in the context of declining funding over the next decade. Where those conditions deteriorate the ability to deliver effective joint working can rapidly diminish to the detriment of all parties. Following the public consultation regarding local government re-organisation by Hampshire County Council, it is right for the Solent to consider alternatives.

Two different unitary authority options are considered in this report, along with the status quo:

Table 1 Unitary Authority options

| Option | Overview |
|------------------------------------|--|
| 1 Three unitary authorities | <p>This option would include three unitary authorities for the Solent area.</p> <ul style="list-style-type: none"> Greater Portsmouth (comprising Portsmouth City Council, East Hampshire District Council, Fareham Borough Council, Gosport Borough Council and Havant Borough Council) with a combined geographical area of 759 km². Greater Southampton (comprising Southampton City Council and Eastleigh Borough Council with a geographical area of 142 km²) Isle of Wight (comprising the existing Isle of Wight unitary with a geographical area of 395 km²) |
| 2 Five unitary authorities | <p>This option would include five unitary authorities for the Solent area.</p> <ul style="list-style-type: none"> Gosport & Portsmouth (comprises Gosport Borough Council and Portsmouth City Council with a geographical area of 88 km²) Southampton (comprises existing Southampton City Council unitary with a geographical area of 56 km²) Isle of Wight (comprises existing Isle of Wight Council unitary with a geographical area of 395 km²) East Hampshire & Havant (comprises East Hampshire District Council and Havant Borough Council with a geographical area of 594 km²) Eastleigh & Fareham (comprises Eastleigh Borough Council and Fareham Borough Council with a geographical area of 163 km²) |

Assessment methodology for assessing re-organisation options

The report assesses potential options for local government re-organisation against a set of four quantitative and qualitative criteria as agreed with the Department for Communities and Local Government (DCLG), being:

- Providing value for money (quantitative)
- Delivering positive outcomes in terms of the cost of the transition (quantitative)
- Ensuring strong and accountable local leadership and governance (qualitative)
- Delivering better public services (qualitative)

Within this study we have defined local government reorganisation to include changes to local authority organisational status such as moving towards a unitary authority configuration. By local government reform we refer to fundamentally changing the way things are done, such as through service redesign. Reform also includes changes to boundaries which are assumed outside the scope of this report.

There has also been an expressed desire from the Solent authorities for the range of criteria applying to local government review to be extended to include the suitability any changes to local authority organisational boundaries in enabling economic growth and prosperity in the area, in a similar manner than occurs when the suitability for a Combined Authority is evaluated. This would involve assessing options against a '5th test' which would encompass the ability of an area, singularly and collectively, to fulfil its economic potential. We have considered this within our analysis and include narrative on the economic functionality throughout this report. A short summary of the economic issues relating to unitarisation is included in section 5 (within the discussion on 'appropriate scale').

Proving value for money and cost of the transition

In order to evaluate the value for money case for each of the unitary authority options, we undertook analysis against the two quantitative tests outlined above. This included an assessment of the financial status quo of the authorities that make up the Solent, including Hampshire County Council, as well as recalculated income and expenditure accounts and the council tax harmonisation process for each unitary authority option.

There is significant disparity between the existing authorities with regards to current income and expenditure and financial positions. This is the case for the three existing unitaries and the districts. The scale at which Hampshire County Council operates and their associated expenditure far exceeds the activity of the district councils. Education, Adult Social Care and Children's Social Care account for the majority of spend (84%) incurred by Hampshire County Council. However, Hampshire County Council has limited influence over the way in which schools spend the funding they receive. Social care expenditure is particularly vulnerable to demographic shifts and the imposition of financial constraints, which create considerable pressures for the continued future successful delivery of these respective services.

Using the 2016/17 General Fund Revenue Account data, a baseline income and expenditure budget has been calculated for each unitary option under consideration with Hampshire County Council income and expenditure apportioned to each district council where necessary using a series of 'disaggregation factors'. We have not conducted any disaggregation for the three current unitary authorities (since they already provide all services independently). The income and expenditure accounts and the net surplus/deficit positions that have been calculated for each unitary authority option provide an indication of each authority's ability to assume and provide existing county services. Our financial analysis has been presented for the baseline year (2016/17) and for 2021/22 both before and after the savings and efficiencies association with re-organisation are taken into account. The results are displayed in Table 2.

The analysis conducted is at a high level, and if any of the options are to be taken forward, then further analysis would need to be undertaken including the disaggregation of RSG and Business Rates and the level transformation savings. A more detailed disaggregation of RSG and Business Rates would result in some rebalancing effect of reducing deficits for relatively deprived areas and reducing surpluses in relatively more prosperous areas. See Appendix A.4 for further details.

Table 2 Financial analysis per option

| | Surplus/ (deficit) 2016/17 (£'000) | Surplus/ (deficit) 2021/22 (£'000) | Surplus/ (deficit) 2020/21 as % of total net current expenditure | Surplus/ (deficit) 2021/22 assuming funding gap is closed (£'000) | Surplus/ (deficit) 2021/22 post re- organisation* (£'000) |
|------------------------------|---|---|---|---|--|
| Three UA Option | | | | | |
| Greater Portsmouth | (27,881) | (56,901) | (6.03%) | (27,745) | 8,220 |
| Greater Southampton | 4,677 | (23,904) | (3.79%) | 4,580 | 22,250 |
| Isle of Wight | - | (22,377) | (8.07%) | -- | 8,358 |
| Five UA Option | | | | | |
| Gosport and Portsmouth | (14,443) | (43,864) | (9.63%) | (14,708) | 2,729 |
| Southampton | - | (28,484) | (6.12%) | -- | 10,873 |
| Isle of Wight | - | (22,377) | (8.07%) | -- | 8,358 |
| East Hampshire and Havant | (16,333) | (15,325) | (4.38%) | (15,325) | (6,572) |
| Eastleigh and Fareham | 7,563 | 6,868 | 2.26% | 66,868 | 18,834 |

It should be noted that there would be an element of rebalancing, if the disaggregation of RSG and Retained Business Rates were refined further. See Appendix A.4 for further details.

In tandem with organisational change there is the potential opportunity for transformational change. The costs of re-organisation and potential transformation savings are shown in Table 3 below. Transition costs include employee severance costs and costs associated with project and change management, business management and ICT integration. Transformation savings relate to reduction in staffing costs, democratic costs and office space rationalisation.

Table 3 Reorganisation and transformation savings

| | Year 1 £m | Year 2 £m | Year 3 £m | Year 4 £m | Year 5 £m | Total £m |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Three Unitary Option | | | | | | |
| Total costs | (15.2) | (15.2) | (15.2) | 0.6 | 0.6 | (44.2) |
| Total savings | 21.3 | 41.3 | 61.4 | 61.4 | 61.4 | 246.7 |
| Total net savings | 6.1 | 26.2 | 46.2 | 62.0 | 62.0 | 202.4 |
| Five Unitary Option | | | | | | |
| Total costs | (15.4) | (15.4) | (15.4) | 0.4 | 0.4 | (45.5) |
| Total savings | 19.5 | 38.2 | 57.0 | 57.0 | 57.0 | 228.7 |
| Total net savings | 4.1 | 22.8 | 41.6 | 57.4 | 57.4 | 183.3 |

Combining district authorities into unitary authorities will require the convergence of council tax rates. We have adopted the approach that the lowest rate inherited within the configuration should be increased at the highest annual percentage increase available for a unitary authority and that all other rates should be increased

by the required percentages so that council tax rates are identical at the end of a specific convergence period. Table 4 below presents the year five financial position of each unitary authority once the effects of re-organisation and council tax harmonisation have been considered.

Our council tax analysis indicates that there will be a degree of mismatch between the proposed unitary authorities with regards the level to which they will be able to raise council tax income. In the 3UA option, Greater Portsmouth would be able to generate additional income, but Greater Southampton would not. Isle of Wight position would remain as current. In the 5 unitary authority option, all new unitary authorities would be able to generate additional income, apart from Gosport and Portsmouth which would generate additional costs. This is presented in more detail in section 3 of the main report.

Table 4 Surplus/deficits of options pre and post Reorganisation and transformation

| | Surplus/deficit 2021/22 (£'000) | Surplus/deficit 2021/22 assuming funding gap is closed (£'000) | Surplus/deficit 2021/22 post re- organisation (£'000)* | Surplus/deficit 2021/22 post re- organisation and CT harmonisation |
|---------------------------|---------------------------------------|--|---|--|
| Three UA option | | | | |
| Greater Portsmouth | (56,901) | (27,745) | 8,220 | 9,861 |
| Greater Southampton | (23,904) | 4,580 | 22,250 | 20,989 |
| Isle of Wight | (22,377) | - | 8,358 | 8,358 |
| Five UA option | | | | |
| Gosport & Portsmouth | (43,864) | (14,708) | 2,729 | 2,651 |
| Southampton | (28,484) | - | 10,873 | 10,873 |
| Isle of Wight | (22,377) | - | 8,358 | 8,358 |
| East Hampshire and Havant | (15,325) | (15,325) | (6,572) | (5,086) |
| Eastleigh and Fareham | 6,868 | 6,868 | 18,834 | 19,877 |

Table 5 Summary of Value for money assessment

| Summary of Value for Money assessment | |
|---------------------------------------|---|
| Status Quo | <ul style="list-style-type: none"> ✓ No upfront costs needed for reorganisation and transformation. ✗ Unsustainable from a budget perspective for the majority of councils. Something needs to change. ✗ No net savings achievable through reorganisation and transformation. |
| 3 UA | <ul style="list-style-type: none"> ✓ Generates most favourable baseline budget surplus/deficit positions overall. ✓ Achieves greatest savings from reorganisation and transformation (both cumulatively and in annual terms). ✓ Assuming projected funding gaps are closed, Greater Portsmouth, Greater Southampton and Isle of Wight generate financial surpluses once the effects of reorganisation and council tax harmonisation are taken into account. |
| 5 UA | <ul style="list-style-type: none"> ✓ Provides most favourable council tax impact (in terms of potential to generate additional council tax income). ✓ All unitaries, barring East Hampshire and Havant, expected to generate a financial surplus in 2021/22 once the effects of reorganisation and council tax harmonisation are taken into account. ✗ Generates least favourable baseline (2016/17) budget surplus/deficit position. ✗ Disparity between the proposed authorities. |

Ensuring strong and accountable local leadership and governance

The second set of criteria for examining the unitary authority options focuses on their ability to ensure strong and accountable local leadership and governance.

One of the challenges of the Hampshire County Council/district local government arrangement is the multiple points of accountability, which can result in residents, businesses, public sector partners and sometimes even staff being unsure which authority is responsible for a particular issue. Under unitary authority arrangements, the local authority is responsible and accountable for all of the local government services that are provided in that community.

Furthermore, unitary authorities are best placed to achieve a role as a ‘place leader’ by being clear about their ambitions for the residents they serve, building consensus with partners and the public and distributing their power. A unitary authority would have oversight of the local authority services provided to residents and would reduce the number of public sector organisation trying to work together in partnership to deliver shared aims. This is of course already an operational arrangement in existence within the Solent areas. In terms of the analysis, both proposed unitary authority options therefore have an advantage over the status quo in clarifying accountability, given that the total geography would then be covered by unitary authorities (and not just the three existing ones).

However, a new unitary authority must not be too large that it is unresponsive or unrepresentative to the needs of the communities it services (which is one criticism widely made about some County Councils and one of the reasons why DCLG informally advise an optimum population size of 300,000 to 700,000).

The number of Members across the Solent area and Electorate per Member statistics would vary depending on the number of unitary authorities. Democratic representation will be influenced by the Boundary Commission’s review and without pre-determining the outcome of a review, it is difficult to find a differentiator between the options on democratic representation by ward or electorate. There are examples from other recently established unitary authorities of enhanced representation of local communities through Area Boards as an example, as well as enhancing the role of town and parish councils.

A summary of the strengths and weaknesses of each of the Solent unitary authority options is summarised in the table below.

Table 6 Summary of Local Leadership assessment

| Summary of Local Leadership assessment | |
|--|---|
| Status Quo | <ul style="list-style-type: none"> ✓ 354 members ✓ Single point of accountability already offered by the three existing unitary authorities ✗ No single point of accountability in the districts currently |
| 3 UA | <ul style="list-style-type: none"> ✓ 286 (estimated) members ✓ Single point of accountability could be improved via creation of unitary authorities across whole Solent areas ✗ Ratio of population to senior unitary authority cabinet member would be lower than the 5 unitary authority option which may be a challenge for representativeness ✗ May be greatest need for Area Boards, Community Networks and Parish, Town, Community councils to improve representativeness |
| 5 UA | <ul style="list-style-type: none"> ✓ 286 (estimated) members ✓ Single point of accountability could be improved via creation of unitary authorities across whole Solent areas ✓ Greater potential for representativeness than the 3unitary authority option |

Delivering better public services

Local government in the Solent has been successful in finding efficiencies and adapting to a new reality of lower central government funding. However, further efficiencies are needed. Another major driver for change in the Solent is to achieve a devolution deal which facilitates improved productivity and a realisation of the potential

economic growth, while protecting the competitive advantages that come from its natural environment and attractive communities.

There are also opportunities to address the multiple points of accountability, dispersed customer insight and duplicated support costs associated with district and county structures which could lead to more effective and efficient delivery of services across the area.

Our assessment of whether options would deliver against the better public services criteria is centred around six sub-criteria, based on our work about the future role of public bodies. The sub-criteria we have used and their rationale are presented below, as well as a summary of our results.

Table 7 Delivery of better public services

| Sub-Criteria | Rationale |
|--|--|
| Scale | DCLG have informally suggested that they would expect any reorganisation to result in authorities with an optimum population size in the range of 300,000 to 700,000. This is not a hard test but any proposal outside of this range would need to have a strong rationale. |
| Citizen centricity | There is no single citizen. What they want will depend on their specific requirements at specific times, both of which will change over time. We have made a judgement on how well the options will be able to provide local leadership, both for services and activities that are under direct control and those activities beyond their control. Unlike previous local government reorganisations, the current opportunity is being stimulated by devolution. There is a real opportunity to design and create local services around the specific needs of different communities. |
| Connected government | There is a clear benefit from a clear framework of accountability and responsibility for public services. But local government is only part of the complex ecosystem of public service commissioners and delivery bodies. Co-terminosity with other public authorities is recognised as important but our assessment recognises integrated public services are much more complex than is often portrayed. This suggests a need to consider integration at a variety of scales depending on whether alignment is for strategic outcomes, operational delivery or human scale impact. |
| Empowered authorities | A clear 'offer' to Government that the alignment should be supported by devolution of powers and resources that would empower authorities to deliver. Our criteria assume that proposals that use new mechanisms to enable devolution deals to be agreed would be better placed. The establishment of a Combined Authority and the agreement of a deal would provide the platform for greater collaboration, public service reform and the authority and framework to make it happen. |
| Deliver the promise | A reorganisation of local government would need to demonstrate it could deliver public services better. Our criteria consider both the potential ability to manage transition to new corporate structures and the ability to transform delivery of public services as distinct. To be successful the options will need to demonstrate strong programme and change management capability. |
| Continuously improve and innovate | Any authority should be capable of establishing an innovative culture and striving for continuous improvement. Our criteria considers the <i>likelihood</i> that each option would take bold and imaginative steps to innovate and improve public services. |

It is important to note that we have contrasted the two unitary options against the status quo, but have not included in this assessment the potential of enhancing the status quo through changes to working practices or behaviours that might be achievable without reorganisation, nor have we included comparison with a combined authority (which could happen alongside reorganisation).

Table 8 Summary results of better public services delivery

| Summary of Better Public Services assessment | |
|--|--|
| Status Quo | <ul style="list-style-type: none"> ✓ Current arrangement of shared services and functions is well developed and could be enhanced ✗ This option performs worst of the three options overall on the 'better public services' sub-criteria |
| 3 UA | <ul style="list-style-type: none"> ✓ Strongest option overall against the sub-criteria ✓ Closest alignment with DCLG thresholds on population ranges within UAs (exc. IOW which remains on its own in all options and which is far lower even accounting for population growth by 2032). ✓ Strongest performer on the criteria of 'citizen centricity', 'empowered to deliver' and 'delivering the promise' sub-criteria. |
| 5 UA | <ul style="list-style-type: none"> ✓ Strongest performer on the criteria of 'connected government' and 'continuously innovate' ✗ Medium performance on the sub-criteria |

Key conclusions

The analysis per option within this report supports the following conclusions:

- Business as usual does not look sustainable from a financial viewpoint for the majority of councils. Neither does it improve dramatically under reconfigured unitary authorities with disaggregation of county spend and budget projections to 2020/21. This exacerbates the case for change.²
- When one adds the benefits from reorganisation and transformation the budgets are hugely improved, however some configurations still display deficits.
- Status quo without a recalibration of district and Hampshire County Council relationships is undesirable and will not achieve Solent authorities' aspirations and ambitions surrounding greater support of business and citizens. Current challenges around dispersed and disconnected services will be expected to prevail unless there are other drivers to change.
- However, an enhanced status quo utilising a combined authority for Solent would be an attractive outcome in the immediate term. This is because it would allow the authorities to seek devolved responsibilities for local government without the delays, cost and instability associated with large scale reorganisation. A Solent combined authority would also provide a strong foundation for joint working and accountability to improve the design and delivery of services for residents.
- Of the unitary authority options, the 3 unitary authority option appears to have the most strengths and least weaknesses, and might provide the basis for any future unitary configuration if desired.

²If any option is to be taken forward, then further analysis would be required including the reallocation of RSG, Retained Business Rates and the level of transformation savings, all of which will impact the overall financial position.

1. Introduction

1.1. Purpose of this report

The five district councils in the Solent (East Hampshire District Council, Eastleigh Borough Council, Fareham Borough Council, Gosport Borough Council and Havant Borough Council) and the 3 unitary authorities (Isle of Wight Council, Portsmouth City Council and Southampton City Council) have commissioned PwC to provide independent advice and appraisal in relation to the options available for the most effective and efficient form of local government in the context of opportunities for devolution, combined authorities and unitarisation.

This report provides an evidence-based assessment of different local government reorganisation options with an aim to identify which option achieves the right balance of saving money whilst improving services.

The assessment criteria for options concern the delivery of better public services, stronger and more accountable local leadership and the provision of value for money. The report also provides a comprehensive assessment of the status quo against these criteria.

In the short term, this is needed to support the Solent authorities as they reflect on their devolution proposals to Government following the collapse of the Hampshire and Isle of Wight devolution deal in February 2016.

Following the collapse the authorities involved in Hampshire and Isle of Wight have fragmented into three parties:

- Hampshire County Council which has developed and consulted on its own options for unitary solutions;
- Solent authorities who are primarily focussed on securing a Solent combined authority as the first step on their devolution journey; and
- Heart of Hampshire³ authorities who want to ensure their residents and businesses have the same opportunity to benefit from devolution.

This report provides a robust consideration of options for change within the Solent to support them on their journey to devolution.

The sub-sections that follow outline the socioeconomic characteristics of the Solent area that are relevant to reorganisation. We then give a description of the local government baseline (from which to assess options), and gives a brief overview of the recent evolution of local government in the area to set the context and outline the devolution aspirations.

1.2. Hampshire and the Isle of Wight

Hampshire and the Isle of Wight are traditional ceremonial counties, covering 4168 km sq⁴ (1609.5 square miles) and bordering Dorset and Wiltshire to the West, Berkshire to the North and Surrey and West Sussex to the East. In the South sit the cities of Southampton and Portsmouth with the Solent separating the mainland from the Isle of Wight, which is the largest island in England.

Population overview

The total population of Hampshire and the Isle of Wight is approaching nearly two million, predominately based within urban areas, of which five major urban areas; being



³ The 'Heart of Hampshire' authorities are the six districts of Basingstoke & Deane Borough Council, Hart District Council, New Forest District Council, Rushmoor Borough Council, Test Valley Borough Council and Winchester City Council.

⁴ Area of 416,879 hectares or 1609.5 square miles <https://www.iwight.com/azservices/documents/2552-Isle-of-Wight-Demographic-and-Population-2014-15-Final.pdf>, <http://www3.hants.gov.uk/about/hnt.html>, <https://www.portsmouth.gov.uk/ext/the-council/policies-and-strategies/city-of-portsmouth-geographical-area.aspx>, <http://www3.hants.gov.uk/planning/factsandfigures/key-facts/kf-southampton.htm>

Portsmouth, Southampton, Basingstoke, Farnborough and Aldershot make up 82% of the total urban population⁵.

Populations of the individual authorities, to the nearest hundred range from 84,700 in Gosport to 249,500⁶ in Southampton, with an average of 139,600 per local authority. Together the built up area of South Hampshire is the seventh most populous urban area in the UK, larger than Tyneside. However, 85% of Hampshire county landmass is defined as rural and over a third of the county's area is within National Parks or Areas of Outstanding Natural Beauty⁷.

Socioeconomic overview

The economic coherence of local government is an issue that has come up repeatedly in stakeholder consultations throughout Hampshire and the Isle of Wight. It is therefore worth discussing the economic baseline. In 2013 Hampshire County Council reported on the overall competitiveness of the Hampshire Economic Area in their Hampshire Economic Assessment⁸ using the UK Competitiveness Index (UKCI)⁹. This assessment includes the Isle of Wight. The UKCI uses economic factors such as GVA per capita, unemployment rates, productivity and full time weekly median pay in determining the relative national competitiveness of authorities. This report highlighted that the performance of Hampshire and Isle of Wight is similar when compared with the rest of the UK on most economic indicators, however there are significant variances.

- **Gross Value Added:** Gross Value Added per head generally declines from the North to South across the Hampshire and Isle of Wight NUTS 2 (Nomenclature of territorial units for statistics) area. This is reflected in the most recent Gross Value Added per head figures in 2014, where North and Central Hampshire are 121.7 and 112.7 against a UK base of 100, and Portsmouth, Southampton, South Hampshire, and the Isle of Wight are 104.5, 95.8, 93.7 and 70.2 respectively¹⁰. The South East average is 109.7.
- **Employment:** Unemployment rates are highest in the South Hampshire and Isle of Wight areas of Portsmouth, Southampton, Isle of Wight and Havant with more than 5% unemployed.¹¹ Unemployment rates are lowest in Winchester, Test Valley and Hart with less than 3% unemployed. The North and South Hampshire divide is also reflected in the residential gross weekly median pay, where Isle of Wight has median weekly pay of £479 against the highest reported in Hart of £708 (average of £563 for Hampshire and Isle of Wight)¹²
- **Education:** Educational attainment indicators within the UK Competitiveness Index, show Gosport, Portsmouth and Southampton having less than 86% with NVQ (National Vocational Qualifications) 1 and above. This is lower than the 94% and above reported in Test Valley, Hart and Fareham. The average for the UK is 84.9%.
- **Health:** Hampshire and the Isle of Wight is one of 44 geographical footprints in England which are currently developing a Sustainability and Transformation Plan (STP) to identify priorities needed to achieve sustainable NHS services as part of the Five Year Forward View. The aim of the plan is to enable local health and social care partners to work at scale where this is appropriate to realise solutions that can transform the health and well-being of their populations¹³. For the Hampshire and the Isle of Wight STP this means closing an expected gap of £540m - £610m by 2020/21 – a shortfall of £305 per person. While the plan is still in development there is recognition of *'unwarranted variation across Hampshire and the Isle of Wight'*. Male healthy life expectancy varies from 61.6 years in Southampton, 62.3 years in Portsmouth, 64.3 years in Isle of Wight to 67.4 years in Hampshire, against a regional average of 65.9 years. Female healthy life expectancy varies from 62.9 years in Isle of Wight, 63.0 years in Portsmouth, 63.7 years in Southampton, to 67.3 years in Hampshire, against a regional average of 66.6 years. Across health outcomes there is significant variation within the area reflecting the different pressures and priorities in different parts of Hampshire and the Isle of Wight.

⁵ http://www3.hants.gov.uk/spatial_synthesis.pdf

⁶ Office for National Statistics – Population Estimates for UK, England and Wales, Scotland and Northern Ireland – Mid 2015

⁷ <http://www3.hants.gov.uk/factsandfigures/keyfactsandfigures/factsabouthampshire.htm>

⁸ An update of the economic areas for the Hampshire Economic Area and its functional geography, Hampshire County Council, June 2013.

⁹ <http://documents.hants.gov.uk/Economy/Theme1OverallCompetitiveness.pdf>

¹⁰ <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach>

¹¹ www.nomis.co.uk

¹² www.nomis.co.uk

¹³ There is no intention or suggestion that the STP footprints have any relevance to appropriate boundaries for local government reform. Indeed, the key drivers for their boundaries relate to the health economies of the major hospitals many of which are cross county boundaries.

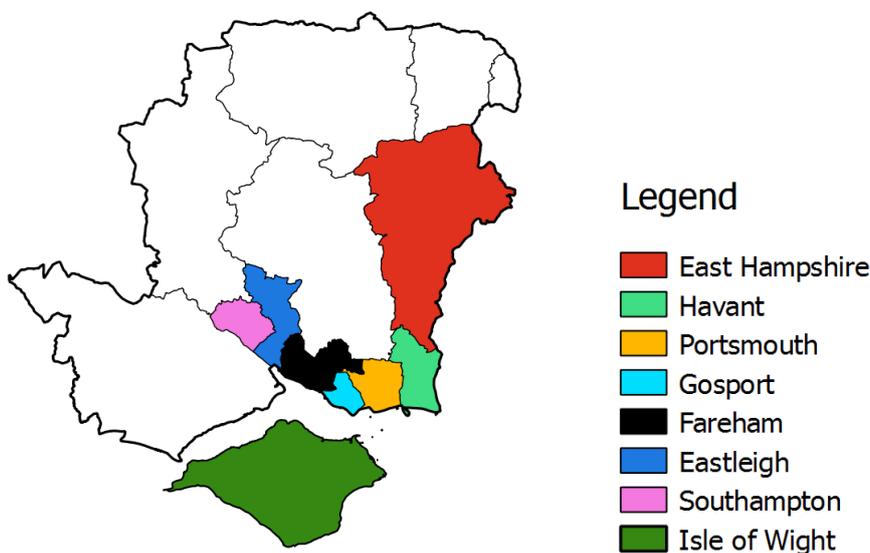
In summary, it is clear that Hampshire and Isle of Wight is a very large, diverse area and economy, with a population with variations in demographics and health, educational attainment and employment.

More detail on both population and socioeconomic characteristics is considered in greater detail in section 1.3 and 1.4 below.

1.3. Solent authorities

The Solent, representing the district councils of East Hampshire District Council, Eastleigh Borough Council, Fareham Borough Council, Gosport Borough Council and Havant Borough Council and three unitary authorities (Isle of Wight Council, Portsmouth City Council and Southampton City Council) covers an area of 1,218 km sq (470 miles sq) and has a population of 1,170,192¹⁴, representing approximately 60% of the total Hampshire and Isle of Wight population.

Map 1 Solent Authorities



Detailed population analysis

As can be seen in Graph 1 below, there is a large population variation between the district authorities and unitary authorities currently within the Solent area, although (to note) none of the districts individually is currently above the indicative minimum size for a unitary authority currently suggested by Department for Communities and Local Government (DCLG) of 300,000 residents¹⁵.

Southampton, with a 2015 population of 249,500, is the largest of the eight authorities; three times the size of the smallest district, Gosport which has a population of 84,700. Population densities vary hugely over the Solent area, but Portsmouth City is the most densely populated city in the UK outside of London¹⁶. Eastleigh is projected to experience the largest population growth (in percentage terms) over the period to 2032, during which its population is projected to increase by 14% from 129,000 to 150,100. Gosport is projected to experience the smallest growth over the same period with its population increasing by 5%. Projected population data for 2032 is shown for illustrative purposes and is based on past trends. The net financial impact of these population changes have not been analysed as part of this report¹⁷.

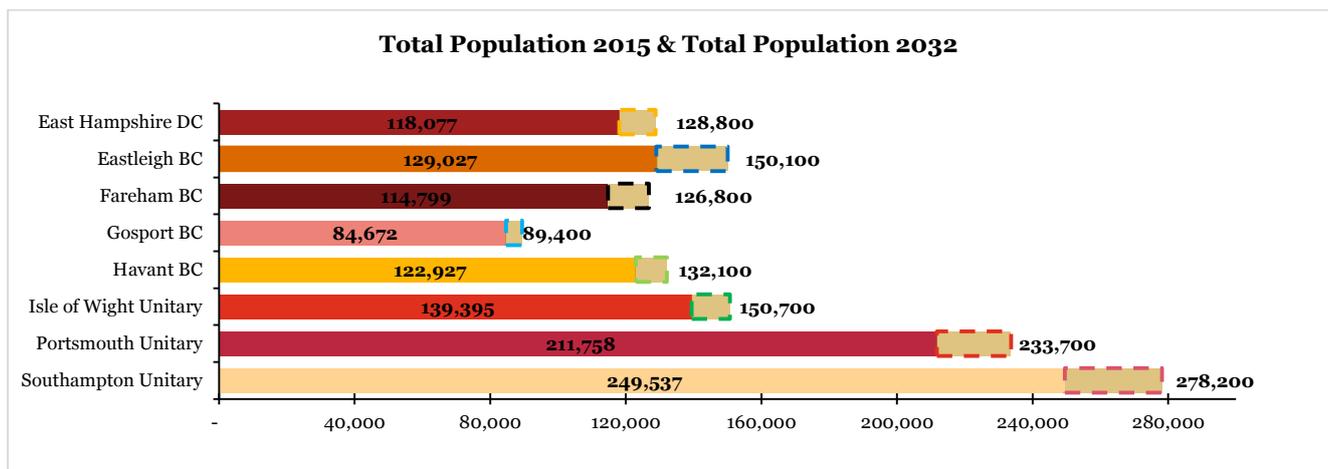
¹⁴ Office for National Statistics – Population Estimates for UK, England and Wales, Scotland and Northern Ireland – Mid 2015.

¹⁵ DCLG has previously indicated informally to other authorities that a new unitary authority should preferably be within 300,000 to 700,000 residents

¹⁶ http://www.neighbourhood.statistics.gov.uk/HTMLDocs/dvc134_c/index.html

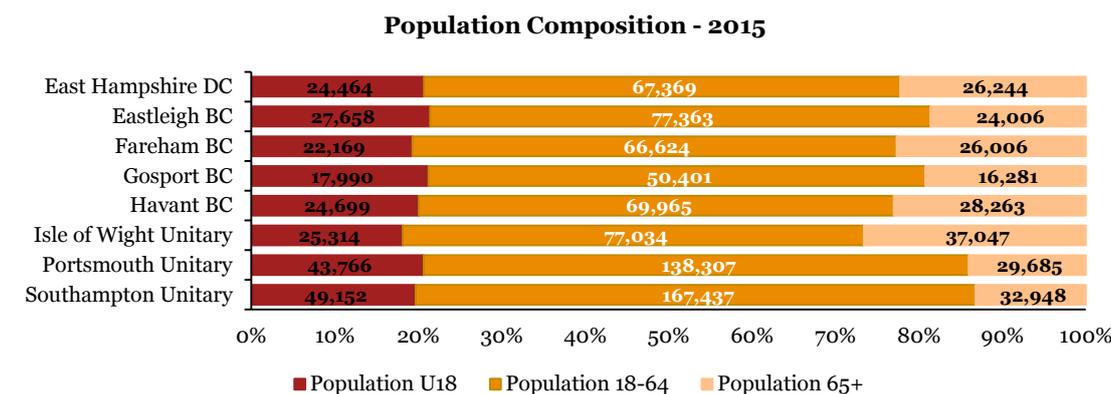
¹⁷ This is because there are no long-term (past 2021) budget projections for the local authorities in Solent, and this, coupled with an unknown future of the local government finance system means that any modelling would be of limited value as it would be reliant on too many overlaid assumptions.

Graph 1 Population within 2015 and projections of population by 2032 (based on past trends)



In terms of population composition (shown in Graph 2 below) the Isle of Wight has the lowest proportion of working age adults (18-64) with 55% and the highest proportion of individuals 65 and over (27%). In contrast, those 65 and over account for only 13% of Southampton’s population, whilst its working age population is the largest, in percentage terms of the six districts, making up 67% of its total population.

Graph 2 Population composition in 2015



1.4. Local Economies

Whilst the Solent area has a fairly mixed economy, it’s coastal location and clustering of education and business puts it at the heart of the UK marine and maritime economy. Solent also has a number of key economic assets with three universities, two ports and an airport. There is relatively good international connectivity with trading partners through the major ports located in Southampton and Portsmouth and an international airport in Eastleigh. The two ports complement each other, with Southampton focusing on containers and cruise ships, and Portsmouth focusing on passenger and goods traffic. Within Solent there are also 3 major universities: Southampton Solent University, University of Southampton and University of Portsmouth. Southampton and Portsmouth are both Key Cities in the UK¹⁸, playing a significant role in the UK’s regional economy.

Across Hampshire & the Isle of Wight there are two Local Enterprise Partnerships (LEPs) – Solent and Enterprise M3 - both with the same ambition of fostering growth, but with different emphases reflecting the diversity of the areas they seek to support.

- Solent LEP includes all of the Solent authorities, although only part of East Hampshire, plus parts of New Forest District Council, Test Valley Borough Council and Winchester City Council.

¹⁸ Key Cities Group

- Enterprise M3 includes seven of the Hampshire districts – all of the Heart of Hampshire plus the remaining area of East Hampshire District Council in addition to seven further authorities within Berkshire and Surrey.

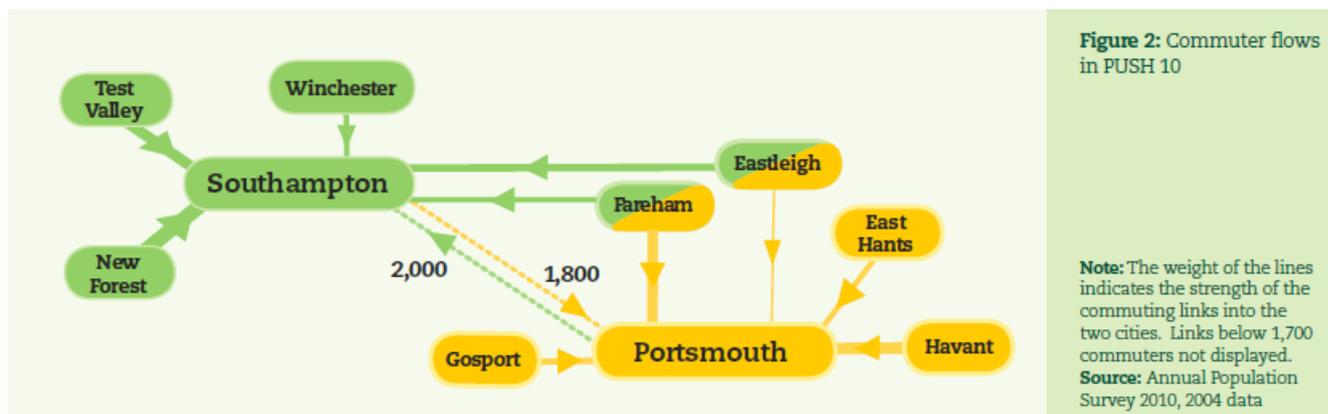
In terms of competitiveness and the UKCI indicator outlined above, Enterprise M3 LEP performs in the top 20% nationally, while the Solent LEP has two of the least competitive districts in the UK (Gosport and Isle of Wight are in the lowest 20% nationally)¹⁹.

Travel to Work Areas

Economic flows often overlap local authority boundaries which means that the ‘functional economic market areas’ (FEMAs) will not necessarily adhere to administrative boundaries. The most widely accepted approach to identifying FEMAs is by reference to Travel to Work Areas (TTWAs). TTWAs are defined to approximate self-contained local labour market areas, where the majority of an area’s resident workforce work (usually 75%), and where the majority of the workforce live, with the prime areas in Hampshire and the Isle of Wight being Andover, Basingstoke, Southampton, Portsmouth and the Isle of Wight. They have been declining in number over time from 304 in 1981 to 228 in 2011²⁰ as commuting distances increase. In PwC’s recent Good Growth for Cities 2015 index²¹, Southampton and Portsmouth were rated as 5th and 11th respectively, out of 42 UK city travel to work areas analysed, and have been rising through the ranks since 2011.

Figure 1 below shows the commuter flows within Hampshire and the Isle of Wight, with the thickness of the arrows representing the volume of traffic. In South Hampshire, commuter flows to Southampton are primarily from the following districts²²; Eastleigh, Fareham, Test Valley, Winchester and New Forest. Commuter flows to Portsmouth are primarily from Eastleigh, Fareham, Gosport, East Hampshire and Havant. Both Eastleigh and Fareham share similarities in that they both have residents whom commute to both Southampton and Portsmouth. Heart of Hampshire districts of Test Valley, Winchester and New Forest have strong economic ties to Southampton²³.

Figure 1 Commuter flows within Hampshire and the Isle of Wight



Source: http://www.push.gov.uk/10-03-12_push_charting_the_course.pdf

Northern Hampshire districts within Enterprise M3 LEP share a TTWA and FEMAs with non-Hampshire districts in Enterprise M3 and perform higher in the UK Competitiveness Index (UKCI) than south Hampshire. The reason for this is largely due to the geographical proximity of these areas to the urban areas in Berkshire and Surrey where economic performance is greater than Hampshire.

Table 9 Travel to Work Areas (2011)

¹⁹ <http://documents.hants.gov.uk/Economy/Theme1OverallCompetitiveness.pdf>
²⁰ https://census.edina.ac.uk/easy_download_data.html?data=England_ttwa_1981
<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/commutingtoworkchangestotraveltoworkareas/2001to2011>
²¹ <http://www.pwc.co.uk/industries/government-public-sector/good-growth.html>
²² http://www.push.gov.uk/10-03-12_push_charting_the_course.pdf
²³ Note this commuting data is a little out-dated but is indicative of commuter flows.

| TTWA | % of employed residents who work locally | % of local jobs taken by local residents | Number of economically active residents (aged 16+) |
|-----------------------|--|--|--|
| Andover | 67.4 | 70.5 | 44,548 |
| Basingstoke | 66.7 | 66.7 | 133,662 |
| Guildford & Aldershot | 70.4 | 72.5 | 347,333 |
| Isle of Wight | 92.3 | 96.3 | 64,665 |
| Portsmouth | 80.9 | 85.0 | 281,594 |
| Southampton | 83.5 | 82.5 | 353,704 |

As shown in

Table 9 above, the TTWAs in the Solent are focused around the 2 cities of Southampton and Portsmouth, and the island economy of the Isle of Wight. Isle of Wight has 92% of its residents employed locally and 96% of local jobs are taken by local residents. Transport challenges with connections to the mainland are frequently cited as an issue for the Isle of Wight economy. The island has an above average public sector presence and has seen a value shift towards non-traditional sectors of retail, personal services, transport and communications.²⁴ The Solent Strategic Economic Plan (SEP) emphasises the already difficult economic conditions that prevail on the Isle of Wight, and notes that growth will be inhibited if links between the mainland and the island are not improved.

Partnership for Urban South Hampshire (PUSH), formed in 2003 following recognition of local leaders that South Hampshire was underperforming the rest of the South East in economic terms. It is an economic partnership in consisting of Hampshire County Council, the 3 unitary authorities, and the following districts; Eastleigh, East Hampshire, Fareham, Gosport, Havant, New Forest, Test Valley and Winchester. It was formed to improve the economic performance of the PUSH area and to facilitate the creation of additional homes and jobs for the residents. It is a partnership that cuts across local authority and LEP boundaries and demonstrates the potential for public bodies to work effectively together on common goals. From an informal meeting of leaders it has grown in membership into a formally constituted body distributing Government money.

Map 2 Partnership for Urban South Hampshire (PUSH)



Source: <http://www.push.gov.uk/partnership.htm>

²⁴ <https://www.iwight.com/azservices/documents/2552-demographics-economy-february-2012-final-version-v-5.1.pdf>

Given the economic challenges facing South Hampshire, its key objectives are to; promote economic growth, provide sustainable housing, reduce inequalities, support investment in infrastructure, and support the development of the cities of Southampton, Portsmouth and other urban areas in its region.

Planning and land constraints

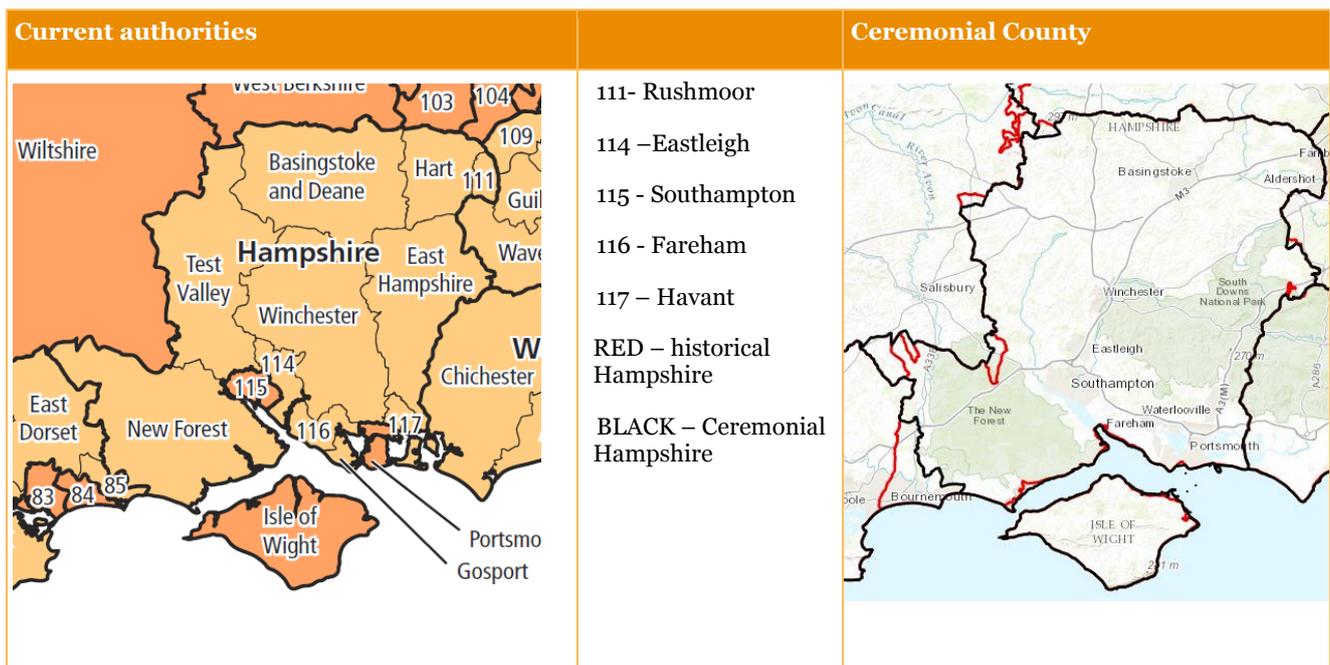
Land constraints for housing and business development is a significant issue within the Solent area, and the Solent SEP points to it as a major factor constraining economic growth. PUSH commissioned the preparation of a Strategic Housing Market Assessment (SHMA) for Solent (excluding Isle of Wight) and a SHMA for Isle of Wight in 2013.²⁵ The assessments were a response to Government Policy that local planning authorities should assess their housing needs across each Housing Market Area (HMA). The reports define separate Southampton, Portsmouth and IoW focused HMAs, although recognised that there are significant overlaps between the areas and surrounding areas meaning that housing growth or shortfall elsewhere will have an impact on the Solent region.

The SHMA for Solent (excluding Isle of Wight) identified that 4,160 homes per year (2,115 in Portsmouth HMA and 2,045 in Southampton SHMA) would be needed to meet past and future demographic trends. The SHMA for Isle of Wight identified the need for 539 to 545 new homes a year. The SHMAs did not take account of land supply or development constraints within Solent and the Isle of Wight. PUSH then completed a Spatial Position Statement in June 2016²⁶ which highlighted that being a coastal sub-region with 2 boundary national parks (New Forest and South Downs) impacts upon its potential to accommodate new development. South Hampshire is already a densely populated area and only has narrow countryside gaps separating the settlements which are key to maintaining their individual identities. The scale of housing need cannot be met on the range of sites available. The position statement makes provision over the period to 2034 for 104,350 new homes which meets the vast majority of needs but has a shortfall of 6.5% (6,300 homes) on the mainland and 6% in the Isle of Wight (860 homes). Therefore housing and planning is a key live issue in the Solent area.

1.5. Local government in Hampshire and the Isle of Wight

The historic, ceremonial and current administrative boundaries of Hampshire all represent different geographies and reflect the changing boundaries of local government in the UK which are never static. ‘Hampshire’ is therefore a fluid geography without hard boundaries.

Map 3 Hampshire & Isle of Wight boundaries



²⁵ http://www.push.gov.uk/south_hampshire_shma_final_report__16.1.14_.pdf
http://www.push.gov.uk/2b_isle_of_wight_strategic_housing_market_assessment.pdf
²⁶ http://www.push.gov.uk/item_12_-_appendix_1_-_position_statement.pdf

Whilst Hampshire has a recorded history dating back to Anglo-Saxon times, its administrative boundary has changed over time. For example the city of Portsmouth's administrative boundary was extended in the early 20th century, and in 1974, with Southampton, became a second tier of local government within Hampshire County Council while Bournemouth moved from being part of Hampshire to become part of Dorset in 1974 before becoming a unitary authority in 1997. At the same time, Portsmouth and Southampton once again became administratively independent of Hampshire County Council with the creation of the unitary authorities under the 1992 Local Government Act.

The Isle of Wight Council was one of the first unitary authorities created under the enabling legislation in the Local Government Act 1992 and was established in 1995 following abolition of the county council and two borough councils.

Table 10 Outlining typical differences in local government arrangements and service provision across Hampshire & Isle of Wight and the UK.

| County Councils | District Councils | Unitary Councils | Town & Parish Councils |
|--------------------------|--|--|--|
| Hampshire County Council | Basingstoke & Deane Borough Council, East Hampshire District Council Eastleigh Borough Council Fareham Borough Council Gosport Borough Council Hart District Council Havant Borough Council New Forest District Council Rushmoor Borough Council Test Valley Borough Council Winchester City Council | Portsmouth City Council Southampton City Council Isle of Wight Council | 245 (269 including Isle of Wight's) parish councils 16 (24 including Isle of Wight's) town councils |
| 27 county councils in UK | 201 district councils | 56 unitary authorities | Around 10,000 town and parish councils |

Since 1972, reforms to local authority structures have generally resulted in a reduction in the overall number of authorities and councillors, with an increase in unitary authorities replacing the two-tier structure. In 1972 there were 45 counties and 332 district councils introduced.

Political representation

Solent has 172²⁷ wards within its authorities which are represented by 191²⁸ district council members and 130 unitary authority council members. Hampshire County Council, which covers part of the Solent area, has 78 council members, of which 33 represent parts of the Solent area.

Table 11 Members and representation in the Solent ²⁹

²⁷ <http://easthants.moderngov.co.uk/mgMemberIndex.aspx>
<http://meetings.eastleigh.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>
<https://moderngov.fareham.gov.uk/mgMemberIndex.aspx?FN=WARD> <https://www.gosport.gov.uk/sections/democratic-services/councillor-websites/> <http://havant.moderngov.co.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>
<https://www.iwight.com/councillor/azCouncillors.aspx>
<http://democracy.portsmouth.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>
<https://www.southampton.gov.uk/moderngov/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>
²⁸ <http://easthants.moderngov.co.uk/mgMemberIndex.aspx>
<http://meetings.eastleigh.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>
<https://moderngov.fareham.gov.uk/mgMemberIndex.aspx?FN=WARD> <https://www.gosport.gov.uk/sections/democratic-services/councillor-websites/> <http://havant.moderngov.co.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>
<https://www.iwight.com/councillor/azCouncillors.aspx>
<http://democracy.portsmouth.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>
<https://www.southampton.gov.uk/moderngov/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

| Authority | Council Members | Electors | Electorate per Member |
|---------------------------------|--|----------------|-----------------------|
| East Hampshire DC | 44 | 87,495 | 1,989 |
| Eastleigh BC | 44 | 95,350 | 2,167 |
| Fareham BC | 31 | 87,709 | 2,829 |
| Gosport BC | 34 | 61,460 | 1,808 |
| Havant BC | 38 | 93,024 | 2,448 |
| Isle of Wight C | 40 | 106,437 | 2,661 |
| Portsmouth CC | 42 | 140,086 | 3,335 |
| Southampton CC | 48 | 158,851 | 3,309 |
| Hampshire County Council | 78 of which 33 cover parts of the Solent | 425,038 Solent | 12,880 Solent |

1.6. The recent evolution of local government

The past five years have seen a period of unprecedented change for local authorities. Responding to significant budget cuts, local government is now one of the most efficient parts of the public sector having adapted to budget reductions of 40% since 2010. Local government is now asking more fundamental questions about their role and purpose, and in particular, their role in facilitating economic growth. Many councils are exploring what they want to achieve, assessing everything they do and fostering new ideas, innovation and thinking about how they deliver outcomes³⁰.

This can be seen in recent years with the creation of new governance structures focused on economic growth and based on functional economic areas, such as Local Enterprise Partnerships (LEPs) and Combined Authorities; incentivising deals and initiatives from government such as City Deals, Growth Deals, Enterprise Zones; and policy changes such as the presumption in favour of sustainable development and proposals for business rate retention to replace Revenue Support Grant. The stated intention of the previous Chancellor was for local areas to raise locally the money that they spent on local services.

At the same time, changing demographics and a growing population are increasing pressures on council services. The challenge is particularly acute in social care where responsible authorities can spend as much as 70-80 per cent of their budget. Councils face steeply rising demand with around one-in-five of their residents aged over 65, while mental health is the leading cause of workplace sickness in the UK and dementia is estimated to cost the UK £26.3bn. This is an area of shared responsibility with the National Health Service, which is also facing the need to find unprecedented efficiencies as it seeks to implement a sustainable solution over the next five years. Within Hampshire and the Isle of Wight there is a forecasted budget shortfall of £550m to £610m by 2020/21 in health services alone (from the STP). In some areas of Hampshire and Isle of Wight, particularly on the Isle of Wight, in order to provide accessible services, these pressures can be more pronounced due to local demand and transport and logistics issues.

Local authorities are increasingly working across organisational boundaries, with greater sharing between councils of both management and delivery functions that blur the boundaries of the traditional organisation. This has been driven in part by the need to deliver savings but also by a desire to shift more resources into frontline delivery by sharing management and support functions. The specifics of these shared functions in Hampshire and the Isle of Wight are discussed in greater detail later in this section.

Current local government organisation in the Solent

Local government within the Solent currently includes a mixture of two-tier and unitary authority (single tier) administrations. Five of the Solent authorities³¹ currently operate two tier local government structure alongside

²⁹ <https://www.lgbce.org.uk/records-and-resources/local-authorities-in-england>

³⁰ PwC, 2016, Beyond Control, Local government in the age of participation

³¹ East Hampshire District Council, Eastleigh Borough Council, Fareham Borough Council, Gosport Borough Council, Havant Borough Council

Hampshire County Council whilst Isle of Wight Council and Portsmouth and Southampton City Councils operate as unitary authorities.

These councils are responsible for providing different services to residents and businesses as indicated in Table 12 below. Across many parts of Solent there are also local councils – parish, town and neighbourhood councils - which provide the very local representation and which may over time develop greater capacity and if communities choose, increased coverage, enabling further scope to deliver services. In other areas there are strong voluntary and community organisations who could play a similar role. Parish and town councils are often responsible for some smaller local services such as open spaces, community centres, allotments and war memorials.

Within the Solent area there are parishes in East Hampshire District Council and Eastleigh Borough Council (except for Eastleigh Town). Fareham Borough Council, Gosport Borough Council and Havant Borough Council and the three unitary authorities are unparished.

Table 12 Services provided by principal local authorities

| Function | Service | Unitary | County | District |
|--------------------------|---|---------|--------|----------|
| Customer services | Customer services | ✓ | ✓ | ✓ |
| People services | Adult social care | ✓ | ✓ | |
| | Children's services | ✓ | ✓ | |
| | Births, deaths and marriage registration | ✓ | ✓ | |
| | Community safety | ✓ | | ✓ |
| | Concessionary travel | ✓ | ✓ | |
| | Consumer protection | ✓ | ✓ | |
| | Education, including special educational needs, adult education, pre-school | ✓ | ✓ | |
| | Housing | ✓ | | ✓ |
| | Licencing | ✓ | | ✓ |
| | Public health | ✓ | ✓ | |
| | Revenues and benefits | ✓ | | ✓ |
| | Trading standards | ✓ | ✓ | |
| Place services | Building regulations | ✓ | | ✓ |
| | Burials and cremations | ✓ | | ✓ |
| | Coastal protection | ✓ | | ✓ |
| | Economic development | ✓ | ✓ | ✓ |
| | Emergency planning | ✓ | ✓ | ✓ |
| | Environmental health | ✓ | | ✓ |
| | Highways (not trunk roads) and traffic management | ✓ | ✓ | |

| Function | Service | Unitary | County | District |
|---------------------------|--|---------|--------|----------|
| | Minerals and waste planning | ✓ | ✓ | |
| | Parking | ✓ | | ✓ |
| | Passenger transport (buses) and transport planning | ✓ | ✓ | |
| | Planning | ✓ | | ✓ |
| | Public conveniences | ✓ | | ✓ |
| | Street cleaning | ✓ | | ✓ |
| | Waste collection and recycling | ✓ | | ✓ |
| | Waste disposal | ✓ | ✓ | |
| Cultural services | Art & Recreation | ✓ | ✓ | ✓ |
| | Libraries | ✓ | ✓ | |
| | Markets and fairs | ✓ | | ✓ |
| | Museums and galleries | ✓ | ✓ | ✓ |
| | Sports centres, parks, playing fields | ✓ | | ✓ |
| | Tourism | ✓ | ✓ | ✓ |
| Corporate services | Audit | ✓ | ✓ | ✓ |
| | Chief executive's service | ✓ | ✓ | ✓ |
| | Communications / Print | ✓ | ✓ | ✓ |
| | Corporate policy | ✓ | ✓ | ✓ |
| | Democratic services | ✓ | ✓ | ✓ |
| | Electoral services | ✓ | ✓ | ✓ |
| | Facilities management | ✓ | ✓ | ✓ |
| | Finance | ✓ | ✓ | ✓ |
| | HR | ✓ | ✓ | ✓ |
| | ICT | ✓ | ✓ | ✓ |
| | Legal | ✓ | ✓ | ✓ |
| | Payroll | ✓ | ✓ | ✓ |
| | Procurement | ✓ | ✓ | ✓ |
| Property services | ✓ | ✓ | ✓ | |

Current operating models

The manner in which local authorities deliver the services for which they are responsible has changed over time. The operating model has shifted, to varying degrees, from local authorities directly delivering services to the end user to increased use of third part commissioning, outsourcing, joint venture operations and other innovative operating models.

We have analysed each district's and unitary's current 'staff' and 'non-staff' budgets in order to determine the extent to which they can be said to be a delivery authority as opposed to a commissioning one. As Table 13 indicates, whilst the Solent authorities do still directly deliver some services, all heavily rely on commissioning activity in order to provide the services for which they are responsible.

Table 13 Proportion of staff spend versus third party spend

| | Staff Spend | Third Party Spend |
|---------------------------------|-------------|-------------------|
| East Hampshire District Council | 27% | 73% |
| Eastleigh Borough Council | 26% | 74% |
| Fareham Borough Council | 35% | 65% |
| Gosport Borough Council | 34% | 66% |
| Havant Borough Council | 17% | 83% |
| Isle of Wight Council | 37% | 63% |
| Portsmouth City Council | 28% | 72% |
| Southampton City Council | 20% | 80% |
| Solent Region | 26% | 74% |

Shared services

Arrangements exist between some district councils, across both the Heart of Hampshire and Solent authorities, to share certain service delivery arrangements. Such agreements have been put in place, in part, to achieve efficiencies and cost savings but also in recognition that such operating models make better use of, what are often, limited resources. Examples of joint service delivery arrangements in place between the authorities within Hampshire and the Isle of Wight currently include:

Table 14 Examples of joint service delivery arrangements

| Local Authority | Service |
|---|---|
| Portsmouth City Council and Gosport Borough Council (and Isle of Wight Council) | Share a Chief Executive and management teams (and they also share a Chief Finance Officer along with the Isle of Wight Council) |
| Isle of Wight Council and Isle of Wight Clinical Commissioning Group (CCG) | Share some Director posts |
| Hampshire County Council and Isle of Wight Council | Hampshire County Council provides social services to Isle of Wight |
| Southampton City Council and Isle of Wight Council | Southampton are providing transformation support to the Isle of Wight. |
| Test Valley Borough Council and Winchester City Council | Share a Head of Service for Information Technology and an IT service desk – arrangement in place since 2011 |
| Winchester City Council and Eastleigh Borough Council | Training and development activities are shared |
| Winchester City Council and East Hampshire District Council | Environmental services contract shared |
| Fareham Borough Council, Gosport Borough Council & Portsmouth City Council | Building control activities are shared |

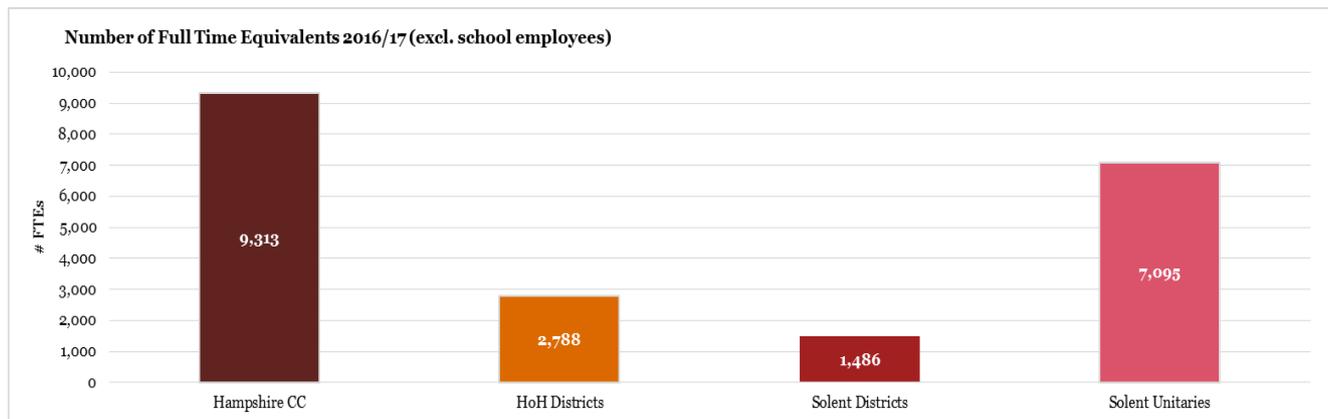
| | |
|--|--|
| Fareham Borough Council and Gosport Borough Council | Share an Environmental Health Service |
| Hart District Council and East Hampshire District Council | Planning policy activities are shared |
| Hart District Council and Havant Borough Council | Two of five councils, the others being Mendip DC, South Oxfordshire DC and the Vale of White Horse DC, share IT services from outsourcer Capita. |
| East Hampshire District Council and Havant Borough Council | Share management teams |
| Southampton City Council and Fareham Borough Council | Share a Legal Service |

Hampshire County Council has also established a shared service centre to deliver HR, recruitment, finance, purchasing, payroll and pension transactions to Hampshire schools, Hampshire Constabulary, Hampshire Fire and Rescue Service and Oxfordshire County Council.

Current Resources

In understanding the baseline, it is relevant to consider the current split of resources (Full Time Equivalents or FTEs) across the Solent local government area. Note these FTE figures only account for those directly employed by the authorities and does not account for out-sourced jobs. Just as Hampshire County Council and District Councils provide different services, so too do they operate on markedly different scales. Graph 3 below illustrates the current staff resource across the Hampshire and the Isle of Wight region as split out by Heart of Hampshire districts, Solent districts, Solent unitary authorities and Hampshire County Council.

Graph 3 Number of Full Time Equivalent (FTE) 2016/17 (exc. School employees)



As demonstrated, Hampshire Council accounts for the majority (69.1%) of FTEs (13,586) currently employed within the two-tier structure and 45.0% of all FTEs (20,682) currently employed across the entire Hampshire and the Isle of Wight geography. The FTE count amongst the three unitary authorities, is almost five times the size of the five Solent districts and the 7,095 FTEs that they employ account for 34.3% of the total across Hampshire and the Isle of Wight.

Disparity exists within the five Solent district councils with regards their respective FTE numbers with Fareham Borough Council employing almost twice the number of FTEs compared to Gosport Borough Council. Of the three unitary authorities, Portsmouth is the largest in terms of FTE numbers and with 2,964 FTEs accounts for 41.8% of those employed by the unitary authorities

1.7. The case for change and the Solent Devolution Deal

It is widely recognised that the two tier system of local government³² has incorporated tensions between districts and counties since it was created in 1972. This arrangement can work well where there are strong

³² Two-tier local government in this report refers to County and District local authorities, recognising that in many places local councils (parish, town and community councils) also exist as a further form of local representation

relationships at all levels and a shared vision between councils within an area but was designed in a different era. Recent examples of positive working beyond standard functions in the Hampshire and Isle of Wight area include the joint work on the Hampshire Supporting Troubled Families Programme which is organised around the Local Co-ordination Groups based on district council boundaries within an overall programme. The programme includes all of the Solent districts and the unitaries as either part of the shared programme or part of the dialogue, as well as Portsmouth University who advise on the evaluation of programmes.

However, the two tier system can also be a cause of tension when different authorities have conflicting priorities. A failure of different local authorities in the same area to agree priorities, and work on a common approach whilst responding to local needs, can create dis-alignment between connected services and inefficiencies. This is a key concern amongst the Solent authorities where the disconnect between decision making and service design has had an impact. The approach to restructuring Sure Start Children's Centres in Hampshire, with 56 centres reduced to 11 district hubs, is seen as a counter example to the positive work on troubled families. The districts recognise the need for savings but were concerned about an approach that didn't focus on need in their opinion.

The move towards unitary authorities can also be a platform to build a devolution proposal and a combined authority. The devolution of funding and powers from central government to local government has continued to be a priority during 2016 with several announcements of devolution deals and Combined Authorities made in 2015/16. At the Conservative Party Conference in October 2016, Phillip Hammond, Chancellor of the Exchequer, voiced his support for continuing with a programme of regional devolution deals and that tackling regional differences will be a key driver for the forthcoming industrial strategy. Additionally he commented that *"we have passed a tipping point in devolution in this country. A decisive and irreversible shift in economic and political power"*.

Devolution from government to Combined Authorities presents opportunities to rebalance the economy through greater investment, reform of public services, enhanced public engagement and accountability for the delivery of local services, and improved local outcomes by putting service providers closer to the end service user. During 2015, Hampshire and the Isle of Wight responded to the initial call for proposals by working together to create a pan-regional solution at pace. Once that arrangement failed to progress, the authorities involved have taken different paths to furthering the devolution opportunity.

Combined Authorities are being established as the vehicle from which to develop and implement the required 'whole systems' strategic approach collaboratively, to take on devolved powers and funding, and be the mechanism for effective strategic decision making and streamlined accountability and joined up services. To date there have been seven Combined Authorities established, each with different devolution deals and governance arrangements, recognising the different needs and issues of each locality.

The priority for the Solent authorities is to secure a good Devolution Deal at the earliest opportunity.

A major driver behind the devolution ambitions is the Solent economy. Although the area has strong assets and sector specialisms, the area generally suffers from lower productivity than its neighbours in northern Hampshire and higher than average unemployment. The three councils and Solent LEP wish to work together to secure devolved funding from government to ensure that money is spent in the right areas and with local knowledge at the forefront of decisions.

There is recognition that future funding of local government will be increasingly dependent on economic performance, and therefore the Solent authorities wish to take greater control and charge of their destiny, by having greater powers and more control over resources at a local level in key policy areas such as transport, infrastructure, housing and business support.

More longer term, Solent authorities want the autonomy and flexibility to respond to important cross-cutting issues such as health and social care where large scale funding gaps are predicted and that will require innovative and collaborative solutions. Solent authorities ultimately want the flexibility (and power) to be able to respond to these issues.

They also want to put citizens at the heart of change and enable a local government that makes more sense for local people. Local councils need to operate in a way that is much simpler, with clearer accountability, and greater sharing across services and functions. Some things will be best done at scale, some things will be best delivered locally.

1.8. The path to devolution

Whilst considering the drivers and ambitions above, it is recognised by the Solent authorities that there are several options on the spectrum between the status quo and complete local government reorganisation into

newly defined unitary authorities and into a combined authority but a pre-requisite for each is a willingness to start devolving power, control and resources from national to local bodies.

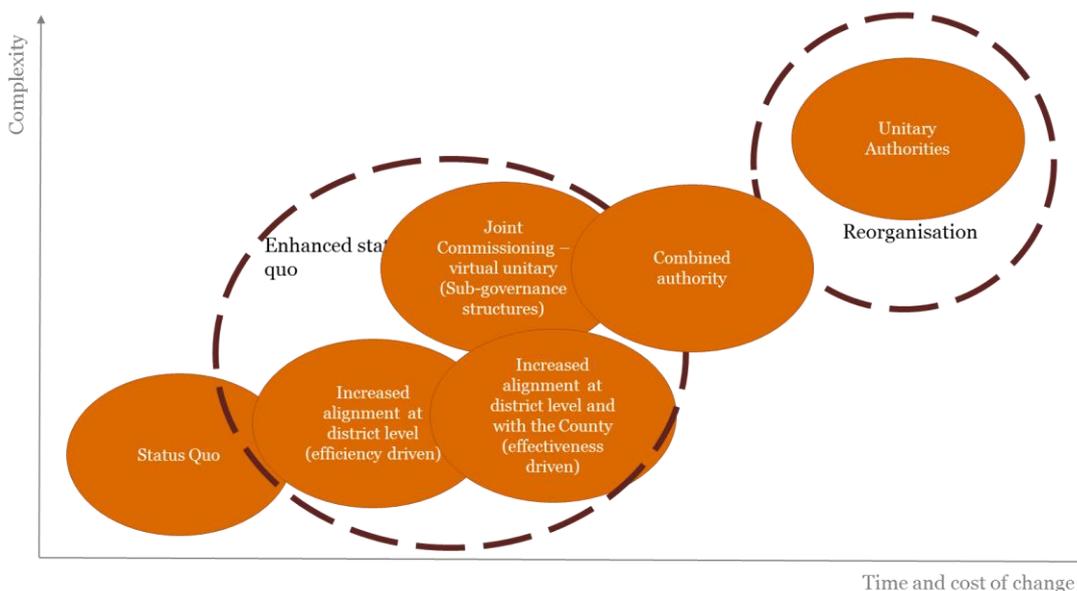
The option which could be followed almost immediately (depending on government will), is to agree to the establishment of a Solent Mayoral combined authority, where plans are well developed and the joint working, relationships and strategic ambition is already in place. The three existing Solent unitary authorities, and the Solent LEP, have submitted proposals or devolution and a Mayoral combined authority to the Government³³. The County Council have not felt able to join in with the Solent CA and do not wish to see relevant districts participate. The CA recognises the potential of the Solent LEP zone and wishes to use the autonomous funding powers provided by Government to deliver strong economic growth. This would support residents through access to education and skills enabling them to find employment, while supporting business growth and affordable homes provision alongside long term infrastructure and investment plans.

The plans are that the combined authority would initially be formed between the 3 existing UAs as constituent members, with the option for the Solent districts and Hampshire County Council to join at a later stage as non-constituent members as part of a longer term vision for South Hampshire. The Solent LEP would also join as a non-constituent member but with voting rights on issues affecting them.

Options for change

The different options for local government organisations are show in the figure below. The least complex and costly, but also potentially least effective, option for local government is to maintain status quo. Different forms of enhanced status quo seek to improve alignment and commissioning between authorities without reorganisation

Figure 2 Status quo to local government reorganisation continuum



The alternative route at the far right of the scale would be to re-open debates on local government reform (boundary changes) within the Solent with a fundamental review of boundaries to better reflect the identities, economies and realities of the region today. This would likely involve assessment of new boundaries built around Greater Southampton and Greater Portsmouth. While there are potential long term benefits from considering this approach it risks delaying tangible benefits and progress on what matters most, and does not appear to be on the policy agenda for Government.

A variety of options for change have been considered and it is the firm opinion of the Solent authorities that any benefits from this path could be delivered quicker and with greater certainty by starting with a Solent Mayoral combined authority. In the Solent there is a clear strategic direction that allows for a focus on the things that

³³ <http://www.solentdeal.co.uk/>

will allow a strong, sustainable and secure settlement to deliver on the goals and ambitions for residents and businesses.

As referred to in the case for change analysis earlier in the document, any reorganisation of local government should ultimately be sustainable and resilient for the future so that the costs of change are outweighed by the future benefit and that transition does not put front line delivery at risk.

Recalibration

Within the Solent authorities, a Solent combined authority would be an obvious vehicle to kick start discussions on the ‘recalibration’ of local government relationships to provide better services to residents. There is a real risk that recalibration will not happen unless there is a step change to ‘business as usual’. The exact nature of the recalibration needs to be defined in due course, with all parties around the table, but there is general consensus that it could involve further investigation of the following principles. The first two principles are particularly relevant to two tier organisation, whereas the latter points are relevant to both two tier and single tier.

- Readdress how some services are allocated between tiers where synergies and rationale for coordination exists, e.g. pot holes, highways and street cleaning
- Enable greater influence over county decisions so that decisions better reflect the needs of communities
- Allow different levels of service depending on need and where residents wish to pay more
- Build services to become more citizen-centric, and restructure services to fit around the person
- Practice and encourage mutual trust, respect, understanding and open communication across different delivery partners to best enhance outcomes for the customer

Solent authorities believe strongly that any recalibration of two-tier working between districts and the county should not only focus on service delivery but also on relationships. It is also important to consider that many Solent districts also contain a third tier of local government in the form of parish and town councils so the relationship (and these principles) have the potential to go beyond two tier, to three tiers.

Public consultation

Public consultation for the Solent Deal has been favourable³⁴. The consultation has shown that 58% of respondents support the idea of a combined authority with an elected mayor for the Solent region (either ‘agreed’ or ‘strongly agreed’). The split of respondents was Isle of Wight (29%), Portsmouth (29%) and Southampton (28%), with ‘other’ accounting for 13%. More than 70% of respondents backed devolved funding and transport infrastructure funding, with the following levels of agreement with the powers the combined authority propose to devolve from government:

- Support for business to grow (75% agreement)
- Transport (74% agreement)
- Skills and employment (73% agreement)
- Housing and infrastructure planning (70% agreement)

³⁴ <http://www.bbc.co.uk/news/uk-england-hampshire-37572233>

2. Unitary authority options

2.1. The unitary authority options considered

Now that reorganisation is a live consideration in Hampshire and the Isle of Wight it is important for the Solent authorities to consider their options for local government reorganisation, and in particular options for unitary authorities, recognising that:

- Current proposals advocated by Hampshire County Council are limited, and further options warrant consideration;
- Reorganisation options are constrained by existing authority boundaries whereas a sustainable settlement would need to better reflect the community identities, economies and realities of the wider region, which will take longer to resolve and fail to utilise current mechanisms and resources for combined working; and
- A complementary proposal for the Heart of Hampshire authorities³⁵ would be needed.

This section of the report focusses on the first of these issues and provides an overview of the options being explored. The following sections then analyse the options in greater detail.

The consideration of these options recognises that unitary authority options should be explored due to the opportunities this model of local government offers to:

- Realise cost savings from rationalisation; and
- Streamline responsibility and accountability for local authority services and provide stronger leadership in a place that works not just for the wider public sector but which also engages and empowers leading firms, knowledge institutes and engages citizens³⁶;
- Clearer representation with public sector partner organisations and opportunity for whole systems service re-design to achieve shared outcomes;
- Greater profile with Government and opportunity through the Cities and Local Government Devolution Act 2016 to transfer public authority functions³⁷;
- Better strategic service planning and joining up between services.

It is important to remember that the Heart of Hampshire District Councils are also currently considering their options for the future of local government in the region.

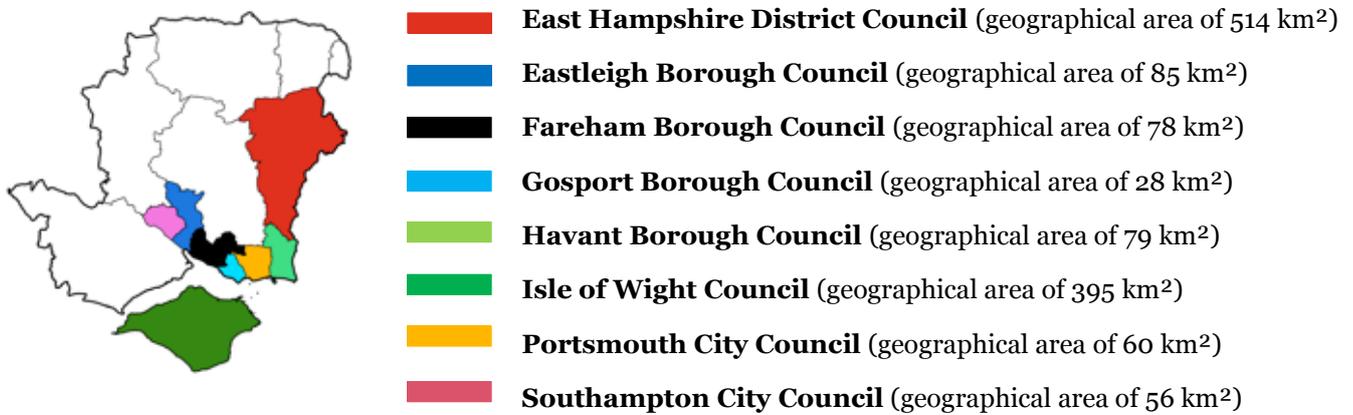
³⁵ Basingstoke and Deane Borough Council, Hart District Council, New Forest District Council, Rushmoor Borough Council, Test Valley Borough Council and Winchester City Council

³⁶ Euricure and PwC, 2016, iUrban Enabling sustainable city competitiveness through distributed leadership

³⁷ Cities and Local Government Devolution Act 2016

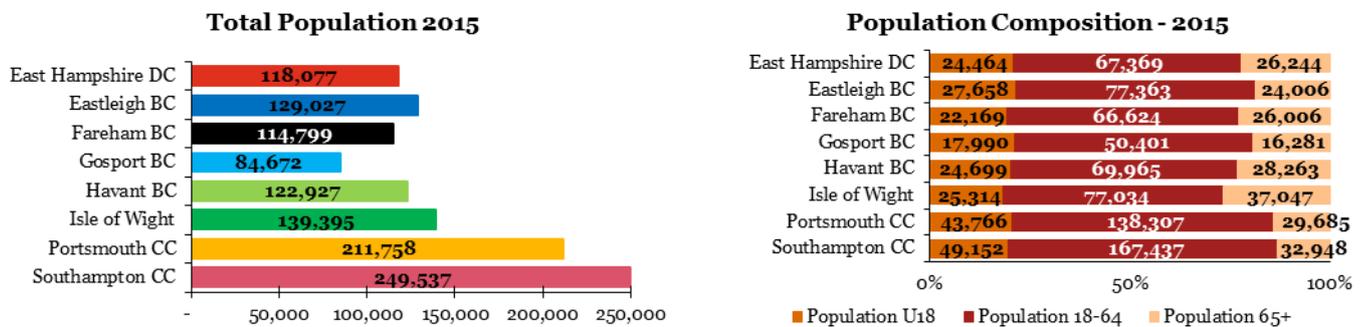
2.2. Status quo (baseline)

Map 4 Map of Solent – status quo



Despite covering a geographical area (1,296 km²) that is less than half the size of the Heart of Hampshire geography, the Solent region is 49.3% more populous and is home to a population of 1,170,200. Of the eight authorities, Southampton and Portsmouth are the largest in terms of population accounting for 39% of the region’s population between them, and, are proportionally the youngest, with 87% and 86% of their respective populations under the age of 65. Conversely, the Isle of Wight has, proportionally, the oldest population with just 73% of inhabitants under the age of 65. Gosport is the smallest of the authorities, both in terms of geographical area, covering 28 km² and population size with just 84,700 inhabitants.

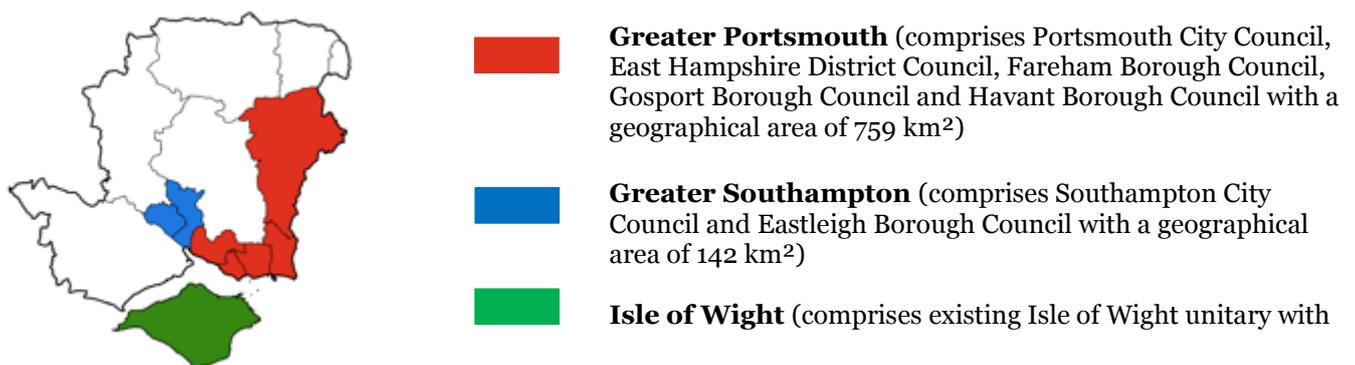
Graph 4 Total population and population composition



2.3. Three unitary authorities

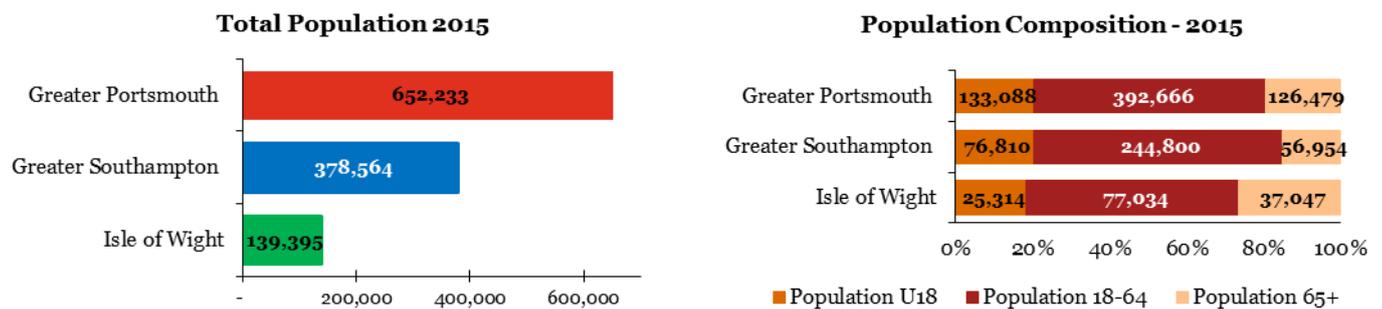
This option would see the creation of three unitary authorities for the Solent region as per below.

Map 5 Map of Solent – 3UA



Considerable disparity exists between the proposed unitary authorities, both in terms of population size and geographical area. Greater Portsmouth would be the largest of the proposed unitary authorities, both in terms of population and geographical size. With a population of 652,200 it is 1.7 times the size of Greater Southampton and almost five times (4.7) the size of the Isle of Wight. Despite covering a geographical size that is just 36% of the Isle of Wight, Greater Southampton would be the next populous authority and over 2.7 times the size of the Isle of Wight. Indeed, Greater Southampton would be the most densely populated of the three proposed authorities and, proportionally, would have the youngest population with 85% of inhabitants under the age of 65. Conversely, the Isle of Wight, with just 139,400 inhabitants is the least populous, the least densely populated and proportionally the oldest of the three, with just 73% of its population under the age of 65.

Graph 5 Total population and population composition – 3UA



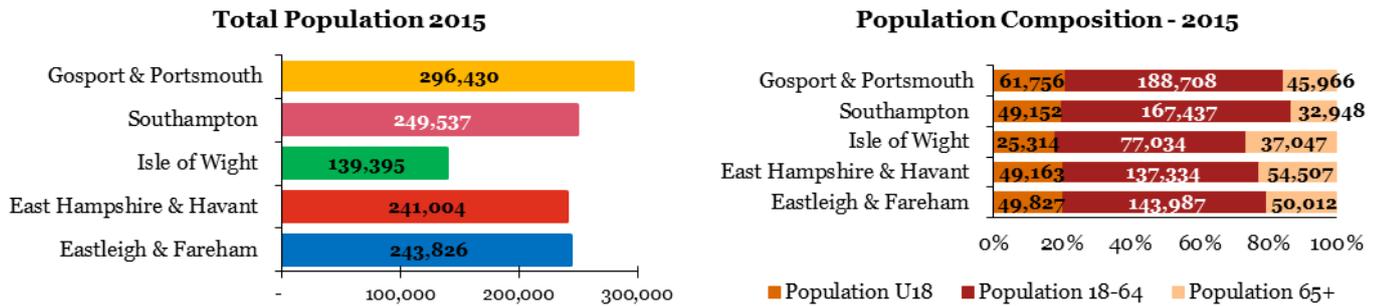
2.4. Five unitary authorities



Map 6 Map of Solent – 5UA

Of the five options proposed, and with a population of 296,400, Gosport and Portsmouth would be the most populous unitary authority. Southampton, Eastleigh and Fareham and East Hampshire and Havant would all be of a comparable size in terms of population (all between 241,000 and 249,500 inhabitants), although the latter would have a significantly lower population density given its larger footprint.

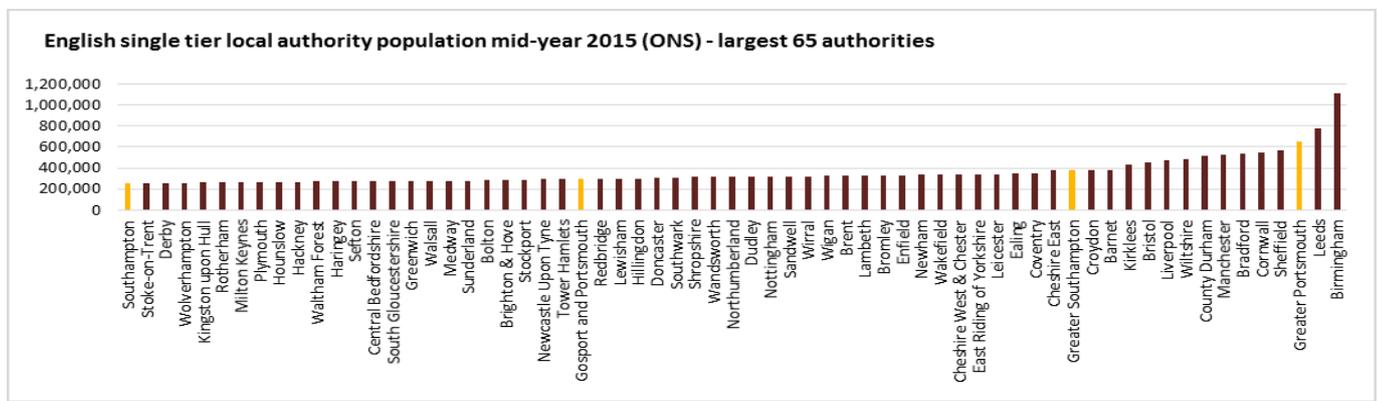
Graph 6 Total population and population composition – 5UA



2.5. Commentary

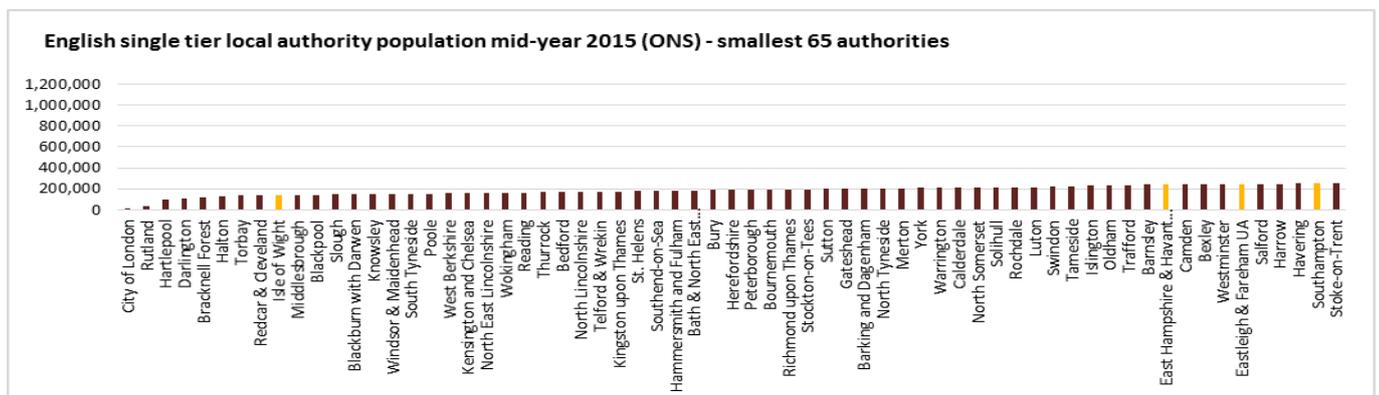
Graph 7 below illustrates how the proposed unitary options would compare to those existing single tier local authorities (unitary authorities, metropolitan districts and London boroughs), of which there are 124, in terms of population size.

Graph 7 - English single tier local authority population mid-year 2015 (ONS); largest 65 authorities



Compared to existing single tier authorities in England, a Greater Portsmouth unitary authority would be the third largest single tier authority in England and with 652,200 inhabitants would only be behind Birmingham City Council and Leeds City Council in terms of population size. Greater Southampton, with a population of 378,600 would be the 15th largest single tier authority in the country and both it and Greater Portsmouth would comfortably fall within DCLG’s optimum range for unitary authorities (300,000 to 700,000 inhabitants).

Graph 8 - English single tier local authority population mid-year 2015 (ONS); smallest 65 authorities



Conversely, as demonstrated in Graph 8 above, the Isle of Wight is already one of the smallest single tier authorities in the country (9th smallest). While none of the proposed authorities within the five unitary authority option fall within DCLG’s optimal range (although with 296,400 inhabitants, a Gosport and Portsmouth unitary authority would fall just short) this demonstrates the arbitrary nature of this threshold compared to existing authorities.

3. Providing value for money and delivering positive outcomes

3.1. Approach

This report assesses the potential options for local government re-organisation (introduced above) against a set of quantitative and qualitative criteria as advocated by the DCLG:

- Providing value for money (quantitative);
- Delivering positive outcomes in terms of the cost of the transition (quantitative);
- Ensuring strong and accountable local leadership and governance (qualitative); and
- Delivering better public services (qualitative).

This section focuses on the two quantitative tests – outlined above - whilst sections four and five provide an examination of the two qualitative tests. In order to assess the extent to which the respective options pass the quantitative tests our financial analysis comprises:

- An assessment at a high level of the financial status quo, including an examination of the financial position, or otherwise, of the local authorities, including Hampshire County Council, that make up the Solent region;
- Details of the approach taken with regards to the disaggregation of Hampshire County Council's income and expenditure line items across the unitary authority options considered;
- Presentation of the recalculated income and expenditure accounts, for each of the unitary options considered, both before, and after the financial effects (costs and savings) of re-organisation are taken into account³⁸; and
- An assessment of the council tax harmonisation process the newly formed unitary authorities could undertake post re-organisation along with an estimation of potential additional/foregone income to be earned/lost as part of this.

3.2. Baseline

Just as disparity exists across the Hampshire and the Isle of Wight region in terms of FTE numbers, so too are there marked differences between the existing authorities in terms of their current income and expenditure and overall financial position.

Graph 9 below illustrates the total net current expenditure of Hampshire County Council, the Heart of Hampshire and Solent District Councils and the Solent unitary authorities as per the 2016/17 General Fund Revenue Account data.

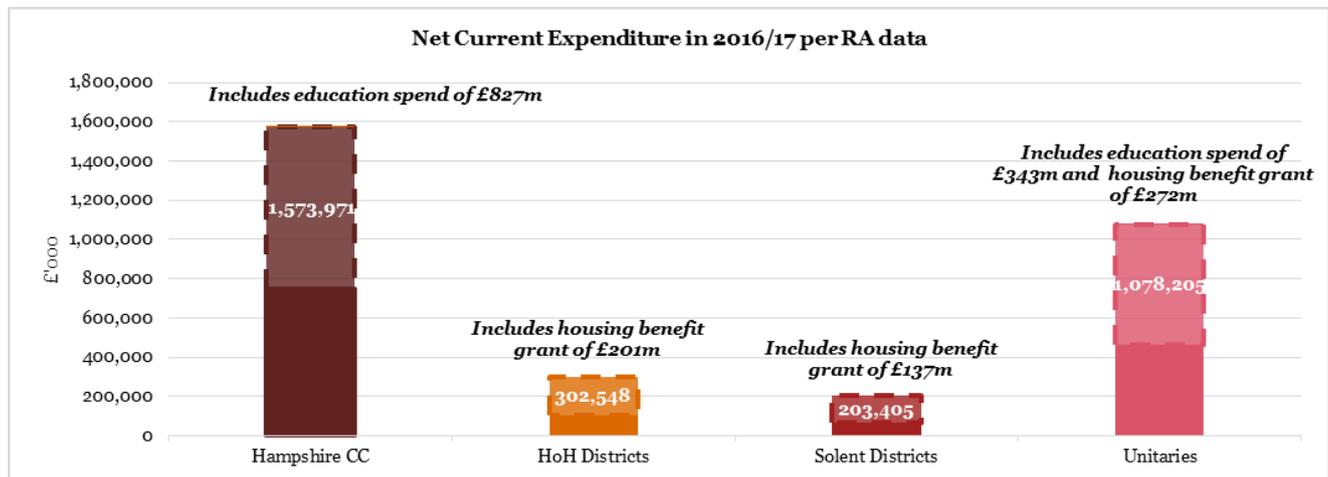
As can be evidently seen, the scale on which Hampshire County Council operates and its associated expenditure, far exceeds the activity of the district councils (both Heart of Hampshire and Solent). Indeed, Hampshire County Council accounts for 76% of all net expenditure incurred across the current two-tier structure with Solent Districts accounting for just 10% of total overall net spend and Heart of Hampshire Districts 14%. With a combined net spend of £1.1bn, expenditure amongst the three existing unitary authorities equates to 69% of Hampshire County Council spend and is 5.3 times greater than the net spend of the five Solent district councils.

Of the three existing unitary authorities, Southampton City Council has the largest net current expenditure and at £454m has the second largest spend of any authority in the Hampshire and the Isle of Wight region. Whilst the smallest of the unitary authorities in terms of net expenditure levels (2016/17: £264m), the Isle of Wight incurs nearly four times the level of net expenditure than the largest district council (New Forest: £69m) and

³⁸ Undertaken at a high level. Further analysis will be required which is likely to change the allocation of RSG, Retained Business Rates and the level of transformation savings.

nearly six times the level of the largest Solent district council (Havant: £46.1m). Of the five Solent district councils, four have similar levels of net expenditure (East Hampshire, Eastleigh, Gosport and Havant all incur net expenditure between £39.5m and £46m) whilst Fareham is noticeably smaller with expenditure of just £30m.

Graph 9 – Net Current Expenditure; County, Solent District Councils and Solent unitary authorities (2016/17)



It is important to note that the net current expenditure figure represents all spending undertaken by the respective authorities, including those amounts for services which are directly funded by government grant (i.e. education spend in the case of Hampshire County Council and housing benefit provision in the case of the district councils). When these grants are stripped out, County expenditure (£747m) actually increases in terms of proportion of overall spend across the two-tier structure, rising to 82% (up from 76%). Across the Hampshire and the Isle of Wight region as a whole, once education spend and housing benefit grants are stripped out, Hampshire County Council expenditure represents 54% of total spend incurred.

As per the 2016/17 Revenue Account data, over half (53%) of Hampshire County Council's total net current expenditure is spent on the provision of education services. Adult social care spend, at £360m (23% of total net current expenditure) and children's social care, at £134.4m (8.5% of total net current expenditure) represent the second and third largest expenditure line items respectively. Indeed, these three services account for the majority of net spend (84%) incurred by Hampshire County Council. Despite education spend representing such a large proportion of their annual expenditure, Hampshire County Council have limited influence over the way in which schools spend the funding that they receive. Given their high expenditure value, adult's and children's social care expenditure is particularly vulnerable to demographic shifts within the region or the imposition of financial constraints, both of which could create considerable pressures for the continued successful delivery of the respective services regardless of any change to local government structures.

The Public Sector Audit Appointments 2014 analysis³⁹ indicates that in comparison to other county councils, Hampshire County Council is in a strong position in terms of the level of reserves it holds being in the highest 5% for "planned total reserves at the end of the year 2015/16". In an attempt to examine the financial resilience of both Hampshire County Council and the Solent district councils, an assessment has been made as to their level of usable reserves compared to their net cost of services for the past two financial years. The figures noted in the table below have been taken from each respective authority's 2015/16 and 2014/15 statements of account.

³⁹ Public Sector Audit Appointments 2014

Table 15 Usable reserves as a multiple of net cost of services

| | Hampshire County Council | East Hampshire DC | Eastleigh BC | Fareham BC | Gosport BC | Havant BC | IOW | Portsmouth CC | Southampton CC |
|---|--------------------------------|----------------------|--------------|------------|------------|-----------|---------|------------------|-------------------|
| 2015/16 | | | | | | | | | |
| Usable Reserves | 497,294 | 30,844 | 19,075 | 35,705 | 11,290 | 13,673 | 70,928 | 214,772 | 111,420 |
| Net Cost of Services | 858,144 | 19,146 | 14,234 | 14,127 | 11,571 | 14,968 | 145,837 | 163,240 | 257,858 |
| Usable Reserves as a multiple of 'Cost of Services' | 0.58 | 1.61 | 1.34 | 2.53 | 0.98 | 0.91 | 0.49 | 1.32 | 0.43 |
| 2014/15 | | | | | | | | | |
| Usable Reserves | 462,149 | 31,679 | 18,006 | 37,706 | 9,098 | 10,294 | 52,851 | 199,099 | 100,779 |
| Net Cost of Services | 875,786 | 14,970 | 18,113 | 16,103 | 10,355 | 15,681 | 145,154 | 179,500 | 228,737 |
| Usable Reserves as a multiple of Cost of Services | 0.53 | 2.12 | 0.99 | 2.34 | 0.88 | 0.66 | 0.36 | 1.11 | 0.44 |

Table 15 indicates, that for 2015/16 Hampshire County Council's indicates, that for 2015/16 the County's usable reserves would have been able to cover just 0.58 of its net costs of services whilst in 2014/15 this figure would have been marginally lower at 0.53. This compares unfavourably with the Solent district councils, each of whom, barring Gosport and Havant, would have been able to cover the net cost of their services at least once with their respective levels of usable reserves. The 2015/16 data indicates that of the five district councils, Fareham are the most financially resilient when assessed in these terms with their usable reserves able to cover the net cost of their services 2.53 times. At 0.91 times in 2015/16 Havant's multiple is the lowest of the district councils but is an improved position from 2014/15 when its usable reserves could have covered just 66% of the net cost of its services.

With regards to the three existing unitary authorities, Portsmouth is the most financially resilient, when assessed in these terms, with a multiple of 1.32 and 1.11 in 2015/16 and 2014/15 respectively. Southampton's and the Isle of Wight's usable reserves as a multiple of net costs of services are at a slightly lower level to those of Hampshire County Council. Neither would have been able to cover the net cost of their services in 2015/16 nor 2014/15 with usable reserves.

3.3. Disaggregation of County Council income and expenditure

The 2016/17 General Fund Revenue Account data, as submitted by each council to the DCLG, has been used as the starting point for our financial analysis. A baseline income and expenditure budget has been calculated for each unitary option under consideration with Hampshire County Council income and expenditure apportioned to each district council where necessary. For the purposes of baseline comparison, where reserves have been used to meet revenue shortfalls then these have been assumed to also have been utilised.

The disaggregation of Hampshire County Council data has been undertaken using appropriately selected 'disaggregation factors'. It is recognised that the Solent authorities currently receive some revenue grants which are determined by reference to complex formulae such as Revenue Support Grant and Business Rate Top ups/Tariffs (which is calculated on a 'needs' basis) cannot easily be disaggregated. However, in the absence of publicly available data of the granularity and accuracy that would allow for such a formula to be recalculated, a broader high level disaggregation factor has been selected⁴⁰. Each of the factors selected for disaggregating Hampshire County Council data have been agreed with Section 151 officers.

Our financial analysis has been presented over a five year period (2016/17 to 2021/22) with District and Unitary Council completed budget books used to project Revenue Account income and expenditure across the period. It is important to note that of the eight authorities, four (Gosport Borough Council, Isle of Wight Council Portsmouth City Council and Southampton City Council) projected funding gaps in 2021/22. Such funding gaps were reported in order to maintain consistency with other published and publicly available financial projections. It is noted that the five authorities expect to close these funding gaps nearer the financial year for which they have been projected. The financial analysis has been presented to reflect the budget book projections provided and assuming the funding gaps are closed.

Hampshire County Council and Southampton City Council provided budget projections though these forecasts were presented using different service categories when compared to the district councils. Given this, it was necessary to make a number of assumptions with regards to the Southampton's and Hampshire County Council's projections so that they were in a format that was consistent with the budget book templates completed by the district councils. These assumptions were shared with both Southampton and Hampshire County Council for comment. No data was provided by Hampshire County Council for the years 2020/21 and 2021/22. Therefore, for the purposes of the financial analysis, it has been assumed that Hampshire County Council income and expenditure remains constant over the period 2019/20 to 2021/22.

3.4. Economy and efficiency

The income and expenditure accounts and the net surplus/deficit positions that have been calculated for each unitary authority option provide an indication of each authority's ability to assume and provide existing county services. It is important to note that the local government finance system is currently undergoing widespread reform. Government grants continue to decline, most noticeably the Revenue Support Grant which is expected

⁴⁰ We would expect that if a more detailed disaggregation of RSG and Retained Business Rates is undertaken, there would be some rebalancing effect of reducing deficits for relatively deprived areas and reducing surpluses in more prosperous areas. For more information please see Appendix A.4.

to reduce to zero by 2020, whilst business rates retention is being modified in a move that will see local areas retain a greater proportion of the proceeds of economic growth they contribute to.

Whilst the transition to new local government structures will incur a number of costs it will also provide a number of opportunities for potential efficiencies and transformation savings to be realised. It is important to consider these savings and costs (emerging from transition) alongside the financial impact on income and expenditure in order to calculate the 'net' impact on the re-organisation. For the purpose of this report, we have focused on those costs and savings considered to typically be the most material in the context of local government reorganisation. These are:

- *Transformation savings*: savings to be achieved through a reduction in FTE numbers (both front and back office) following the removal of staff effort duplication;
- *Employee severance costs* (at both senior management and employee level): costs associated with the reduction in FTE numbers;
- *Member and democratic costs/savings*: savings to be achieved through a reduction in the number of members and a reduction in election costs due to fewer elections;
- *Office space rationalisation*: savings to be achieved from fewer FTEs and therefore a reduction in office space required; and
- *'Other' transition costs*: these include, inter alia, costs associated with project and change management, business management and ICT integration.

It has been assumed that the costs associated with re-organisation will be incurred over the short to medium term (three years) and that by the 2021/22 (final year of analysis presented) net savings will be at a steady state.

Whilst the anticipated transition costs included within our financial analysis are based upon on publicly available data sources, namely the 2008/09 Business Case submissions for unitary authority status of Central Bedfordshire, Cornwall Leicestershire, Suffolk and Wiltshire, in reality the exact cost of re-organisation will ultimately depend on which service reform aspects are implemented and the extent, nature and scale of the proposed option.

3.5. Summary Results

A summary of the financial analysis undertaken can be found in the tables below. Table 16 presents an overview of each proposed unitary authority's financial position, that is to say whether they are anticipated to generate a surplus or a deficit. This analysis has been presented for the baseline year (2016/17) and for 2021/22 both before and after the savings and efficiencies associated with re-organisation are taken into account. It should be noted that this 'option' which would see eight unitary authorities created has been created to form 'building blocks' and as such the analysis with regards to potential savings to be achieved through re-organisation has not been undertaken.

Table 17 presents a summary of the level of savings that could be achieved over a five year period through re-organising to form unitary authorities. The effects of council tax harmonisation have been considered in section 3.7 below, whilst detailed results of the financial analysis undertaken can be found in Appendix A.

Table 16 Summary of surplus/(deficit) position pre and post re-organisation

| | Surplus/ (deficit) 2016/17 (£'000) | Surplus/ (deficit) 2021/22 (£'000) | Surplus/ (deficit) 2020/21 as % of total net current expenditure | Surplus/ (deficit) 2021/22 assuming funding gap is closed (£'000) | Surplus/ (deficit) 2021/22 post re- organisation* (£'000) |
|------------------------|--|---|---|---|--|
| Building Blocks | | | | | |
| East Hampshire | 5,364 | 5,675 | 3.44% | 5,675 | |
| Eastleigh | 4,677 | 4,580 | 2.78% | 4,580 | |
| Fareham | 2,886 | 2,288 | 1.64% | 2,288 | |
| Gosport | (14,433) | (16,195) | (11.76%) | (14,708) | |

| | | | | | |
|-----------------------------|----------|----------|----------|----------|---------|
| Havant | (21,698) | (21,000) | (11.39%) | (21,000) | |
| Isle of Wight | - | (22,377) | (8.07%) | - | |
| Portsmouth | - | (27,699) | (8.71%) | - | |
| Southampton | - | (28,484) | (6.12%) | - | |
| Three Unitary Option | | | | | |
| Greater Portsmouth | (27,881) | (56,901) | (6.03%) | (27,745) | 8,220 |
| Greater Southampton | 4,677 | (23,904) | (3.79%) | 4,580 | 22,250 |
| Isle of Wight | - | (22,377) | (8.07%) | - | 8,358 |
| Five Unitary Option | | | | | |
| Gosport and Portsmouth | (14,443) | (43,864) | (9.63%) | (14,708) | 2,729 |
| Southampton | - | (28,484) | (6.12%) | - | 10,873 |
| Isle of Wight | - | (22,377) | (8.07%) | - | 8,358 |
| East Hampshire and Havant | (16,333) | (15,325) | (4.38%) | (15,325) | (6,572) |
| Eastleigh and Fareham | 7,563 | 6,868 | 2.26% | 6,868 | 18,834 |

It is important to note that the unitary options analysis below is done at a high level using some simplistic assumptions and does not take into account any future changes to local government funding settlements. Current funding systems are used to an initial view of the financial position of new stand-alone entities. However any new entities may receive different funding settlements from government depending on need and other criteria which would require further detailed evaluation⁴¹.

Building Blocks (note these elements are for analytical purposes only)

Following the disaggregation of Hampshire income and expenditure, East Hampshire, Eastleigh and Fareham would all generate a financial surplus in the 2016/17 baseline year indicating that, as stand-alone entities, they may be able to fund the services, including existing County Council services, which they would be required to provide. Conversely, Gosport and Havant may both generate significant financial deficits were they to be restructured as unitary authorities (£14.4m and £21.7m respectively in 2016/17).

The three existing unitary authorities of Isle of Wight, Portsmouth and Southampton display a balanced position in 2016/17, reflective of their 2016/17 RA submissions, and all generate substantial financial deficits in 2021/22 (£22.4m, £27.7m and £28.5m respectively); though this is reflective of the funding gaps predicted in their five year budget book projections. It is acknowledged that whilst Hampshire County Council may provide services to the Isle of Wight (e.g. children's services) it is assumed for the purposes of this analysis that the Isle of Wight will continue to fund these.

Three Unitary Option

The analysis suggests that there is a financial mismatch between the three proposed unitary authorities. Greater Portsmouth would generate a financial deficit in 2016/17 largely due to the financial position of Gosport and Havant; both of whom are in a deficit position following the disaggregation of County income and

⁴¹ In particular RSG and Retained Business Rates would likely narrow some of the deficits in more deprived areas and reduce surpluses in the least deprived areas. See Appendix A.4 for further details.

expenditure⁴². Its position appears to worsen considerably over the period to 2021/22, at which point it generates a deficit of £56.9m, though this is largely explained by the £27.7m funding gap reported by Portsmouth City Council as part of their budget book projections. Even if it is assumed this funding gap is closed, a Greater Portsmouth unitary would still generate a financial deficit of £27.7m⁴³. Re-organisation provides considerable scope for savings to be made, and would see the unitary generate a financial surplus of £8.2m in 2021/22 (assuming all funding gaps are closed).

Similarly, Greater Southampton generates a financial surplus in the base year (2016/17) of £4.7m, a position which deteriorates to 2021/22 (deficit of £23.9m recorded). This deficit is attributable to the currently predicted funding gap anticipated by Southampton City Council in their 2021/22 projections. If this funding gap were to close, a budget surplus of £4.6m would be generated. Again, the potential savings to be achieved through re-organisation would see this surplus position strengthened further to £22.3m in 2021/22.

The Isle of Wight has also predicted a significant funding gap (£22.4m) as part of their 2021/22 budget book projections. Assuming this funding gap is closed, the proposed transformation initiative across the Solent geography, would see a budget surplus of £8.4m generated.

Five Unitary Option

A Gosport and Portsmouth unitary authority would generate a financial deficit of £14.4m in 2016/17 and, would remain in deficit in 2021/22 (£14.7m deficit assuming funding gaps are closed). Savings to be realised through re-organisation help to improve the financial position of a Gosport and Portsmouth unitary authority, to the extent that it generates a surplus of £2.7m.

Southampton's and the Isle of Wight's initial deficit positions in 2021/22 reflect the funding gaps predicted in their respective budget book projections. If these are closed, and the financial effects of transformation are taken into effect, surpluses of £10.9m and £8.4m can be expected.

East Hampshire and Havant unitary authority would generate a financial deficit both pre (£15.3m) and post re-organisation (£6.6m in 2021/22), causing questions to be raised of its ability to operate as a unitary from a financial perspective. Conversely, of the five proposed unitary authorities, Eastleigh and Fareham would be the strongest financial terms, generating surpluses both pre (£6.9m) and post re-organisation (£18.8m) in 2021/22.

Reorganisation costs and savings

As per Table 17 below, re-organising to form three unitary authorities would, over the five year period to 2021/22, see costs of £44.2m incurred and potential savings of £246.7m realised; allowing for potential net savings of £202.4m to be achieved. Of the costs to be incurred, the majority (85.1%) relate to those associated with employee severance which totals £12.5m per annum for the first three years following re-organisation. The potential net savings attainable under a three unitary structure are largely driven by the transformation programmes and the savings achievable through a reduction in FTE count associated with them. A steady state, annual net saving of £62.0m is achievable from year three onwards; a figure which is 8% greater than that achievable through the five unitary structure. A breakdown of these transition costs and savings can be found in Appendix A.

Table 17 Summary of cost/savings associated with re-organisation

| | Year 1 £m | Year 2 £m | Year 3 £m | Year 4 £m | Year 5 £m | Total £m |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Three Unitary Option | | | | | | |
| Total costs | (15.2) | (15.2) | (15.2) | 0.6 | 0.6 | (44.2) |
| Total savings | 21.3 | 41.3 | 61.4 | 61.4 | 61.4 | 246.7 |

⁴² We would expect that if a more detailed disaggregation of RSG and Retained Business Rates is undertaken, there would be some rebalancing effect of reducing deficits for relatively deprived areas and reducing surpluses in more prosperous areas. For more information please see Appendix A.4.

⁴³ We would expect that if a more detailed disaggregation of RSG and Retained Business Rates is undertaken, there would be some rebalancing effect of reducing deficits for relatively deprived areas and reducing surpluses in more prosperous areas. For more information please see Appendix A.4.

| | | | | | | |
|----------------------------|------------|-------------|-------------|-------------|-------------|--------------|
| Total net savings | 6.1 | 26.2 | 46.2 | 62.0 | 62.0 | 202.4 |
| Five Unitary Option | | | | | | |
| Total costs | (15.4) | (15.4) | (15.4) | 0.4 | 0.4 | (45.5) |
| Total savings | 19.5 | 38.2 | 57.0 | 57.0 | 57.0 | 228.7 |
| Total net savings | 4.1 | 22.8 | 41.6 | 57.4 | 57.4 | 183.3 |

Creating five unitary authorities for the Solent geography would generate potential net savings of £183.3m over the five year period to 2021/22 with annual net savings of £57.4m achievable from year four onwards. Just as for the three unitary authority option, these potential savings are largely driven by those savings (£217.8m over the five year period and £54.4m on an annual basis from year three onwards) to be achieved through transformation programmes and the reduction in FTE count associated with them. Unlike for the three unitary authority structure, re-organising to form five unitary authorities would incur costs in relation to the implementation of new senior management structures. Whereas savings of £13.5m can be made when re-organising to form a three unitary authority structure, a move to five unitary authorities would incur costs totalling £1.9m over a five year period with annual costs of £0.5m incurred from year three onwards. Employee severance costs (£37.6m), 'other' transition costs (£9.8m) and savings to be realised through asset rationalisation (£9.2m) remain constant regardless of the unitary authority structure proposed.

3.6. Payback period

Total costs associated with re-organising to form either a three or five unitary authority local government structure for the Solent region would be recouped within the first year as total savings to be realised outweigh total costs. In the case of the five unitary option, net savings of £4.1m could be achieved in the first year, whilst the figure is 48.8% higher under the three unitary option, which would see net savings of £6.1m achievable in the first year of re-organisation.

Table 18 Payback period

| Option | Payback period |
|-------------------------|----------------|
| Three unitary authority | Year 1 |
| Five unitary authority | Year 1 |

3.7. Council tax harmonisation

Combining district authorities into unitary authorities will require the converging of council tax rates. There are various methodologies available for this analysis. We have adopted the approach that the lowest rate inherited within the configuration should be increased at the highest annual percentage increase available for a unitary authority and that all other rates should be increased by the required percentages so that council tax rates are identical at the end of a specific convergence period.

The detailed financial analysis is shown in Appendix A

3.8. Summary and conclusions from value for money and cost of transition analysis

Based on the financial analysis undertaken, we summarise our findings as follows:

- The 2016/17 General Fund Revenue Account outturn data ("RA data") for five district councils, three unitary authorities and Hampshire County Council has formed the basis of our financial analysis with appropriately selected drivers used to disaggregate the resources and expenditure of Hampshire County Council..
- A three unitary structure for the Solent geography would see Greater Portsmouth and Greater Southampton generate financial surpluses of £9.9mm and £21.0m respectively, in 2021/22 once the effects of re-organisation and council tax harmonisation are taken into account. This assumes that the

funding gaps currently anticipated as per Portsmouth and Southampton City Councils' budget book projections are closed. Similarly, were the Isle of Wight to close its 2021/22 anticipated funding gap, the transformative effects of the restructure the Solent geography could see it generate a surplus of £8.4m. The three unitary structure generates the greatest level of net savings (£202.4m) over the five year period and the largest steady state annual net savings (£62.0m from year four onwards) of the two unitary structures considered.

- The financial analysis would indicate that, under a five unitary authority structure, all authorities barring East Hampshire and Havant would generate a financial surplus in 2021/22 once the effects of council tax harmonisation and the transformative effects of re-organisation are taken into account (assuming the funding gaps currently anticipated by Gosport Borough Council, Isle of Wight Council, Portsmouth City Council and Southampton Council are all closed). An Eastleigh and Fareham unitary would generate a financial surplus both before and after the effects of re-organisation and council tax harmonisation are taken into account. Re-organising in this manner would allow for the greatest level of additional council tax income to be earned across the Solent region as a whole; £2.5m in year five and £6.0m over the first five years of harmonisation.

It should also be noted that:

- The analysis undertaken, including the potential costs and savings associated with re-organisation are not detailed but indicative at this stage based on a number of high level assumptions;
- For the purposes of the council tax harmonisation figures quoted above, it has been assumed that a 20 year convergence period for the harmonisation of council tax is adopted with the lowest inherited rate increased at 3.99% per annum and converging all other rates; and
- The Revenue Support Grant and the Business Rate Top Up/Tariff is provided by the Government to local authorities using a 'needs' based formula. This is a complex formula which has not been replicated for the purposes of this report. We would expect that if a more detailed disaggregation of RSG and Retained Business Rates is undertaken, there would be some rebalancing effect of reducing deficits for relatively deprived areas and reducing surpluses in more prosperous areas. For more information please see Appendix A.4.

Summary

Table 19 presents a summary ranking of the proposed unitary options (with a 'three' ranking being the most favourable and a 'one' ranking being the least favourable) assessed against their ability to:

- Generate a baseline budget surplus/deficit
- Achieve savings through re-organisation
- Generate additional council tax income through harmonisation

Table 19 Summary ranking of the proposed unitary options

| | Status quo | Three UAs | Five UAs |
|--|------------|-----------|----------|
| Baseline budget surplus/deficit position | 2 | 3 | 1 |
| Savings to be achieved through re-organisation | 1 | 3 | 2 |
| Council tax harmonisation – additional income to be earned | 1 | 2 | 3 |
| Total | 4 | 8 | 6 |

4. Strong local leadership and accountability

This section and the following section examine the options through the lens of the DCLG qualitative tests:

- Ensuring strong and accountable local leadership and governance (this section)
- Delivering better public services (Section 5)

The final section then brings this analysis together with the preceding financial/quantitative analysis in to a summary assessment.

4.1. Local government reform and the opportunity to strengthen leadership and accountability

The Williams' Commission on Public Service Governance and Delivery in 2014 was established to examine the current arrangements for public service governance and delivery in Wales and assess whether these arrangements met the needs and aspirations of citizens and would provide a sustainable basis for the future of public service delivery. While the context is different (Wales has all unitary authorities serving an average population of 137,000), the conclusions of the Commission are relevant when considering local government reform in the Solent, of particular relevance are the following conclusions:

- Clarifying accountability and building trust - being accountable and responsive to citizens and communities and removing duplication and friction between different roles of government; and⁴⁴
- Ensuring simplicity – creating a simpler and more coherent set of structures and mechanisms (such as partnerships) which can be adapted to accommodate new purposes and pressures over time.

This section of the report assesses how the unitary authority model for Solent could meet these criteria.

4.2. Clarifying accountability

One of the challenges of the two-tier local government arrangement is the multiple points of accountability, which can result in residents, businesses, public sector partners and sometimes even staff being unsure which authority is responsible for a particular issue. At its worst this can result in the customers being passed between authorities without resolution. While such issues can be managed it requires customers to work harder to understand local authority organisational responsibilities and causes additional complexity in terms of information sharing and exchange between organisations. A number of Leaders of district councils we interviewed stated that a significant amount of the direct correspondence received from residents related to Hampshire County Council services which had to be passed on. In their view, this demonstrated the lack of clarity over responsibilities and created delay, additional administrative cost and inefficiency in responding to resident enquiries.

Under a unitary model, the local authority which a resident pays their council tax to and a business pays their business rates to, will be the authority which is responsible and accountable for all of the local government services that are provided in that community. The exception to this is those services provided by town and parish councils which are discussed later in this section. A unitary authority model does not of course resolve the inter-relationship between different public sector organisations, such as community safety and the police service, and adult social care and the health service. We discuss the benefits achievable from simplifying the separation of two-tier local government functions and the wider complexity in public service delivery in Section 5.

Decision making

A new unitary authority must not be too large that it is unresponsive or unrepresentative to the needs of the communities it services (which is one criticism widely made about county councils). This was also articulated by the Williams Commission which recommended that:

⁴⁴ Commission on Public Service Governance and Delivery 2014

“the importance of maintaining local democracy means that any reform must strike a balance. It must ensure coherence and representativeness while reducing the risks of small scale and creating local authorities that are more efficient and resilient. It should not seek to establish some minimum or average size, or to create a predetermined lower number of local authorities.”⁴⁵

A unitary authority is governed by full Council, which is responsible for setting the strategic framework and the budget for the services the unitary authority is responsible for. The majority of unitary authorities operate on a Cabinet / Executive model of governance where the Leader of the Council and a number of Cabinet members who are usually responsible for a portfolio of council services, make the majority of decisions on how council services are run. The benefit of this model is that there is clear responsibility for decision making across all council services, and accountability for decision making for the electorate. A unitary authority Cabinet would be responsible for the end to end design of services and assessing the impact across the place and customer groups.

It could however be argued that the larger the unitary authority is in population terms, the ratio of population to Cabinet Member is lower which may challenge representativeness in decision making.

One area of decision making which is particularly sensitive to community identity is town planning and consideration of planning applications. Under a unitary authority model, a planning committee is responsible for considering and making decisions on planning applications. These committees are usually established in smaller geographies than the geography the unitary authority covers – at a geography that is large enough to appreciate the strategic planning context of the Core Strategy or Local Plan but also sensitive to smaller community identities. There are many good examples of other forms of public engagement over decision making in local government which overcome some of these issues.

Local democratic representation

An important aspect of strong accountability in local government is the local democratic representation within communities. It is highly likely that any proposals for local government reorganisation will be reviewed by the Boundary Commission to ensure that the pattern of ‘electoral divisions’ (e.g. ward representation) reflect the interests and identities of local communities as well as promoting effective local government, including a review to ensure that each council member represents approximately the same number of electors (voters).⁴⁶

Solent has 172 wards⁴⁷ within its constituent authorities which are represented by 191 districts⁴⁸ council members and 130 unitary authority council members. Hampshire County Council has 78 council members, of which 33 represent parts of the Solent area. In total this amounts to 354 elected members as the baseline position.

⁴⁵ Commission on Public Service Governance and Delivery 2014

⁴⁶ <https://www.lgbce.org.uk>

⁴⁷ <http://easthants.moderngov.co.uk/mgMemberIndex.aspx>

<http://meetings.eastleigh.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

<https://moderngov.fareham.gov.uk/mgMemberIndex.aspx?FN=WARD> <https://www.gosport.gov.uk/sections/democratic-services/councillor-websites/> <http://havant.moderngov.co.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

<https://www.iwight.com/councillor/azCouncillors.aspx>

<http://democracy.portsmouth.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

<https://www.southampton.gov.uk/moderngov/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

⁴⁸ <http://easthants.moderngov.co.uk/mgMemberIndex.aspx>

<http://meetings.eastleigh.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

<https://moderngov.fareham.gov.uk/mgMemberIndex.aspx?FN=WARD> <https://www.gosport.gov.uk/sections/democratic-services/councillor-websites/> <http://havant.moderngov.co.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

<https://www.iwight.com/councillor/azCouncillors.aspx>

<http://democracy.portsmouth.gov.uk/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

<https://www.southampton.gov.uk/moderngov/mgMemberIndex.aspx?FN=WARD&VW=LIST&PIC=0>

Table 20 Members and representation in the Solent⁴⁹

| Authority | Council Members | Electors | Electorate per Member |
|--------------------------|---|----------------|-----------------------|
| East Hampshire DC | 44 | 87,495 | 1,989 |
| Eastleigh BC | 44 | 95,350 | 2,167 |
| Fareham BC | 31 | 87,709 | 2,829 |
| Gosport BC | 34 | 61,460 | 1,808 |
| Havant BC | 38 | 93,024 | 2,448 |
| Isle of Wight UA | 40 | 106,437 | 2,661 |
| Portsmouth CC UA | 42 | 140,086 | 3,335 |
| Southampton CC UA | 48 | 158,851 | 3,309 |
| Hampshire County Council | 33 of the 78 represent areas in this Solent study | 425,038 Solent | 12,880 Solent |
| Total | 354 | 425,038 | 1,200 |

The Electoral Commission technical guidance on electoral reviews suggests that a council size (meaning the number of Councillors) should range between 30 and 100, with lower than this range being considered too small to discharge its statutory functions and above being too large to function effectively. It also aims to create electoral equality where any elector's vote is the same as another's.

In the last round of local government reorganisation, many new unitary authorities resulted in fewer members per ward (1-2) than the average number of members per ward across English single tier authorities (excluding London boroughs) of 2.28, with the highest representation of 3 council members per ward.⁵⁰ Based on a reasonable assumption that the average number of members per ward could be 1.5 across the new unitary authorities in the Solent, this would result in a total of 156 members⁵¹. In practice it might be expected, for electoral equity reasons, that Gosport and East Hampshire would be 1 member per ward and the other areas 2 members per ward giving a total of 151.

This would result in a continuation of the 130 members across the three existing UAs, and a total of 156 members across the former-districts. As the members are calculated on a per-ward basis, there is no change in the total members across both the 5UA and 3UA options. **Each proposed UA option would have 286 members in total, i.e. 156 estimated members for former districts and the 130 current members for current unitaries.**

We have assumed that no changes would be made to the number of members in the existing unitary authorities of Isle of Wight, Portsmouth and Southampton, who have members per ward of 1, 3 and 3 respectively.

⁴⁹ <https://www.lgbce.org.uk/records-and-resources/local-authorities-in-england>

⁵⁰ <https://www.lgbce.org.uk/records-and-resources/local-authorities-in-england>

⁵¹ As calculated by the total sum of all members across former districts. For clarity the assumptions is 57 members in East Hampshire (38 wards), 29 members in Eastleigh (19 wards), 23 members in Fareham (15 wards), 26 members in Gosport (17 wards) and 21 members in Havant (14 wards).

Table 24a Members and representation in the new Solent Unitary Authorities⁵²

| Future members | Members | Wards | Electorate per Member |
|--------------------------------------|---------|-------|-----------------------|
| Three UA option | | | |
| Greater Portsmouth: | 169 | 98 | 2,957 |
| Greater Southampton: | 77 | 35 | 3,050 |
| Isle of Wight | 40 | 39 | 2,732 |
| Five UA option (3 districts in each) | | | |
| Gosport & Portsmouth | 68 | 31 | 3,404 |
| Southampton | 48 | 16 | 2,906 |
| Isle of Wight | 40 | 39 | 2,732 |
| East Hampshire and Havant | 78 | 52 | 2,314 |
| Eastleigh and Fareham | 52 | 34 | 3,520 |

For electoral equity it is valid to analyse the ‘electorate per member’ statistics as it reflects the possible impacts on local representativeness. In the current organisation of local government, electorate per member varies from 2,314 in East Hampshire and Havant to 3,520 in Eastleigh and Fareham as shown in Table 24a above. When compared to the electorate per member figures for the 2009 unitaries in Table 24b below, the range looks very similar, and even a little lower, presenting a potential opportunity to have greater representativeness than has been achieved on average for the 2009 unitaries.⁵³

The configuration of members in the new unitary authority options could of course need to be re-configured to better reflect local representativeness and ensure that electorate per member figures are more equal. It is also likely that the Council ‘size’ in the three unitary authority Greater Portsmouth option would be considered too large for good governance.

For comparison, the Deloitte report⁵⁴ commissioned by Hampshire County Council implies an electorate per member ratio of over 16,000 to 1 in their Option D (county-wide unitary authority, excluding the current three unitary authority). This is calculated by dividing the proposed unitary authority population (1.3 million) by the proposed number of members in this option (78). This is nearly three times greater than the maximum outlined above. The report highlights that the number is based on a Local Government Boundary Commission Review and Consultation for Hampshire County Council⁵⁵, which recommends that the number of county council members remains static at 78, but in our opinion, this does not take into account the role of district councillors, and the need for councillors in the new unitary authority structure to also represent former district services.

Table 20 shows that there are currently 354 members representing Solent (including its share of Hampshire County Council members). As outlined above, there is potential to reduce the amount of members representing Solent by 68 members. This represents a cost saving for both the 3 unitary authority and 5 unitary authority options, as the cost of member’s basic allowances would no longer be required for these individuals.

We have assumed that upon reorganisation basic allowances and special allowances will adjust to a level currently paid to the existing unitary authorities in Solent; Southampton, Portsmouth and the Isle of Wight. In respect of special allowances, the reduction in number of authorities to a 5 unitary authority or 3 unitary authority structure will lower the total amount of special allowances paid, even though the amount per authority would increase to a unitary level. As outlined in Appendix A, changes in member representation and associated costs could achieve an annual saving of between a £0.8m to £1.6m.

Moving to a more streamlined unitary authority governance structure should create the opportunity for fewer elections and thus cost savings. We have assumed that voters would continue to turn out in the same numbers under a single tier unitary model as they currently do for the Southampton, Portsmouth and Isle of Wight

⁵² The estimates in this table assume that the current unitary authority areas would continue to be represented by the same number of members as at present. For the new unitaries a member per ward ratio of 1.5 has been assumed.

⁵³ Note this is simply considering the electorate per member statistics and does not take into account other measures to achieve political representativeness for the electorate at the local level for which there are many and varied initiatives. This is therefore an highly simplified conclusion.

⁵⁴ Deloitte, Initial analysis of options for local government in Hampshire and the Isle of Wight. Hampshire County Council, 2016.

⁵⁵ <https://consultation.lgbce.org.uk/node/5188>

elections. As a result of combining districts within a single tier structure we have assumed, however, that there would be a removal of county elections and its associated votes and costs. As outlined in section 3, fewer elections could achieve an annual saving of £0.3m.

Table 21b Members and representation in the 2009 unitary authorities

| 2009 UAs | Members | Members per ward | Wards | Electorate per Member |
|----------------------------------|---------|------------------|-------|-----------------------|
| Bedford | 40 | 1.5 | 27 | 3,167 |
| Central Bedfordshire | 59 | 1.9 | 31 | 3,414 |
| Cheshire East | 82 | 1.6 | 52 | 3,351 |
| Cheshire West and Chester | 75 | 1.6 | 46 | 3,469 |
| Cornwall | 123 | 1 | 122 | 3,215 |
| County Durham | 126 | 2 | 63 | 3,017 |
| Northumberland | 67 | 1 | 66 | 3,482 |
| Shropshire | 74 | 1.2 | 63 | 3,135 |
| Wiltshire | 98 | 1 | 98 | 3,579 |

When establishing the 2009 unitary authorities, arrangements were put in place to enhance local representation and responsiveness. For example, in Wiltshire, the new unitary authority established 18 new Area Boards, which were established as a means to ensure that local people have the opportunity to influence strategic decision making at the centre. The area boards bring local decision making back into the heart of the community which are responsible for finding solutions for local issues such as road repairs, traffic problems, litter, facilities for young people and affordable housing, however the boards do not have a budget or direct accountability.⁵⁶

Cornwall Council has also adopted a similar model, through the use of 19 Community Networks, which look to drive improvements locally. Both councils invest in these bodies through ensuring attendance from councillors of both the unitary authority and the local town and parish councils. This provides local representation and accountability, while removing some of the disadvantage of the lack of scale that town and parish councils can have.

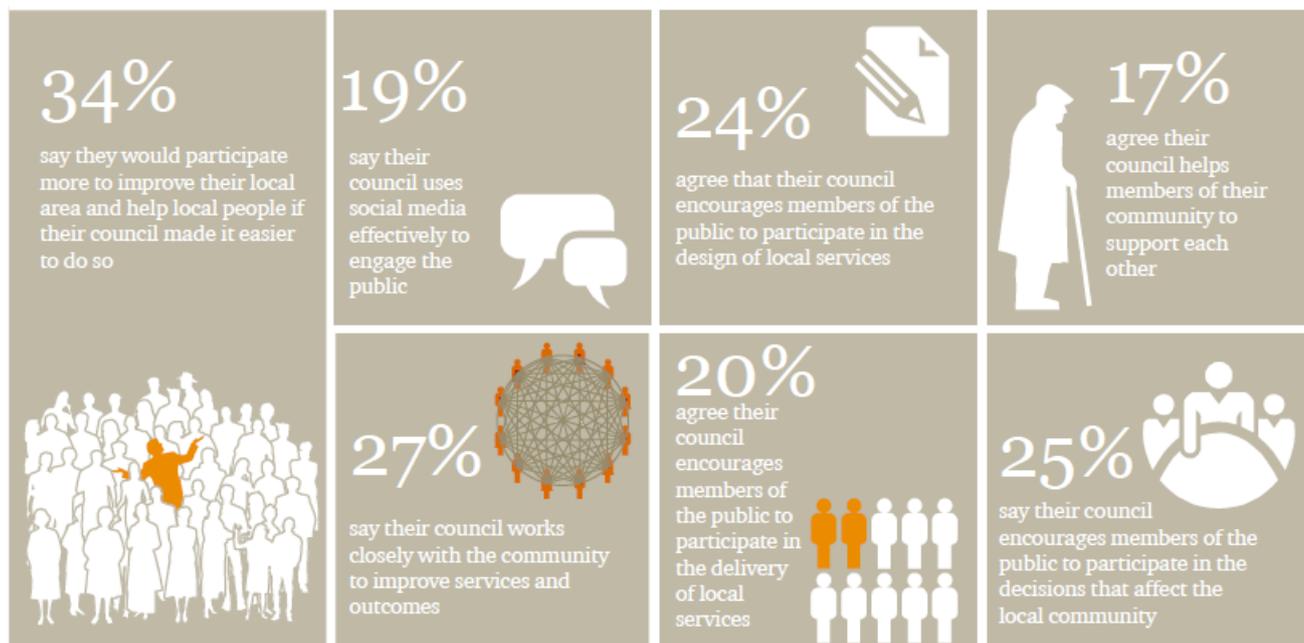
Both of these examples demonstrate that arrangements to enhance local representation and accountability can be put in place to reflect natural communities. However it should be recognised that there will be additional costs associated with the democratic servicing of these arrangements.

Digital participation

Another opportunity to increase participation in democracy is through digital technology. Local government is becoming more aware of the importance of the desire for an increasing proportion of residents to access services and participate in democracy online.

⁵⁶ Wiltshire.gov.uk

Figure 3 Resident survey



Source: PwC polling, February 2016, UK national sample of 2007 adults

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There are good examples of using technology to aid participation for example, Portsmouth City Council record council meetings which are available on the council's website and also through a specific YouTube channel. Some meetings have had in excess of 30 views, which indicates a greater level of viewing than the attendance at the meetings themselves. In addition to viewing council meetings, public consultations are undertaken online, with interactive webcasts allowing a wider range of participation.

Other examples from the UK and around the world where local government has moved beyond consultation and successfully involved citizens in tough decisions, leading to less adversarial interactions and often better outcomes, include:

- Redbridge Council provided citizens with 'YouChoose,' an online tool to set budget priorities.
- Citizens' juries run by PwC and Britain Thinks provided a deliberative space in which citizens established decision-making criteria for the 2010 Spending Review.⁵⁸ Portsmouth City Council conducted a similar exercise in 2008 used SIMALTO tools⁵⁹.
- In Thurrock, the redesign of adult social care was conducted in collaboration with a group of users who have since taken over delivery of the service.
- After public backlash against planned expansion, the Alders Table was founded with public involvement to steward the future of the Netherlands' Schiphol airport.
- The Oregon Kitchen Table is a citizen-founded platform which has been used by government to engage citizens on their own terms.

⁵⁷ Beyond Control: in the age of participation

⁵⁸ PwC & Institute for Government, Smarter engagement: Harnessing public voice in policy challenges

⁵⁹ <http://democracy.portsmouth.gov.uk/Data/Governance%20&%20Audit%20&%20Standards%20Committee/20080411/Agenda/AI%207%20-%20Appendix%20A%20-%20DA%20Letter%20Action%20Plan%20Update%20of%202.pdf>

4.3. Ensuring simplicity

The second main conclusion of the Williams' Commission of particular relevance to Solent is 'ensuring simplicity'. As discussed in section 1.6 of our report, austerity has increased the need for public sector whole system transformation in supporting the needs of residents and businesses. This requires local government to act as 'place leaders' and take responsibility for designing fundamentally different ways of achieving outcomes for residents. Local government has an important role in facilitating shared place leadership by being clear about their ambitions for the residents they serve, building consensus with partners and the public and distributing their power.⁶⁰

Their democratic mandate means local authorities have a unique position with respect to place leadership. Council members in particular are able to broker agreements between public service providers, and critically between providers and Government, to improve the coordination of planning and delivery and to lobby for greater flexibility.

Unitary authorities of appropriate size are best placed to achieve this role. A unitary authority would have oversight of the local authority services provided to residents and would reduce the number of public sector organisation trying to work together in partnership to deliver shared aims.

To support this view, the Williams Commission found that "the public services of the future will need leaders at all levels who actively seek out opportunities for delivery with others to maximise synergy and efficiency and to ensure that services are integrated from the users' perspective. That in turn reinforces the need to address issues of scale, and to create the space and strategic capacity to redefine services and the means of their provision around the needs, priorities and preferences of citizens and communities."⁶¹ We discuss how a unitary authority model can support a wider 'connected government further in section 5.7.

4.4. A Mayoral combined authority

The strong message from central Government is that having elected mayors is the best way to make combined authorities work, due to their inevitable impact on strong and accountable governance. This is because the government believes that there should be direct accountability to residents for the new powers and funding that they plan to pass down through Devolution Deals. The post of a Mayor is not required by law, but is in essence a fundamental condition of the devolution process. Therefore the ambition of the Solent authorities is to create a Mayoral combined authority with a directly elected mayor over the area of Isle of Wight Council, Southampton City Council and Portsmouth City Council with the first elections in the next year or two

The Mayor would provide overall leadership of the combined authority and autonomously exercise new powers. The Mayor would chair the combined authority, the members of which would serve as the Mayor's cabinet. The Mayor and the Solent combined authority would be held to account by the Solent Overview and Scrutiny Committee. He/she would also be required to consult the Cabinet on strategy, which it may reject if two third of the numbers agree to do so. Therefore, the desire of the Solent unitary authorities to move forward with the Mayoral combined authority should enhance accountability of strategies and policies that fall within the remit of the combined authority.

The resultant Mayoral Order (the legislation) and Mayoral Scheme (detailing the powers and functions which build on the 'order') will dictate the specifics of the relationship between the combined authority and the Mayor.

4.5. Summary and conclusions

In summary, unitary authorities can create stronger and more accountable local leadership by:

- creating a single point of accountability for local authority services in a place;
- having a greater role in 'place leadership' across the public sector;
- However, it could be argued that in larger unitary authorities, the Cabinet members who make the day to day decision about services are making decisions on behalf of a larger population, albeit the role of full Council is to set the strategic framework for which those decisions are made.

Democratic representation will be influenced by the Boundary Commission's review and without pre-determining the outcome of a review. There are examples from other recently established unitary authorities of enhanced representation of local communities through Area Boards as an example, as well as enhancing the

⁶⁰ PwC Beyond Control - Facilitating shared place leadership

⁶¹ Commission on Public Service Governance and Delivery 2014

role of town and parish councils and engagement of citizens through digital technology. A summary of the strengths and weaknesses of each of the Solent unitary authority options is summarised in

Summary

Table 22 presents a summary ranking of the proposed unitary options (with a 'three' ranking being the most favourable and a 'one' ranking being the least favourable) assessed against their ability to;

- Provide an adequate number of members
- Achieve a single line of accountability
- Encourage optimal representativeness (as measured by assumed ratio of population to unitary authority cabinet member)
- Ability to enhance accountability by representative boards

Table 22 Summary ranking of the proposed unitary options

| | Status quo | Three UAs | Five UAs |
|-------|--|--|---|
| | <p>354 members</p> <p>No single point of accountability in the districts currently</p> <p>Single point of accountability already offered by the three existing unitary authorities</p> | <p>286 (estimated) members</p> <p>Single point of accountability could be improved via creation of unitary authorities across whole Solent areas</p> <p>Ratio of population to senior unitary authority cabinet member would be lower than the 5 unitary authority option which may be a challenge for representativeness</p> <p>May be greatest need for Area Boards, Community Networks and Parish, Town, Community councils to improve representativeness</p> | <p>286 (estimated) members</p> <p>Single point of accountability could be improved via creation of unitary authorities across whole Solent areas</p> <p>Greater potential for representativeness than the 3unitary authority option</p> |
| Score | 1 | 2 | 3 |

5. Strong local leadership and accountability

5.1. Introduction

The three unitary authorities in the Solent, with the support of the districts, are focussed on establishing a combined authority. This would use the latest legislation on collaboration between authorities to secure an initial devolution deal and build on a long history of joint working.

While there is recognised value in the current voluntary arrangements, the Solent unitary authorities believe that this new statutory mechanism would provide a trigger for progressively unlocking additional powers, responsibilities and resources and enable a stronger delivery model for better public services. The district authorities agree with this approach and are keen to be involved as non-constituent members.

There is a long history of challenge in local government re-organisation with proposals fought over around every ten years particularly in district and county areas. The review of early 1990s on local government reform took over five years to result in only eight areas being recommended for unitary status, having ‘marginal impact’ on the structure of local government despite a clear statutory framework and guidelines from Ministers⁶². The current interest in local government re-organisation has been conflated and often confused with devolution and is operating without a clear framework or guiding principles. The concern for the Solent authorities therefore is that any reorganisation proposal will be controversial and divert the focus from delivering better public services in what are already challenging circumstances.

The district councils within Hampshire have no particular desire to challenge district and county working while the Solent combined authority remains a possibility. But they do acknowledge, as do the relevant unitary authorities, that now unitary options have been proposed by Hampshire County Council, and in light of current economic conditions if the combined authority does not proceed, it is necessary to have started considering what options may be viable.

It should be noted that individual authorities continue to progress their transformation and efficiency plans, with the objective of identifying better service delivery models and identifying cost savings. There is increasing sharing between authorities in the locality, with joint appointments and commissions, and this is likely to become more common irrespective of the changes discussed in this report.

5.2. Current baseline position

As organisations look to transform and organise around outcomes our experience is that savings of up to 30% can be achieved in staff costs. Given that many authorities are in the process of change, our assessment has assumed a significantly lower level of overall transformation savings of 13.5% being achieved from reorganisation.

As the Solent areas covered by this study includes only part of the County, we have had to create a planning baseline using partial County data. By taking a process view, this analysis suggests that there are:

- 12,500 FTE in local government, excluding teachers, with a staff budget of £452.4m working across councils in the Solent authorities;
- 57% of this (7,083 FTE) relates to service delivery and associated support activity such as management and supervision;
- 15% of this (1,941 FTE) is focused on customer contact and assessment activities which enable service delivery including customer engagement, assessment and administration.
- 28% of this (3,476 FTE) is related to back office support services such as finance, procurement, HR, ICT etc.

⁶² JRF, 1997, The Work of the Local Government Commission for England

This high level analysis provides an indication of where capacity is focused and although further work involving all partners would be needed to quantify the activity within these process areas, it provides the basis for considering the total local government resource effort in the Solent authorities.

5.3. Future opportunity

The biggest transformational benefit within service delivery will come from new organisations taking the opportunity to do things differently. A new authority may offer the potential for a more fundamental rethinking and redesign of the operating model so as to ensure a much greater strategic focus on prevention, early intervention and emphasis on growth of people, communities and economies. Alternatively there may be a shared commitment to such a change within current structures by working differently. The Solent authorities recognise that this would require changes in the culture and behaviour of all local authorities across the locality.

As such a transformational change might set out to achieve better public services through principles such as:

- Creating a common customer service layer, with a genuine single front door for public services within a geographical footprint irrespective of provider, utilising digital technologies to simplify access and to data analytics to inform service design;
- Information flows between services, between functions and between authorities, to ensure joined up management, more intelligent service provision and seamless customer experiences;
- A resilient financial model, applying a commercial mind-set to maximise cost recovery and target subsidy and investment where it will have the greatest return so that local councils can increasingly raise the money they need locally;
- Organising services and products around people / customers with agreed, strategic outcomes that residents and businesses value and which make a place distinctive, while continuing to meet statutory responsibilities and duties;
- Pooling back office functions to increasingly automate transactional and routine processes while releasing specialist expertise to delivery complex professional advice and insight to inform decision making; and
- Pushing decision making closer to those it impacts and empowering operational staff within a strategic framework that respects local differences and priorities.

Do things differently – an operating model for the digital age

Technological breakthroughs are causing the big changes in the world and disrupting the economy, business and society as a whole. Within local government and the wider public sector this is starting to affect more than just customer contact but also the design and delivery of services as well. Digital will change the way that councils organise themselves and manage their resources. Our assessment assumes that the authorities will want to adopt additional waves of digital solutions over the next five to ten years.

The first wave of digital in local government focussed on establishing a new channel to access services and has been increasingly successful in shifting contact from face and telephony to lower cost and scalable solutions. This has seen councils create 'MyCouncil' apps and accounts, supporting digitalisation of transactional interactions for residents wanting to report, request, apply and pay for services.

Society of Information Technology Management (SOCITM)⁶³ have benchmarked the relative effort taken to deal with customer contact through various channels, and the analysis demonstrates the benefits in encouraging adoption of cheaper channels. As can be seen in the

Table 23 table below, the effort of dealing with customers looking for simple information is very much more when it's conducted face to face, than if they access that information themselves, through an online source.

⁶³ <https://www.socitm.net/>

Table 23 SOCITM benchmarking

| Customer Demand type | Initial contact / Information Request (Channel) | | | | | | | Service Request (data capture) | | | | | | |
|---------------------------------|---|-------|--------------|-----------|--------------|---|---|---|---------------------------|--|---|--|---|---|
| Customer Demand category | White mail | Email | Face to Face | Telephone | Online (Web) | Automated or 'pushed' to customers through social media | Council integrates with other relevant data providers, to provide the information | Self-service through designated 3rd party | Completely manual process | Manual data entry onto system with manual response | Online self service (auto data capture) and manual provisioning | Online self service, automated provisioning and manual troubleshooting | Fully automated provision, data capture and troubleshooting | Self-service through designated 3rd party |
| Units of effort per transaction | 27.06 | 18.82 | 35.29 | 12.35 | 1.76 | 4.71 | 0.00 | 0.00 | 41.32 | 31.40 | 16.53 | 8.26 | 2.48 | 0.00 |

Source: SOCITM

Under the current arrangements, individual authorities creating solutions can duplicate effort and are developed around the organisation need. Organising around the customer would benefit the customer by providing a single point of access, while also benefiting providers by improving co-ordinated data, insight and integration across processes and systems. While encouraging online access, Hampshire County Council includes 19 different telephone numbers on its contact page alone, and there are multiple web sites of councils and other public services across the locality.

If seriously seeking a single front door, it would be possible to create a unified point of contact for residents and a business portal that included location specific information tailored to the user and access to all relevant local authorities. This could also include access into the wider public sector over time.

Intelligent information - There are smarter way for citizens to receive and send information. By making information intelligent there is the potential to enable significant further gains, for example by using social media and SMS technology for out-bound communications to inform residents of changes to service schedules such as waste collections to avoid in-bound communication.

5.4. Developing the better service tests

In assessing whether options will deliver better public services DCLG tests whether the reorganisation option will result in improved services. Unlike the 1990s' Local Government Commission there is no clear statutory framework or guidance from Ministers.

The limited quantitative guidance to aid development of proposals to improve people-oriented services, place-based services, and back-office services through re-organisation has resulted in generalised assumptions in most studies, often on the assumption that bigger is better for strategic services, while local is better for representation. There is no commonly agreed framework by which to objectively test these assumptions. The natural conclusion of increasing scale would be to argue for nationalised service delivery whereas there is a recognition among the Solent authorities about the limitations of economies of scale, and the principle of subsidiarity.

Therefore we have built into our overall assessment of whether options would deliver better public services six sub-criteria, including one quantitative test based on DCLG guidance and five more subjective 'strategic enablers'. These criteria have been based on our work about the future role of public bodies. **It is important to note that we have contrasted the two unitary options against the status quo, but have not included in this assessment the potential of enhancing the status quo through changes to working practices or behaviours, nor have we included comparison with a combined authority.**

The sub-criteria we have used are:

Table 24 Developing the better services tests

| Criteria | Rationale | Low score | High score |
|------------------------------|---|--|--|
| Scale | <p>DCLG have informally suggested that they would expect any reorganisation to result in authorities with an optimum population size in the range of 300,000 to 700,000.</p> <p>Any proposal outside of this range would need to have an exceptionally strong rationale.</p> | <p>Below 300,000 residents both now and after 2032 with population growth</p> <p>OR</p> <p>Over 700,000 residents both now and after population growth</p> | <p>Resident population within the target range both now and after 2032</p> |
| Citizen centricity | <p>There is no single citizen. What they want will depend on their specific requirements at specific times, both of which will change over time.</p> <p>We have made a judgement on how well the options will be able to provide local leadership, both for services and activities that are under direct control and those activities beyond their control.</p> <p>Unlike previous local government reorganisations, the current opportunity is being stimulated by devolution. There is a real opportunity is to design and create local services around the specific needs of different communities.</p> | <p>Proposals could result in uniform solutions lacking situation and citizen specific responses.</p> | <p>Proposals could result in a council well placed to help develop and create a shared strategic view of a place that designed around the citizen's requirement.</p> |
| Connected government | <p>There is a clear benefit from a clear framework of accountability and responsibility for public services.</p> <p>But local government is only part of the complex ecosystem of public service commissioners and delivery bodies.</p> <p>Co-terminosity with other public authorities is recognised as important but our assessment recognises integrated public services are much more complex than is often portrayed.</p> <p>This suggests a need to consider integration at a variety of scales depending on whether alignment is for strategic outcomes, operational delivery or human scale impact.</p> | <p>Strategic scale is the primary driver</p> | <p>Human scale is the primary driver</p> |
| Empowered authorities | <p>A clear identity and 'offer' supported by devolution of powers and resources would empower authorities to deliver.</p> <p>Our criteria assume that proposals that use new mechanisms to enable devolution deals to be agreed be better placed. The agreement of a deal would provide the platform for service redesign and the authority and framework to make it happen.</p> | <p>The status quo provides no real mechanism through which to devolve power and responsibility to specific places (beyond a general devolution to local government).</p> | <p>Unitary authorities, combined authorities and a Mayor are all potential mechanisms for supporting devolution of additional powers and resources.</p> |
| Deliver the promise | <p>A reorganisation of local government would need to demonstrate it could deliver public services better as planned.</p> | <p>High degree of change required and multiple authorities increasing</p> | <p>Minimising change AND</p> |

| | | | |
|--|---|--|--|
| | Our criteria consider both the potential ability to manage transition to new corporate structures and the ability to transform delivery of public services as distinct. To be successful the options will need to demonstrate strong programme and change management capability. | the co-ordination challenge of the change programme AND Low incentives for adopting shared approaches. | A framework for adopting shared processes and systems. |
| Continuously improve and innovate | Any authority should be capable of establishing an innovative culture and striving for continuous improvement. Our criteria considers the <i>likelihood</i> that each option would take bold and imaginative steps to innovate and improve public services. | Limited stimulus to change and seek new ways of doing things. | Strong stimuli for innovation and adaptation. |

5.5. Appropriate scale

DCLG have informally suggested that they would expect any reorganisation to result in authorities with an optimum population size in the range of 300,000 to 700,000. This is not a hard test but any proposal outside of this range would need to have a strong rationale.

Within the Solent authorities the consequence of this optimum population range is that, even with projected population growth over the next 15 years:

- all current authorities across Hampshire and Isle of Wight sit outside of the population range;
- a Greater Portsmouth would breach the upper limit by 2032, while a Greater Southampton would be comfortably within the target range;
- Only Gosport & Portsmouth, of the five unitary option, would be close to the threshold on current population and within range by 2032 and even then only after population growth;
- In all options the Isle of Wight remains significantly below the threshold considered for unitary authorities (but is an existing unitary with specific requirements, as below).

The 3 unitary authority option is the closest solution to align with the threshold provisions This suggests that the Isle of Wight needs to be treated differently and is one authority where there is a clear rationale to waive this test. As an existing unitary and island economy it is under significant financial challenge, where an off-island solution (i.e. amalgamation with another authority) would not address the underlying issues it faces and not score well on many of the other tests. This suggests that the Isle of Wight Council needs consideration of a specific alternative solution.

Table 25 Population per option and authority

| Option | Authority | Population 2015 | Population 2032 |
|-------------------|-------------------------|-----------------|-----------------|
| Status Quo | East Hampshire DC | 118,077 | 128,800 |
| | Eastleigh BC | 129,027 | 150,100 |
| | Fareham BC | 114,799 | 126,800 |
| | Gosport BC | 84,672 | 89,400 |
| | Havant BC | 122,927 | 132,100 |
| | Isle of Wight | 139,395 | 150,700 |
| | Portsmouth CC | 211,758 | 233,700 |
| | Southampton CC | 249,537 | 278,200 |
| 3 UAs | Greater Portsmouth | 652,233 | 710,800 |
| | Greater Southampton | 378,564 | 428,300 |
| | Isle of Wight | 139,395 | 150,700 |
| 5 UAs | Gosport & Portsmouth | 296,430 | 323,100 |
| | Southampton | 249,537 | 278,200 |
| | Isle of Wight | 139,395 | 150,700 |
| | East Hampshire & Havant | 241,004 | 260,900 |
| | Eastleigh & Fareham | 243,826 | 276,900 |

Solent authorities have requested analysis along the lines of a ‘5th economic test’. Our analysis thus far underpins several conclusions with regard unitary status:

- The future funding of local government will be increasingly dependent on economic performance, and therefore it makes sense to create local government structures that best fit the functional economic geography of the area
- One of the ambitions and drivers of the combined authority is to achieve a devolution deal which facilitates greater productivity and a realisation of the potential economic growth. Therefore the geographical boundaries of the combined authority are potentially of more relevance than the local government underpinning it. Opportunity areas such as Public Service Reform will require cross-boundary working, whatever the form of local government that underlies it.
- There is an evidenced economic opportunity in South Hampshire. Gross Value Added per head (a measure of productivity) generally declines from the North to the South in Hampshire and the Isle of Wight. As discussed in section 1.2, Portsmouth is the only city in South Hampshire that performs better than the national average in the UK Competitiveness Index. There are three key Travel to Work Areas (TTWAs) in South Hampshire: Southampton, Portsmouth and the Isle of Wight, but connectivity issues remain.
- Therefore devolution around the current economic geography building on the success of both LEPs and the PUSH initiative would make sense from a functional economic geography perspective, and, given current beneficial economic initiatives in place, success might be largely independent of unitary status, assuming that a combined authority prevails.

5.6. Citizen centricity

There is no single citizen. What they want will depend on their specific requirements at specific times, both of which will change over time. We have made a judgement on how well the options will be able to provide local leadership, both for services and activities that are under direct control and those activities beyond their control. Unlike previous local government reorganisations, the current context includes the potential for

devolution as well as restructuring. There is a real opportunity to design and create local services around the specific needs of different communities.

In our view citizen-centricity remains key to delivering better public services. If the citizen is at the heart of developing, planning and delivering services then they become a more than a customer but also a partner, collaborator and co-producer of valued outcomes. This implies a social contract with the empowered citizen taking personal responsibility for outcomes in a new arrangement where authorities are seeking 'a deal' or social contract with their citizens for mutually beneficial activity.

There is little disagreement in policy and practice circles that 'joining up' around the citizen is desirable in theory. In practice it is notoriously difficult to achieve and there have been multiple national programmes and initiatives that have sought and struggled to support joint working both within local government and the wider public sector.

The Institute for Government's review⁶⁴ has identified five challenges that repeatedly hinder joint working and collaboration:

- Short-term policy and funding cycles can restrict the ability of local actors to invest in the long-term partnerships needed to meet local, citizen needs.
- Misaligned geographies and the patchwork of commissioning, funding and regulatory processes can make it difficult for local actors to design services around a 'whole person'.
- Cultural differences between professions and organisations can discourage collaboration on the ground.
- Barriers to data sharing can make joint working between distinct teams or organisations practically difficult.
- Limited sharing of 'what works' in different circumstances can mean that lessons from effective models and practices are rarely built on

They also recognised that in the current climate of working hard to maintain business as usual activities, delivering multiple reform agendas and surviving financial challenges the instinct can be to seek to protect rather than join up shrinking budgets and resources. This instinct can drive behaviours which are not conducive to collaboration and appears to be evident in Hampshire.

We have considered how the various options in the Solent authorities might be placed to benefit from the ten insights gained from the Institute for Government's review of what works in overcoming the barriers to joining up around local citizen needs, which were:

- Using multi-disciplinary teams can focus attention on complex issues.
- Agreeing on clear, outcomes-focused goals can help front-line organisations prioritise resources effectively.
- Using evidence can build consensus and help to draw in resources from a range of organisations.
- Building on existing good practice and partnerships on the ground.
- Giving local areas greater flexibility can help local actors form the partnerships needed to deliver cross-cutting outcomes.
- Balancing this with some central government support can provide the additional resources and political momentum needed to get an initiative off the ground.
- Building the desire for joined up services into the aims and processes of commissioning can incentivize organisations to collaborate.
- Engaging a broad range of stakeholders throughout the design process can help to build buy-in and commitment to partnership working.
- Sharing learning and experiences widely can help to ensure that effective models are built on

⁶⁴ IfG, 2014, Joining up public services around local, citizen needs

- Physically bringing organisations together can help to overcome entrenched cultural differences and data-sharing challenges.

Our assessment suggests that the 3 unitary authority option – a three unitary solution is most likely to result in citizen centric solutions where proposals result in councils able to design around communities needs and apply the lessons from a long history of trying to join up services around the local citizen. It also builds on some existing joint working. It may be less strong on reflecting local outcomes due to scale but benefits from consolidation of teams with potential to engage those responsible in service design from the outset and ability to establish a shared desire and ambition.

The status quo is the least likely option, in our opinion, to result in joined up services around the local citizen. This is because of the challenges of overcoming entrenched positions and established roles and responsibilities.

Table 26 Summary of connected government

| Summary of connected government | Status quo | 3 UAs | 5 UAs |
|---------------------------------|------------|-------|-------|
| Citizen Centricity | 1 | 3 | 2 |

5.7. Connected government

There is a clear benefit from a clear framework of accountability and responsibility for public services. But local government is only part of the complex ecosystem of public service commissioners and delivery bodies. Co-terminosity with other public authorities is recognised as important but our assessment recognises integrated public services are much more complex than is often portrayed. This suggests a need to consider integration at a variety of scales depending on whether alignment is for strategic outcomes, operational delivery or human scale impact.

Simplification of the separation of local government functions established in the district and county model has been a continuing trend since it was introduced in 1974. However, local government is only one small part of a messy landscape of public service delivery.

Across all local areas there are a multitude of public bodies with often overlapping responsibilities and accountability. While unitary authorities do reduce the complexity of this landscape in relation to local authority services there remains a significant challenge to co-ordinate across the wider public sector in every principal outcome. This includes alignment and connections to central government and national delivery bodies.

Increasing scale is heralded by many as the solution for achieving connected government, and it is logical that increasing the boundaries will bring more organisations within scope. However, there is a trade-off between increasing geographical footprints and retaining practical operational delivery areas. The UK already has some of the largest units of local government and is widely recognised as a highly centralised model of local governance. Therefore in this assessment we suggest co-terminosity is more complex than often portrayed and that more important than aligning the overall organisational boundary is an understanding of how integration works at different scales.

The counter argument to scale would be to devolve decision making to the lowest level and support these units of government to collaborate where it makes sense to do so. The French system of local communes, equivalent in scale to an English parish, would be one such example and this type of approach is more in line with current thinking about devolution and the creation of Combined Authorities across a range of powers and responsibilities. At present the relatively restricted role of local councils (parish / town) and the scale test of DCLG means that the core building blocks are likely to be new unitary councils.

One argument for seeking to operate at a Hampshire & Isle of Wight footprint is that this would increase alignment with the current development of the NHS Sustainability and Transformation Plan which was submitted at the end of October 2016. This appears to be a mis-representation of the purpose of using the Hampshire and Isle of Wight footprint because STPs are intended to add value to local plans and unlock opportunities that are not available at smaller population levels. They are not intended to replace place based plans for local populations or reinvent all strategies⁶⁵. Within health there is a clear recognition of the need to

⁶⁵ Hampshire & Isle of Wight, 2016, Sustainability & Transformation Plan, Socialising the gap

work at different spatial levels and the different roles of localities, CCG, STP and national tiers. A similar recognition of the need for operating at different scales for different purposes is needed in local government to establish trust and working between all types of local authority.

Beyond co-terminosity, there is merit in seeking to connect services around the citizen at a human scale and to facilitate inter-authority structures and joint working. This is where the combined authority can add value, and where local public service reform could extend to greater consolidation of responsibilities within local bodies.

By organising around the citizen and customer journey connections that are valuable would be linked to organisational capabilities such as:

- Consolidation to achieve single points of access, integrated customer insight and a digital ‘passport’ for local public services (including those providing by other bodies and community organisations);
- Combining on strategic issues such as strategic planning and development, including areas such as workforce planning;
- Adopting common design principles and technology systems to improve interoperability.

Under this approach is it likely unitary options would score higher than retaining the existing complexity but that smaller is better as it allows for collaboration where it makes to do so (for example to align to blue light services or for strategic planning) whilst retaining local discretion on distinctive community issues. The ability to go further and expand the role of ‘local councils’ would depend on further enabling legislation and capability building of existing structures.

Table 27 Summary of connected government

| Summary of connected government | Status quo | 3 UAs | 5 UAs |
|---------------------------------|------------|-------|-------|
| Connected government | 1 | 2 | 3 |

5.8. Empowered to deliver

A clear identity and ‘offer’ supported by devolution of powers and resources would empower authorities to deliver. Our criteria assumes that proposals that use new mechanisms to enable devolution deals are better placed. The agreement of a deal would provide the platform for service redesign and the authority and framework to make it happen.

Customer experience

The customer experience is increasingly important to all public bodies. In the current operating model there is a heavy reliance on the customer to understand which authority is responsible for the task that they are trying to complete with potential for effort to be waste in transferring customers between organisations and in running parallel customer operations. At a high level we have captured information on the current effort associated within initial customer contact and assessment.

A unitary solution is arguably easier for citizens to understand in terms of the local authority responsibilities being in one place. It does not on its own deal with the wider complexity of public service delivery. A devolution of powers and responsibilities could help in this regard by further consolidating responsibilities within the influence of local government. A combination of devolution, unitary solutions and combined authorities might therefore be the strongest approach to improving the customer experience by allowing for greater co-ordination and alignment of customer journeys around the outcome and action that users are trying to achieve.

Building greater co-operation and alignment of the customer engagement layer between different tiers of local government and between different parts of the public sector might be supported by structural change as it would trigger a fundamental review of current arrangements.

It would also be possible for existing authorities to commit to improving the customer experience through closer joint working and utilising existing and emerging technologies to provide a seamless customer experience. In all options there remain challenges such as information and data sharing between different authorities and the hand-offs and integration of different systems. Individual councils will have already invested in channel shift and digital transaction. Rapid developments in technology are enabling new ways of working with significant potential for further automation, demand management and peer to peer community interaction that further extend the benefits of channel shift and start to change the way that services are accessed and delivered.

At this level of analysis it would be premature to quantify differential savings between options other than in terms of general principles where:

- The status quo makes it harder to achieve single points of access and integrated customer insight with additional work on information and data exchange between authorities covering the same geographical footprint;
- Unitary authorities have greater incentive to redesign the customer engagement layer of their operating model. By establishing a points of access for residents and businesses tailored to the locality but built to common design principles and inter-operability would allow for scaleable solutions – both to lower localities and to higher geographic footprints. This could allow for a more consistent and tailored user experience.
- Customer insight will be more valuable where it relates to citizen and business segments, such as local labour markets and health economies, but also where it allows comparable analysis between areas and at different scales. It does not naturally follow that scale improves the customer experience or vice versa. More important is the execution of the customer experience strategy.

Service delivery

By designing services around the citizen the focus is on how they achieve the outcome or task desired rather than organisational responsibilities. This may be easier where there is unification across responsibilities within local government to realign resources within organisations. Devolution offers the prospect of additional powers and responsibilities from outside of local government also being brought into the same organisation.

Our opinion is that future authorities will be more empowered to deliver where they have greater influence over the system and redesign service delivery to do different things. It is an area where being able to develop distinctive solutions to different requirements is important for achieving effective outcomes. This may be easier in unitary authorities with devolved powers.

Support services

In enabling activity such as HR, IT and finance, there are benefits from operating shared processes and systems that minimise the cost of transactional activity and provide the capacity for specialist teams and resources to be fully utilised. This is an area where there are often benefits from operating at scale.

Enabling the digital employee within organisations means there is less need for 'business support' and greater self-reliance and management, and enhanced integration between systems and functions. This can help with

- Eliminating and automating transactional processes within the organisation;
- Developing functional centres of expertise in complex and specialist functions shared across organisational boundaries;
- Development and utilisation of advanced business intelligence and predictive analytics to inform strategic decision making about the future and management of current performance.

Building on these trends and current work to eliminate unnecessary activity, automate simple processes and release effort to focus on strategic insight and direction offers the potential for further savings. We would expect unitary government to create additional opportunities for removing duplication of roles and responsibilities between authorities and within authorities, releasing staff to focus on higher value strategic work, automating routine information practices and enabling self-serve and stopping unnecessary activities and steps in processes.

Under this approach is it likely unitary options would score higher than retaining the existing complexity and that fewer authorities would be more likely to achieve the level of savings envisaged.

Table 28 Empowered authorities

| Summary of connected government | Status quo | 3 UAs | 5 UAs |
|---------------------------------|------------|-------|-------|
| Empowered authorities | 1 | 3 | 2 |

5.9. Delivering the promise

A reorganisation of local government would need to demonstrate it could deliver public services better than as planned. Our criteria consider planning and the ability to transform delivery of public services as distinct. To be successful the options will need to demonstrate strong programme and change management capability.

There are two main components to the assessment of different options ability to deliver the promise of benefits from reorganisation:

- How likely is the option to manage successful transition to a new council structure?
- How likely is the option to manage successful transformation of public services?

On transition, the status quo option is likely to be most successful in the short term as there is no change to effectively manage, which reduces risks to continuity of service delivery and disruption to staff and partners. However, this would not deal with the underlying issues and desire to improve public services, so over time is likely to require further consideration of structural options require further consideration of structural options

The timetable for local government reorganisation is driven by legislative requirements and governance of the process, so is not a quick solution or one that councils or government would wish to revisit again for a generation or more. As authorities work toward increasing devolution they will want to ensure the constituent authorities are well placed to deliver. By considering and planning for transition now the other options may be more successful over the longer term. This will reduce the risk in the future of external drivers forcing rapid change to local government structures. If there is to be change the ability to manage transition is likely to be stronger in a more co-ordinated programme of willing partners, suggesting fewer authorities emerging as a result would be beneficial and less likely to be seen as one authority 'taking over' another.

On transformation, we have assumed that any new councils, being created in parallel, would seek to design and build future councils around shared operating model components – for example through shared processes, systems, people capabilities and governance. Particularly in the front and back office this would maximise the potential efficiencies and future inter-operability between authorities, while allowing for distinctive local service delivery activity. Adopting such an approach would help strengthen the design management and co-ordination of change. It could also result in shared investment and support costs.

Our assessment is that overall the three unitary authority option is most likely to successfully deliver transformation programmes across the locality as it simplifies co-ordination and the number of programmes involved. It is important to note that the assessment of the status quo could be significantly different where a combined authority was agreed and helped provide co-ordination across the existing authorities.

Our overall assessment on the ability to deliver the promise is that this option is still more likely to realise benefits, despite the transition advantages in the short term of minimising change.

Table 29 Summary of delivering the promise

| | Status quo | 3 UAs | 5 UAs |
|----------------------------------|------------|-------|-------|
| Delivering the transition | 3 | 2 | 1 |
| Delivering transformation | 1 | 3 | 2 |
| Delivering the promise | 4 | 5 | 3 |

5.10. Continuously innovate

Any authority should be capable of establishing an innovative culture and striving for continuous improvement. Our criteria considers the likelihood that each option would take bold and imaginative steps to innovate and improve public services.

An innovative culture and striving for continuous improvement will be fundamental to drive public service reform as organisations look to do different things and find ways to intervene earlier and more effectively in supporting positive changes.

In our criteria we have considered the likelihood that different options will encourage local leaders to step out of the mould and try different things. Local government is not known for a culture of innovation, despite significant front line changes over recent years. The difficulties in innovating in councils explain why a ‘culture of innovation’ is not embedded in local government. A large proportion of spend is not discretionary and many of the drivers of private sector innovation are absent from the public sector, with an emphasis on compliance and procedure often resulting in an aversion to the development of new approaches. Faced with the increasing prospect of financial challenge more radical changes are being considered by local government as innovative solutions are sought.

Although many councils want to develop a ‘culture of innovation’ in their organisations, top-down innovation initiatives can often have the counterproductive effect of stifling staff engagement and imagination whereas frontline staff in a supportive environment have demonstrated an ability to innovate.

There is some evidence that innovation can be achieved in local government, led by frontline staff but that starting relatively small can be a great advantage. A stronger culture of innovation can be developed from the ground-up, project-by project, and the benefits and experience of doing so can build over time.

Each option could stimulate innovations taking these criteria into account, particularly through changes to operational delivery. Our assessment is that the five unitary option would be more likely to stimulate different thinking both because of the creative disruption caused by a move to unitary government and because of the increased number of authorities resulting and testing different approaches.

Table 30 Summary of innovation

| | Status quo | 3 UAs | 5 UAs |
|-----------------|------------|-------|-------|
| Innovate | 1 | 2 | 3 |

5.11. Summary

Across the sub-criteria our overall assessment suggests that the 3 unitary authority option – a three unitary authority solution would be strongest, although not on every criteria. This a subjective assessment and there could be significant opportunity within the status quo to achieve similar benefits without the cost and disruption of re-organisation.

However, our opinion is that this is complicated by a mix of unitary, district and county working where Hampshire County Council are not currently engaged in the discussions. Rebuilding this trust and working relationship would be fundamental to shifting the assessment of this test.

Table 31 Summary of better public services

| Criteria | Status quo | 3 UAs | 5 UAs |
|-------------------------------|------------|-------|-------|
| Scale | 1 | 3 | 2 |
| Citizen centricity | 1 | 3 | 2 |
| Connected government | 1 | 2 | 3 |
| Empowered authorities | 1 | 3 | 2 |
| Deliver the promise | 2 | 3 | 1 |
| Innovate | 1 | 2 | 3 |
| Better public services | 7 | 16 | 13 |

6. Summary of findings and key conclusions

6.1. Summary of findings

This report focuses on the relative strengths and weaknesses of agreed unitary authority options compared to the status quo. The tables below demonstrate the key findings by option. As shown, each option displays strengths and weaknesses, and therefore when making a decision about its future – and whether or not to pursue unitary authorities – it is important for the Solent authorities to consider this balance of views, as well as any further evidence available to them at the time.

Our main finding is that business as usual is not sustainable for the majority of councils from a financial perspective when we consider budget projections to 2020/21. The situation however is hugely improved when we consider the potential net benefits available from transformation. However many configurations of unitary authorities still display deficits, even after transformation benefits are considered. The situation is then impacted further (albeit marginally) – and in both directions - by the council tax harmonisation figures. Therefore, if a unitary option is pursued it would make sense to combine reorganisation with transformation to ensure optimal benefit from the changes. The approach to council tax in any unitary configuration will also need detailed analysis and consideration. This analysis is of course subject to all assumptions we have previously outlined.

As discussed earlier in the report, the addition of a Solent combined authority to the status quo would greatly improve some of the weaknesses of that option. Most notably, the combined authority would need to take a more strategic approach to many services and would mean that meaningful conversations about outcomes and impacts would need to occur. This could create the impetus for change. Through having a Mayor, the local leadership and accountability issues could be improved, although it would still be essential to ensure that local issues are represented, perhaps through a pursuit of ‘double devolution’, i.e. devolving some powers from Hampshire County Council to districts and from districts to parishes / communities. Finally, a combined authority, through enhancing joined-up working on strategic issues should help improve the financial prospects of the Solent area. In terms of financing deficits, if a Devolution Deal occurs, and devolved funding is granted to the Solent, this will be used to invest in infrastructure, skills and public sector reform leading to economic growth. Open and honest conversations about current budget projections and how to improve them, should (in our opinion) happen sooner rather than later in the Solent, irrespective of any option pursued.

Summary of status quo

Table 32 Summary of status quo

| Status quo | Strengths | Weaknesses |
|---|---|--|
| Providing value for money and delivering positive outcomes in terms of costs of transition against the efficiency savings the change will generate | <ul style="list-style-type: none"> ✓ No upfront costs needed for reorganisation and transformation | <ul style="list-style-type: none"> ✗ Unsustainable from a budget perspective for some councils which will require change for the majority. ✗ No net savings achievable through reorganisation and transformation |
| Strong local leadership and accountability | <ul style="list-style-type: none"> ✓ 354 members ✓ Single point of accountability already offered by the three existing unitary authorities | <ul style="list-style-type: none"> ✗ No impact on local leadership and accountability. Multiple points of accountability will continue to exist. |
| Better public services | <ul style="list-style-type: none"> ✓ Current arrangement of shared services and functions is well developed and could be enhanced | <ul style="list-style-type: none"> ✗ This option performs worst of the three options overall on the ‘better public services’ sub-criteria |

Summary of 3UA option

Table 33 Summary of 3 UA

| Three UA | Strengths | Weaknesses |
|---|--|--|
| Providing value for money and delivering positive outcomes in terms of costs of transition against the efficiency savings the change will generate | <ul style="list-style-type: none"> ✓ Generates most favourable baseline budget surplus/deficit positions overall ✓ Achieves greatest savings from reorganisation and transformation (both cumulatively and in annual terms) ✓ Assuming projected funding gaps are closed, Greater Portsmouth, Greater Southampton and Isle of Wight generate financial surpluses once the effects of reorganisation and council tax harmonisation are taken into account. | |
| Strong local leadership and accountability | <ul style="list-style-type: none"> ✓ 286 (estimated) members ✓ Single point of accountability could be improved via creation of unitary authorities across whole Solent areas | <ul style="list-style-type: none"> ✗ Ratio of population to senior unitary authority cabinet member would be lower than the 5 unitary authority option which may be a challenge for representativeness ✗ May be greatest need for Area Boards, Community Networks and Parish, Town, Community councils to improve representativeness |
| Better public services | <ul style="list-style-type: none"> ✓ Strongest option overall against the sub-criteria ✓ Closest alignment with DCLG thresholds on population ranges within UAs (exc. IOW which remains on its own in all options and which is far lower, even accounting for population growth by 2032) ✓ Strongest performer on the criteria of 'citizen centricity', 'empowered to deliver' and 'delivering the promise' | |

Summary of 5UA option

Table 34 Summary of 5UA

| Five UA | Strengths | Weaknesses |
|---|--|---|
| Providing value for money and delivering positive outcomes in terms of costs of transition against the efficiency savings the change will generate | <ul style="list-style-type: none"> ✓ Provides most favourable council tax impact (in terms of potential to raise additional council tax income) ✓ All unitaries, barring East Hampshire and Havant, expected to generate a financial surplus in 2021/22 once the effects of reorganisation and council tax harmonisation are taken into account. | <ul style="list-style-type: none"> ✗ Generates least favourable baseline (2016/17) budget surplus/deficit position ✗ Disparity between the proposed authorities |
| Strong local leadership and accountability | <ul style="list-style-type: none"> ✓ 286 (estimated) members ✓ Single point of accountability could be improved via creation of unitary authorities across whole Solent | |

| | | |
|-------------------------------|--|---|
| | <p>areas</p> <p>✓ Greater potential for representativeness than the 3 unitary authority option</p> | |
| Better public services | <p>✓ Strongest performer on the criteria of 'connected government' and 'continuously innovate'</p> | <p>✗ Medium performance on the sub-criteria</p> |

6.2. Key conclusions

The analysis within this report supports the following conclusions:

- Business as usual does not look sustainable from a financial viewpoint for the majority of councils, under business as usual or under a reconfigured unitary authority with disaggregation of county spend and budget projections to 2020/21. This exacerbates the case for change.
- When you add the benefits from reorganisation and transformation the budgets are hugely improved, however many configurations still display deficits.
- Status quo without a recalibration of district and Hampshire County Council relationships is undesirable and will not achieve Solent authorities' aspirations and ambitions surrounding greater support of business and citizens. Current challenges around dispersed and disconnected services will be expected to prevail unless there are other drivers to change.
- However, an enhanced status quo utilising a combined authority for Solent would be an attractive outcome in the immediate term. This is because it would allow the authorities to seek devolved responsibilities for local government without the delays, cost and instability associated with large scale reorganisation. A combined authority would also provide a strong foundation for joint working and accountability to improve the design and delivery of services for residents
- Of the unitary authority options, the 3UA unitary authority appears to have the most strengths and least weaknesses, and might provide the basis for any future unitary configuration if desired.

Appendix A: Technical financial information

The sections below present further financial analysis to that presented in section 3 of the main report. For each unitary option considered, a more detailed financial assessment has been presented that includes;

- Discussion as to each unitary's ability to generate a baseline budget surplus/deficit, including analysis of any funding gaps anticipated as per completed budget book projections;
- Detailed analysis of the potential savings to be achieved through re-organisation; and
- Presentation of alternative approaches to council tax harmonisation and the results thereon.

However, it should also be noted that:

- The analysis undertaken, including the potential costs and savings associated with re-organisation are not detailed but indicative at this stage based on a number of high level assumptions;
- For the purposes of the council tax harmonisation figures quoted above, it has been assumed that a 20 year convergence period for the harmonisation of council tax is adopted with the lowest inherited rate increased at 3.99% per annum and converging all other rates; and
- The Revenue Support Grant and the Business Rate Top Up/Tariff is provided by the Government to local authorities using a 'needs' based formula. This is a complex formula which has not been replicated for the purposes of this report. We would expect that if a more detailed disaggregation of RSG and Retained Business Rates is undertaken, there would be some rebalancing effect of reducing deficits for relatively deprived areas and reducing surpluses in more prosperous areas. For more information please see Appendix A.4

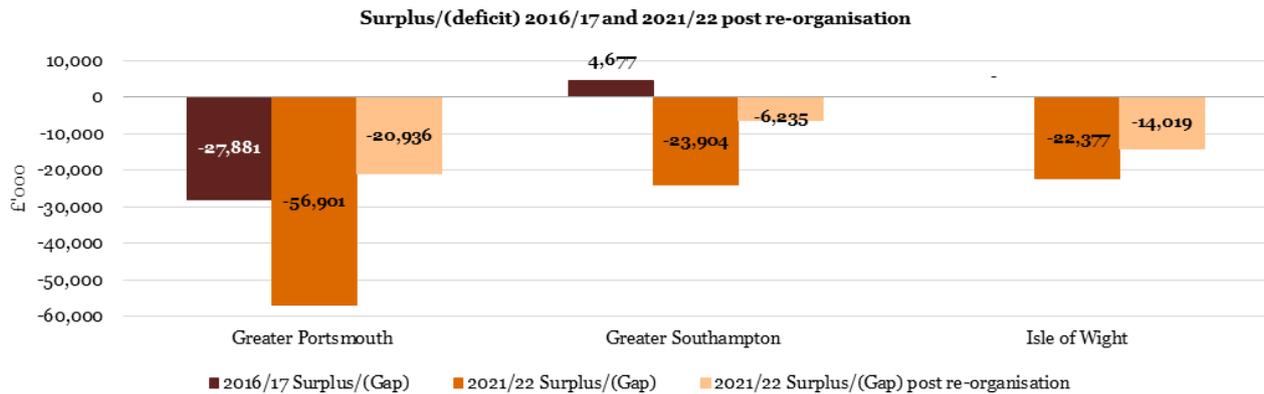
A.1. Three unitary option

The detailed financial analysis for the three unitary authority option is presented below. It is important to note that the disaggregation of County Council data undertaken (i.e. to the five Solent District Councils) has been limited to its Revenue Account income and expenditure line items only. An assessment would have to be made as to how best to apportion the County Council's reserves were unitarisation to proceed, though this has not been included as part of this analysis.

Appendix table 1 – Three unitary option financial analysis

| | Surplus/deficit 2016/17 (£'000) | Surplus/deficit 2021/22 (£'000) | Surplus/deficit 2021/22 after transformation (£'000) |
|------------------------|---------------------------------------|---------------------------------------|---|
| Three UA Option | | | |
| Greater Portsmouth | (27,881) | (56,901) | (20,936) |
| Greater Southampton | 4,677 | (23,904) | (6,235) |
| Isle of Wight | - | (22,377) | (14,019) |

Appendix graph 1 – Three unitary option financial analysis



At first glance, the financial analysis above would suggest that the three unitary structure is not favourable from a financial perspective given that all of the proposed unitaries generate significant financial deficits in 2021/22 both before and after the effects of transformation are taken into account. Indeed, Greater Portsmouth would generate a sizeable deficit (£27.9m) in the base year (2016/17) largely due to the relative financial weakness of two of its constituent geographies; Gosport and Havant who would generate sizeable budget deficits of £14.4m and £21.7m respectively if they were unitaries in their own right in 2016/17.

However, it is important to note that the 2021/22 results presented above are inclusive of the funding gaps reported by the Isle of Wight (£22.4m) Portsmouth (£27.7m), Southampton (£28.5m) and Gosport (£1.5m). The table below highlights how financial position would change should these funding gaps be closed:

Appendix table 2 – Three unitary option financial analysis –closure of funding gaps

| | Surplus/deficit 2021/22 (£'000) | Surplus/deficit 2021/22 assuming funding gap is closed (£'000) | Surplus/deficit 2021/22 after transformation (£'000) |
|-----------------------------------|---------------------------------|--|--|
| Greater Portsmouth ⁶⁶ | (56,901) | (27,745) | 8,220 |
| Greater Southampton ⁶⁶ | (23,904) | 4,580 | 22,250 |
| Isle of Wight | (22,377) | - | 8,358 |

As can be seen from the table above, the financial position of each of the proposed unitaries markedly improves if it is assumed that the funding gap is closed, with each reporting a financial surplus once the savings to be achieved through re-organisation are factored in. Were this funding gaps to be left unresolved, then the anticipated pre re-organisation budget deficits generated by a Greater Portsmouth (£56.9m), Greater Southampton (£23.9m) and Isle of Wight (£22.4m) unitary would equate to 6.03%, 3.79% and 8.07% of their respective total net current expenditure in 2021/22 raising questions as to their financial positions.

Cost of re-organisation

The table below provides a detailed breakdown of the potential savings to be realised and costs incurred following a re-organisation to form a three unitary structure for the Solent geography. Over the five year period to 2021/22, it is anticipated that costs of £44.2m would be incurred and potential savings of £246.7m realised;

⁶⁶ We would expect that if a more detailed disaggregation of RSG and Retained Business Rates is undertaken, there would be some rebalancing effect of reducing deficits for relatively deprived areas and reducing surpluses in more prosperous areas. For more information see Appendix A.4

allowing for potential net savings of £202.4m to be achieved. Of the costs to be incurred, the majority (85,1%) relate to those associated with employee severance; an expenditure line item which totals £12.5m per annum for the first three years following re-organisation.

The potential net savings attainable under a three unitary structure are largely driven by the transformation programmes and the savings achievable through a reduction in FTE count associated with them. A steady state, annual net saving of £62.0m is achievable from year three onwards; a figure which is 8.0% greater than that achievable through the five unitary structure.

Appendix table 3 – Three unitary option cost of reorganisation

| Three UA option | Year 1 £m | Year 2 £m | Year 3 £m | Year 4 £m | Year 5 £m | Total £m |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transition costs | | | | | | |
| Employee Severance costs | 12.5 | 12.5 | 12.5 | 0.0 | 0.0 | 37.6 |
| Member costs | (0.6) | (0.6) | (0.6) | (0.6) | (0.6) | (3.2) |
| Other transition costs | 3.3 | 3.3 | 3.3 | 0.0 | 0.0 | 9.8 |
| <i>Total costs</i> | 15.2 | 15.2 | 15.2 | (0.6) | (0.6) | 44.2 |
| Savings | | | | | | |
| Member savings | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 4.8 |
| Election savings | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.4 |
| Senior management savings | 1.1 | 2.2 | 3.4 | 3.4 | 3.4 | 13.5 |
| Asset Disaggregation | 0.8 | 1.5 | 2.3 | 2.3 | 2.3 | 9.2 |
| Transformation savings | 18.1 | 36.3 | 54.4 | 54.4 | 54.4 | 217.8 |
| Total savings | 21.3 | 41.3 | 61.4 | 61.4 | 61.4 | 246.7 |
| Net (costs)/savings | 6.1 | 26.2 | 46.2 | 62.0 | 62.0 | 202.4 |

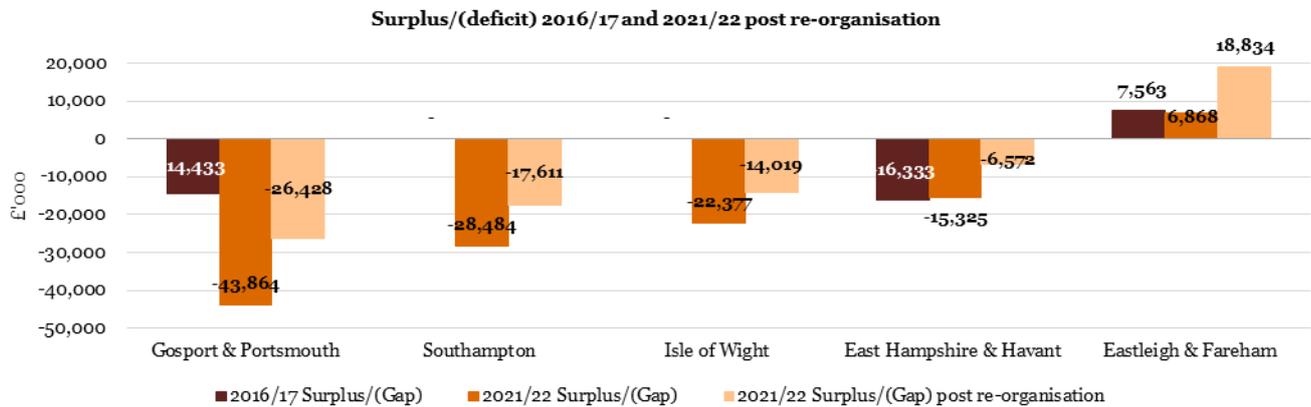
A.2. Five unitary option

The financial analysis for the five unitary authority option is presented below:

Appendix table 4 – Five unitary option financial analysis

| | Surplus/deficit 2016/17 (£'000) | Surplus/deficit 2021/22 (£'000) | Surplus/deficit 2021/22 after transformation (£'000) |
|---------------------------|---------------------------------------|---------------------------------------|---|
| Five UA Option | | | |
| Gosport and Portsmouth | (14,433) | (43,864) | (26,428) |
| Southampton | - | (28,484) | (17,611) |
| Isle of Wight | - | (22,377) | (14,019) |
| East Hampshire and Havant | (16,333) | (15,325) | (6,572) |
| Eastleigh and Fareham | 7,563 | 6,868 | 18,834 |

Appendix graph 2 – Five unitary option financial analysis



In a manner similar to the three unitary option presented above, at first glance, questions would be raised about the suitability of re-organising to form five unitary authorities given the results of the financial analysis. The analysis would indicate that of the five unitaries proposed only one, Eastleigh and Fareham, would generate a financial surplus, both in 2016/17 and in 2021/22 before and after accounting for the effects of re-organisation. Indeed the significant pre and post re-organisation surpluses (£6.9m and £18.8m respectively) that it generates suggests that it would be favourable from a financial perspective at least, operating as a stand-alone unitary authority. Questions would have to be asked as to the financial status of the other four unitaries given that all would report large deficits even when the effects of re-organisation are taken into account. However, again it is important to note that these calculated budget deficit positions are inclusive of the funding gaps anticipated by some of the authorities as part of their budget book projections. If these funding gaps were closed the financial position of each proposed authority would be as follows:

Appendix table 5 – Five unitary option financial analysis - closure of funding gaps

| | Surplus/deficit 2021/22 (£'000) | Surplus/deficit 2021/22 assuming funding gap is closed (£'000) | Surplus/deficit 2021/22 after transformation (£'000) |
|---------------------------|---------------------------------|--|--|
| Gosport and Portsmouth | (43,864) | (14,708) | 2,729 |
| Southampton | (28,484) | - | 10,873 |
| Isle of Wight | (22,377) | - | 8,358 |
| East Hampshire and Havant | (15,325) | (15,325) | (6,572) |
| Eastleigh and Fareham | 6,868 | 6,868 | 18,834 |

As can be seen from the table above, if it is assumed that the funding gaps are closed, the outlook, from a financial perspective, improves markedly; indeed four of the five unitaries would generate post re-organisation surplus. Eastleigh and Fareham would not see its financial position change (given both constituents anticipated balanced budget books in 2021/22) though it would remain the strongest performing authority with a post re-organisation surplus of £18.8m. East Hampshire and Havant would be the poorest performing unitary. Its pre re-organisation deficit of £15.3m would equate to 4.38% of its total net current expenditure in 2021/22 whilst it would continue to generate a deficit (£6.6m) even once the potential savings associated with restructuring are taken into account.

Cost of re-organisation

The table below provides a detailed breakdown of the potential savings to be realised and costs incurred following a re-organisation to form a five unitary structure for the Solent geography. Potential net savings of £183.3m could be achieved over the five year period to 2021/22 with annual net savings of £57.4m achievable from year four onwards. Just as for the three unitary option, these potential savings are largely driven by those

savings (£217.8m over the five year period and £54.5m on an annual basis from year three onwards) to be achieved through transformation programmes and the reduction in FTE count associated with them. Unlike for the three unitary structure, re-organising to form five unitary authorities would incur costs in relation to the implementation of new senior management structures. Whereas savings of £13.5m can be made when re-organising to form a three unitary structure, a move to five unitary authorities would incur costs totalling £1.9m over a five year period with annual costs of £0.5m incurred from year three onwards. Employee severance costs (£37.6m), 'other' transition costs (£9.8m) and savings to be realised through asset rationalisation (£9.2m) remain constant regardless of the unitary structure proposed.

Appendix table 6 – Five unitary option cost of reorganisation

| Five UA option | Year 1 £m | Year 2 £m | Year 3 £m | Year 4 £m | Year 5 £m | Total £m |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transition costs | | | | | | |
| Employee Severance costs | 12.5 | 12.5 | 12.5 | 0.0 | 0.0 | 37.6 |
| Member costs | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (1.9) |
| Other transition costs | 3.3 | 3.3 | 3.3 | 0.0 | 0.0 | 9.8 |
| <i>Total costs</i> | 15.4 | 15.4 | 15.4 | (0.4) | (0.4) | 45.5 |
| Savings | | | | | | |
| Member savings | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.2 |
| Election savings | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.4 |
| Senior management savings | (0.2) | (0.3) | (0.5) | (0.5) | (0.5) | (1.9) |
| Asset Disaggregation | 0.8 | 1.5 | 2.3 | 2.3 | 2.3 | 9.2 |
| Transformation savings | 18.1 | 36.3 | 54.4 | 54.4 | 54.4 | 217.8 |
| <i>Total savings</i> | 19.5 | 38.2 | 57.0 | 57.0 | 57.0 | 228.7 |
| | | | | | | |
| Net (costs)/savings | 4.1 | 22.8 | 41.6 | 57.4 | 57.4 | 183.3 |

A.3. Council tax harmonisation

A new local government structure for the Solent region will require the converging of council tax rates. It should be borne in mind that no two local government areas in Hampshire currently have the same rate of Council Tax. We have adopted the approach that the lowest rate inherited within the configuration should be increased at the highest annual percentage increase available for a unitary authority and that all other rates should be increased by the required percentages so that council tax rates are identical at the end of a specific convergence period⁶⁷.

The Spending Review of November 2015 announced that for the rest of the current Parliament, local authorities responsible for adult social care will be given an additional 2% on the threshold annual increase. A statistical release from the Department for Communities and Local Government in March 2016 on council tax levels⁶⁸, showed that unitary authorities and county councils have increases of almost the maximum 3.99% in their average Band D rates, as most have opted to increase council tax close to referendum principles. Districts have rate increases at just above 2%, which reflects the referendum principles of a 1.99% or £5 increase.

For the purposes of the baseline study we have assumed a convergence period of 20 years, although it would be up to the new unitary authorities to determine an appropriate time period of convergence. An alternative 5 year convergence period has been assessed for the purposes of comparison which shows that altering the time period of convergence can significantly alter the level of council tax that could be collected following transition.

We have calculated the base level of council tax income in the existing two tier structure by increasing district and county council tax rates by 1.99% and 3.99% respectively and multiplying this by the tax base in each

⁶⁷ Dorset Councils – Potential Options for the reconfiguration of local authorities

⁶⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512402/Council_tax_levels_set_by_local_authorities_in_England_2016-17.pdf

district. This baseline has then been used to determine the financial impact of transitioning to a unitary system under the different options.

Appendix table 7 below highlights the financial impact of council tax harmonisation over the first five years of harmonisation assuming a 20 year convergence period.

The results indicate that there will be a degree of mismatch between the proposed unitary authorities with regards to the level to which they are able to raise council tax income. Were a three unitary structure to be adopted, Greater Portsmouth would be able to generate additional council tax income, with amounts totalling £1.6m in year five and £3.9m in total over the first five years of harmonisation. In contrast, Greater Southampton would see council tax income foregone at levels totalling £1.3m in year five and £3.1m in total over the first five years of harmonisation. The Isle of Wight, in retaining its current governance structure would see its ability to raise council tax neither improved nor hampered.

Of the authorities proposed under the five unitary structure, only Gosport and Portsmouth would suffer from foregone council tax and even then only to a limited extent (£0.1m in year five and £0.2m in total over the first five years of harmonisation). The Isle of Wight and Southampton would again, suffer no foregone council tax nor raise additional income as they maintain their existing unitary structures. Both an East Hampshire and Havant and an Eastleigh and Fareham Unitary would be able to raise additional council tax following the harmonisation process, collecting an addition £1.5m and £1.0m in year five respectively.

Appendix Table 7 Council Tax Harmonisation (20 year convergence period)

| First 5 years of harmonisation | Year 1 £ | Year 2 £ | Year 3 £ | Year 4 £ | Year 5 £ |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Three UA option | | | | | |
| Greater Portsmouth | - | 315,086 | 736,332 | 1,177,574 | 1,641,198 |
| Greater Southampton | - | (297,174) | (585,903) | (911,375) | (1,261,013) |
| Isle of Wight | - | - | - | - | - |
| Five UA option | | | | | |
| Gosport & Portsmouth | - | (19,052) | (39,460) | (57,174) | (77,627) |
| Southampton | - | - | - | - | - |
| Isle of Wight | - | - | - | - | - |
| East Hampshire and Havant | - | 351,753 | (716,305) | 1,094,631 | 1,486,277 |
| Eastleigh and Fareham | - | 154,149 | (441,736) | 732,388 | 1,043,506 |

Clearly, any additional income to be received following harmonisation will improve the budget surplus/deficits of the proposed unitary authorities with any council tax foregone having the opposite effect. Appendix Table 8 below presents the year five financial position of each unitary authority once the effects of re-organisation and council tax harmonisation have been considered.

Appendix Table 8 Financial surplus/ (deficit) post re-organisation and council tax harmonisation

| | Surplus/deficit 2021/22 (£'000) | Surplus/deficit 2021/22 assuming funding gap is closed (£'000) | Surplus/deficit 2021/22 post re- organisation (£'000)* | Surplus/deficit 2021/22 post re- organisation and CT harmonisation |
|------------------------|---------------------------------------|--|---|--|
| Three UA option | | | | |
| Greater Portsmouth | (56,901) | (27,745) | 8,220 | 9,861 |
| Greater Southampton | (23,904) | 4,580 | 22,250 | 20,989 |
| Isle of Wight | (22,377) | - | 8,358 | 8,358 |

| Five UA option | | | | |
|---------------------------|----------|----------|---------|---------|
| Gosport & Portsmouth | (43,864) | (14,708) | 2,729 | 2,651 |
| Southampton | (28,484) | - | 10,873 | 10,873 |
| Isle of Wight | (22,377) | - | 8,358 | 8,358 |
| East Hampshire and Havant | (15,325) | (15,325) | (6,572) | (5,086) |
| Eastleigh and Fareham | 6,868 | 6,868 | 18,834 | 19,877 |

As can be seen from the table above, the impact of council tax harmonisation on the budget surplus/deficits is minimal compared to impact that re-organisation has. For example, whilst the additional council tax (£1.6m in year five) only helps to improve Greater Portsmouth's financial position, its effects are marginal compared to the £36.0m of potential savings that could be achieved through re-organisation. Indeed, for none of the options considered, across both the three and five unitary structures, does the effect of council tax harmonisation see a budget surplus/deficit reversed. Whilst Greater Southampton might suffer from the greatest level of foregone council tax (£1.3m in year five), it is not to the extent that the effects of council tax harmonisation turns its budget surplus into a deficit.

It is important to consider the effects of council tax harmonisation not only in terms of additional/foregone income for each authority but also in terms of the impact on individual tax payers. Appendix Table 9 below illustrates how tax payers' council tax bills can be expected to change following the effects of council tax harmonisation. It is important to note that the changes quoted below relate only to the difference between to current District Band D and Hampshire County Council charges (or existing unitary charges) and their equivalent under the new unitary structure. Amounts payable to Hampshire Fire and Rescue Authority, the Police and Crime Commissioner for Hampshire and to Parish Councils, where applicable, have not been included as part of the analysis. The figures in the table above are merely an indication as to maximum additional council tax that *could*, rather than *would*, be raised following a move to a unitary structure.

Appendix Table 9 Change in council tax per Band D property (20 year convergence period)

| 20 year convergence period | Year 1 £ | Year 2 £ | Year 3 £ | Year 4 £ | Year 5 £ |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Three UA option | | | | | |
| Greater Portsmouth: | | | | | |
| East Hampshire | - | 6.71 | 13.62 | 20.74 | 28.09 |
| Fareham | - | 0.21 | 2.60 | 5.11 | 7.77 |
| Gosport | - | (0.83) | (1.65) | (2.45) | (3.26) |
| Havant | - | 0.60 | 1.17 | 1.72 | 2.24 |
| Portsmouth | - | (0.33) | (0.71) | (1.08) | (1.54) |
| Greater Southampton: | | | | | |
| Eastleigh | - | 3.55 | 7.97 | 12.25 | 16.74 |
| Southampton | - | (7.49) | (15.54) | (24.18) | (33.43) |
| Isle of Wight | - | - | - | - | - |
| Five UA option | | | | | |
| Gosport & Portsmouth | | | | | |
| Gosport | - | (0.57) | (1.11) | (1.61) | (2.09) |
| Portsmouth | - | (0.08) | (0.20) | (0.28) | (0.42) |
| Southampton | - | - | - | - | - |
| Isle of Wight | - | - | - | - | - |
| East Hampshire and Havant | | | | | |
| East Hampshire | - | 6.71 | 13.62 | 20.74 | 28.09 |
| Havant | - | 0.60 | 1.17 | 1.72 | 2.24 |
| Eastleigh and Fareham | | | | | |

| | | | | | |
|-----------|---|--------|------|-------|-------|
| Eastleigh | - | 3.55 | 7.97 | 12.25 | 16.74 |
| Fareham | - | (0.04) | 2.09 | 4.31 | 6.66 |

Appendix Table 9 above indicates that there would be varying impacts on the council tax payers in the single and two unitary options, depending on the districts in which they are located. Council tax payers in East Hampshire, Fareham, Havant and Eastleigh would see a greater council tax charge under a new three unitary structure, as additional council tax income can be generated by the UAs. Conversely, council tax payers in Gosport, Portsmouth and Southampton would pay lower council tax rates under the new structures, as rate increases lower in order to achieve convergence over the 20 year period. Given the Isle of Wight would retain its current governance structure there would be no change to the anticipated levels of council tax payable by residents.

Moving to a five unitary structure would again impact council tax payers in the Solent region to varying extents dependant on where they reside. Residents in Gosport and Portsmouth would see their amounts payable reduce whilst those in East Hampshire, Havant, Eastleigh and Fareham would all incur higher rates of council tax post harmonisation as the transition to the new structure would allow for annual 3.99% rate increases on what was previously the district portion of council tax. Again, there would be no impact for residents on the Isle of Wight, nor in Southampton as under the proposed five unitary structure both retain their current governance setup.

Clearly, there are a number of approaches to harmonising council tax that could be adopted. For example, the approach that sees the lowest inherited council tax rate increased at a rate of 3.99% per annum and converging all other inherited rates could be maintained but the period over which convergence occurs shortened. An assessment of the effect of reducing the convergence period from 20 to five years for example has been considered, full details of which can be found in below.

Alternatively, the highest inherited rate within a unitary structure could be fixed and a percentage increase applied to all other authorities so that the council tax rates of all combining district authorities are the same at the end of the convergence period, however long that may be. Again, the impact of adopting this alternative approach, both in terms of additional/foregone income for the authorities and the effect on residents has been considered in detail in below.

The analysis below, assesses the impact of adopting alternative harmonisation strategies, namely a shorted convergence period and fixing the highest inherited rate within a configuration.

Five year convergence period

The table below highlights the effect, from the perspective of the unitary authorities, of reducing the convergence period from 20 to five years, whilst still maintaining the approach of increasing the lowest inherited council tax rate at a rate of 3.99% per annum and converging all other inherited rates. The table below demonstrates the impact a five year convergence period would have on council tax payers.

Appendix table 10 – Additional foregone council tax following harmonisation (five year convergence)

| First 5 years of harmonisation | Year 1 £ | Year 2 £ | Year 3 £ | Year 4 £ | Year 5 £ |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Three UA option | | | | | |
| Greater Portsmouth | - | (176,968) | (282,295) | (403,976) | (542,527) |
| Greater Southampton | - | (1,974,334) | (4,020,581) | (6,187,356) | (8,464,179) |
| Isle of Wight | - | - | - | - | - |
| Five UA option | | | | | |
| Gosport & Portsmouth | - | (393,327) | (813,673) | (1,258,311) | (1,734,055) |
| Southampton | - | - | - | - | - |
| Isle of Wight | - | - | - | - | - |
| East Hampshire and Havant | - | (128,176) | (281,839) | (462,852) | (658,020) |
| Eastleigh and Fareham | - | 22,655 | 168,120 | 305,381 | 449,766 |

A five year convergence period would see all but one of the proposed unitary authorities, across both structures, forego council tax income. Greater Southampton would experience the greatest level of council tax foregone,

with year five amounts totalling £8.5m. Greater Portsmouth would also suffer foregone council tax, though not to the same extent (£0.5m in year five) and with Isle of Wight neither gaining nor losing council tax income, a three unitary structure would see total council tax income foregone amounting £9.0m in the fifth year following harmonisation.

Were a five unitary structure adopted, Gosport and Portsmouth and East Hampshire and Havant would both see a reduction in council tax income following harmonisation (£1.7m and £0.7m in year five respectively) whilst Eastleigh and Fareham would be the only unitary authority to be able to raise additional council tax income following the harmonisation process (£0.9m across the first five years of harmonisation and £0.5m in year five alone).

Appendix table 11 – Change in council tax per Band D property (5 year convergence period)

| 5 year convergence period | Year 1 £ | Year 2 £ | Year 3 £ | Year 4 £ | Year 5 £ |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Three UA option | | | | | |
| Greater Portsmouth: | - | | | | |
| East Hampshire | - | 6.71 | 13.62 | 20.74 | 28.09 |
| Fareham | - | (1.99) | (1.97) | (2.01) | (2.09) |
| Gosport | | (16.18) | (33.29) | (51.37) | (70.49) |
| Havant | | (11.55) | (23.92) | (37.14) | (51.26) |
| Portsmouth | | (1.26) | (2.64) | (4.09) | (5.71) |
| Greater Southampton: | | | | | |
| Eastleigh | | 3.55 | 7.97 | 12.25 | 16.74 |
| Southampton | | (35.23) | (72.35) | (111.43) | (152.56) |
| Isle of Wight | | | | | |
| Five UA option | | | | | |
| Gosport & Portsmouth | - | | | | |
| Gosport | - | (14.95) | (30.77) | (47.51) | (65.20) |
| Portsmouth | - | (0.08) | (0.20) | (0.28) | (0.42) |
| Southampton | - | - | - | - | - |
| Isle of Wight | - | - | - | - | - |
| East Hampshire and Havant | | | | | |
| East Hampshire | - | 6.71 | 13.62 | 20.74 | 28.09 |
| Havant | - | (11.55) | (23.92) | (37.14) | (51.26) |
| Eastleigh and Fareham | | | | | |
| Eastleigh | - | 3.55 | 7.97 | 12.25 | 16.74 |
| | | (3.16) | (4.40) | (5.78) | (7.31) |

The table above indicates, that as with the 20 year convergence period, a five year convergence period would cause varying impacts for the council tax payers within the Solent geography. A three unitary structure would see all residents, barring those in East Hampshire and Eastleigh, pay reduced amounts of council tax whilst a five unitary structure would again see residents in East Hampshire pay additional amounts of council along with those residing in Eastleigh.

Converging to highest inherited rate

An alternative approach that could be adopted would see council tax harmonised by fixing the highest rate inherited within a unitary configuration and applying the percentage increase to the other authorities so that the council tax rates of all combining district authorities are the same at the end of a designated convergence period. As the table below indicates, this would likely lead to significant levels of foregone council tax were a single or two unitary structure to be adopted.

Appendix table 12 – Alternative approach (20 year convergence)

| First 5 years of harmonisation | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------------|--------|-------------|--------------|--------------|--------------|
| Three UA option | | | | | |
| Greater Portsmouth | - | (4,995,849) | (10,145,302) | (15,545,819) | (21,225,599) |
| Greater Southampton | - | (4,907,641) | (10,027,984) | (15,416,134) | (21,068,399) |
| Isle of Wight | - | - | - | - | - |
| Five UA option | | | | | |
| Gosport & Portsmouth | - | (3,668,711) | (7,494,931) | (11,480,840) | (15,638,346) |
| Southampton | - | - | - | - | - |
| Isle of Wight | - | - | - | - | - |
| East Hampshire and Havant | - | (3,745,683) | (7,695,877) | (11,860,023) | (16,188,660) |
| Eastleigh and Fareham | - | (3,951,296) | (7,991,359) | (12,260,599) | (16,772,470) |

The table above indicates that fixing the highest inherited rate of council tax within a configuration and converging all other rates to this would cause a significant loss of council tax income. Greater Portsmouth and Greater Southampton would see comparable levels foregone over the first five years of harmonisation (totalling £51.9m and £51.4m respectively) with year five amounts totalling £21.2 and £21.1m. A five unitary structure would again see considerable amount of council tax foregone, with Gosport and Portsmouth, East Hampshire and Havant and Eastleigh and Fareham all foregoing comparable amounts in the fifth year of harmonisation (£15.6m, £16.2m and £16.8m respectively).

As would be expected then, adoption of this alternative approach would mean that council tax payers would pay lower rates of council tax over the convergence period under both the three unitary authority and five unitary authority structures; save for those in Southampton (under the five unitary authority structure) and the Isle of Wight (under both structures).

Appendix table 13 – Change in council tax per Band D property (alternative approach)

| 20 year convergence period | Year 1 £ | Year 2 £ | Year 3 £ | Year 4 £ | Year 5 £ |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Three UA option | | | | | |
| Greater Portsmouth: | | | | | |
| East Hampshire | - | (37.97) | (77.66) | (119.14) | (162.47) |
| Fareham | - | (44.85) | (89.40) | (135.81) | (184.11) |
| Gosport | - | (48.06) | (97.84) | (149.41) | (202.84) |
| Havant | - | (46.11) | (94.02) | (143.79) | (195.50) |
| Portsmouth | - | (45.16) | (92.30) | (141.40) | (192.66) |
| Greater Southampton: | | | | | |
| Eastleigh | - | (38.17) | (77.35) | (118.64) | (161.76) |
| Southampton | - | (53.46) | (109.05) | (166.86) | (226.98) |
| Isle of Wight | - | - | - | - | - |
| Five UA option | | | | | |
| Gosport & Portsmouth | | | | | |

| | | | | | |
|----------------------------------|---|---------|---------|----------|----------|
| Gosport | - | (48.06) | (97.84) | (149.41) | (202.84) |
| Portsmouth | - | (45.16) | (92.30) | (141.40) | (192.66) |
| Southampton | - | - | - | - | - |
| Isle of Wight | - | - | - | - | - |
| East Hampshire and Havant | | | | | |
| East Hampshire | - | (38.73) | (79.17) | (121.41) | (165.50) |
| Havant | - | (46.90) | (95.59) | (146.15) | (198.65) |
| Eastleigh and Fareham | | | | | |
| Eastleigh | - | (43.91) | (88.88) | (135.98) | (184.96) |
| Fareham | - | (48.06) | (95.84) | (145.48) | (197.03) |

Adoption of this alternative approach would however mean that all council tax payers would pay lower rates of council tax over the convergence period under both the three unitary authority and five unitary authority structures.

A.4 Disaggregation of Revenue Support Grant (RSG)

As part of the disaggregation process outlined in section 3.3 of the main report, c.£81m of Hampshire County Council RSG has been disaggregated across the districts for 2016/17. It is recognised that complex formulae such as RSG (which is calculated on a 'needs' basis) cannot easily be disaggregated. However, in the absence of publicly available data of the granularity and accuracy that would allow for such a formula to be recalculated, a broader high level disaggregation factor 'population' has been selected.

Further analysing RSG and Retained Business Rates formulae using current District RSG amounts as a disaggregation for County RSG and Retained Business Rates would better reflect the likely distribution of RSG and the Business Rate Top Up with the effect of rebalancing deficits for relatively less prosperous areas that have relatively lower tax bases such as Gosport and Havant and reducing surpluses in more prosperous areas with stronger tax bases. Further refinement to the likely allocation of RSG and Business Rate Top Up would require the level of Council Tax income allocated from the County Council precept to be taken into consideration. This would further rebalance the deficits from Authorities with relatively lower tax bases with higher needs to those with relatively high tax bases with lower needs. A more detailed disaggregation of RSG and Retained Business Rates (as well as the other drivers) would need to be conducted in order to determine the actual financial position of any new unitary.



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